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Social justice
and growth: The role
of the minimum wage

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Foreword

Dan Cunliffe

Director,
Bureau for Workers' Activities
International Labour Office

As director of the Bureau for Workers' Activities at the ILO, it gives me a special pleasure to introduce this issue of the *International Journal of Labour Research* on the subject of the minimum wage. This is a question that has seldom received the attention it deserved, but that has become a crucial battlefield for labour in the current period.

If the fact that wage earners are asked to pay for the irresponsibility of financial institutions was not indecent enough, the current imposition by the European Commission, the IMF and the European Central Bank of a reduction in the minimum wage by up to a quarter in order to unblock the "aid package" to crisis-ridden European countries is not only morally corrupt but is also self-defeating in terms of economic outcomes.

Moreover, this goes squarely against the spirit of ILO Convention No. 131 which calls for the minimum wage to strike a balance between "the needs of workers and their families" and "economic factors" as well as for full consultation and participation of social partners. Indeed, the reduction of the minimum wage in Greece to 400 euros against the will of both workers and employers in that country is outrageous.

More generally, the failure to widely share the benefits of growth has brought back to the fore a basic fact: far too many workers across the world do not earn a living wage. Injunctions by mainstream economists along the lines of "grow first and share later" have proved misguided as the sharing moment seems forever postponed for later...

This is why the renewed interest in the minimum wage as one of the tools to ensure shared prosperity is a most welcome development. And there is a lot of work to be done in this respect as the minimum wage rarely qualifies as a living wage in most jurisdictions.

Of course, the challenges in this area are highly dependent on the context in which they take place. Yet faced with the negative (and rather ideological) mantra of mainstream economists when it comes to the effects of the

minimum wage, it is important that workers be well armed to make their case and learn from successful campaigns elsewhere. I am convinced that the articles in this issue of the IJLR will provide trade unionists with the arguments, the cases and the methodology they need to make a difference.

The battle for a living wage is a global one. While a living wage might mean different things in different parts of the world, the notion however has the potential to unite all workers in a common battle for decency, to ensure that even the worst off among us can still live decently from their work.

While the minimum wage is only one tool to improve the lot of workers, it is an indispensable one and rightly figures high on the agenda of trade unions. The Bureau for Workers' Activities intends to make its own small contribution to this endeavour as it will soon launch a resource page on its website, as well as develop training geared toward helping trade unions in their campaigns. And as ever, we will continue to press for countries to ratify and implement the relevant labour standards.

I would like to end by thanking the authors of articles of this issue for their thoughtful analysis and contributions.

Editorial

Pierre Laliberté

Editor

This issue of the *International Journal of Labour Research* is wholly dedicated to the question of the minimum wage, a matter that has gained in importance and profile in recent years. No doubt, the main reasons behind this rise in prominence relate to the stagnation of wages in several parts of the world, a generalized increase in earnings inequality as well as the rise in social unrest across the globe.

In many countries in the economic North where minimum wages have generally been somewhat secondary to collective bargaining for unions, the drop in union coverage and the incapacity of maintaining full employment have translated in the creation of growing pockets of low-paid workers (whether paid at minimum or quasi minimum wages), particularly in non-tradable private services.

In the South, the maintenance of large informal sectors and the concentration of the export sector in often low-paid labour-intensive supply chains where a brutal global competition exists have acted as an effective brake on the improvement in wage levels and have kept the question of the minimum wage at centre stage.

To make things worse, many governments over that same period, bowing to the orthodox notion that improving minimum wage might be an obstacle to fostering growth and employment also neglected this policy lever and often failed to maintain, let alone improve, its value, thus expanding the growing pool of the working poor.

While minimum wage setting is clearly second best to bona fide collective bargaining for all workers, its importance in the current economic context cannot be understated.

It is so in many OECD countries where the current pressures on wages, if successful, might well lay the foundations for deflation and a long period of stagnation. The pressures of the European Commission and the IMF to reduce minimum wage levels in Ireland and Greece among others are

emblematic. To the contrary, in the current economic context, it should be seen as essential to preserve the minimum wage as an “anchor” so as not to fuel further destructive deflation, never mind social distress.

Furthermore, when it comes to inequality, a strong minimum wage can help make a genuine difference in outcomes. On this score, one only has to compare the performance of Germany and France to appreciate the difference. France, with arguably the highest national minimum wage in Europe, stands as one of the few countries that have not experienced an increase in inequality in the past twenty years. Germany meanwhile with no minimum wage has seen an explosion of low wage workers and the growth of inequalities in large part due to the “collapse of the bottom” of its income distribution.¹

At the policy level, the issue of the minimum wage remains deeply controversial as it introduces moral considerations as to what constitutes minimal and fair compensation in a given economy and the role of minimum wage in ensuring that people earn enough through their labour to afford to sustain themselves and their families. Yet this entry of “morality” in a discipline that prides that sees itself as scientific and positivistic is always bound to be contentious especially if it goes against the “law of gravity” of neoclassical economics: a rise in price (wages) must necessarily result in a drop in demand.

However, there are sound economic reasons to question that premise.

At the theoretical level, Keynes in the *General Theory* has famously put forward the notion that wages as such had no tangible impact on the general level of employment, that being determined instead by the level of overall demand. As he put it, “the struggle about money-wages primarily affects the distribution of the aggregate real wage between different labour-groups”.²

The evidence in the real world appears to bear out this notion. For instance, Scandinavian countries, with notoriously low wage dispersion (and high sectoral minimum wages) have typically outperformed countries with different sets of institutions and bargaining arrangements, but with lower minimum wages and greater wage dispersion.³

Of course, relatively high minimum wages and low wage dispersion do have effects on the social outcomes, the economy and employment. But whether those are positive or negative depends on a combination of factors such as changes in relative prices, in the wage structure, demand, profits, productivity, but also social cohesion.⁴ The bottom line is that there is much

1. See ILO: *Global Wage Report 2008–09* (Geneva, 2008).

2. J.M. Keynes: *The General Theory of Employment, Interest and Money* (London, Macmillan, 1936), p. 13.

3. It is also worth noting that in economies with significant underemployment, lowering the price of labour might actually induce an increase in supply as workers need to work more to survive.

4. For a most cogent explanation of this argument, see H. Herr: “Labour Market in a Keynesian Economic Regime: Theoretical Debate and Empirical Findings”, in *Cambridge Journal of Economics*, Vol. 33 (2009), pp. 949–965.

more room for discretion in these matters than typically admitted by mainstream economists and in some quarters of the business community.⁵

Quite tellingly the plethora of studies (and meta-studies) that have been conducted on the effect of increases of minimum wages on employment are for the most part inconclusive, in the sense that they do not confirm the predicted negative relationship. As one would reasonably expect, the results depend on the specific context in which the studies were conducted (let alone their methodology).⁶

This is why such matters should naturally be the object of social debate and negotiations between social partners.

The erosion of the role of the minimum wage as the guardian of the purchasing power of the lowest-paid workers has been the trigger of numerous campaigns and much resistance throughout the world. It has notably inspired many local grass-roots campaigns in the United States around the notion of “living wages” where labour and community groups have been working side by side for the improvement of workers’ income. In this issue, Stephanie Luce provides a comprehensive and extremely useful assessment of these campaigns and the lessons they hold for the labour movement.

In other countries, changes have come through other avenues. In Brazil notably, trade unions pressured the incoming Lula Government in the early 2000s into a renewed commitment to a minimum wage, which translated into a gradual improvement and recovery of the value of the minimum wage. Not only did vigorous increases in the real value of the minimum wage not provoke economic slowdown, but the redistribution of income that ensued is partially credited for fuelling the dynamism of the Brazilian economy. The article by Barbosa de Melo, Figueiredo, Mineiro and Arbulu Mendonça gives us a historical perspective on the development of the minimum wage in that country as well as its current impact. A useful antidote to orthodox prescriptions.

Bhattacharjee and Roy, for their part, present a path-breaking effort to establish a cross-country floor for wages. This campaign, the Asian Floor Wage, aims to create a common “real” wage floor for workers in the same labour-intensive export industries, more specifically the garment industry. The idea is quite simple and yet revolutionary – that the wage earned by

5. Robert Lucas, one of the most prominent conservative economists, is exemplary of the hostility to pollute economics with ethical concerns. As he put it: “Of the tendencies that are harmful to sound economics, the most seductive, and in my opinion the most poisonous, is to focus on questions of distribution...” Robert E. Lucas: “The industrial revolution: Past and future,” in *The Region* (May 2004), Federal Reserve Bank of Minneapolis, pp. 5–20.

6. See for instance R. Dickens, S. Machin and A. Manning: “The effects of minimum wages on employment: Theory and evidence from Britain,” in *Journal of Labor Economics*, University of Chicago Press, Vol. 17 (1999), No. 1, pp. 1–22; D. Card and A.B. Krueger: *Myth and measurement. The new economics of the minimum wage* (Princeton, Princeton University Press, 1995).

workers in the same industries across the region should earn roughly the same “purchasing power” so as to not undermine each other and, to some extent, take wage out of the competition. If successful, this effort at creating strategic links of solidarity between workers on a living wage would assuredly be a watershed moment for international labour.

Remaining in Asia, the article by Rani and Belser on India highlights the original role played by the National Rural Employment Guarantee Scheme in helping enforce minimum wage in a country where the great majority of the workforce is still found in the informal sector. This scheme, by guaranteeing one hundred days of work per year at the minimum wage for all rural households, is in effect providing “traction” to the minimum wage that it might not have otherwise, creating an upward pressure on earnings, particularly those of women, and improving household income. This is an “employer of last resort” programme that should draw much interest, particularly in countries with a large informal sector.

In his article, Thorsten Schulten presents the current debate on the establishment of a European minimum wage. Noting that the European Commission, through its Euro-Plus Pact, has “officially declared [wages to be] the main adjustment variable for economic imbalances and national competitiveness in Europe” and that it is now engaging in a full offensive to roll back minimum wages as part of the “crisis packages”, Schulten proposes the notion of a European minimum wage as a component of an alternative strategy. As he points out, this notion already has a basis in the European Social Charter of the Council of Europe which calls for a minimum wage of 60 per cent of the national average net wage. It is worth noting that in 2010 only five European States met that threshold...

Last but not least, in keeping with the practical bent of this issue of the IJLR, Belser and Sobeck provide a succinct guide to minimum wage setting methodology. Using the knowledge and experience the ILO has gained surveying and advising social partners across the world, they lay out some of the considerations labour and community representatives should have in mind when they push governments and employers on that all-important issue. In full agreement with the notion that at its best a national minimum wage should be the subject of social dialogue and not seen as a “technical” matter, they nonetheless provide tools that will be useful for those engaged in national discussion on the issue.

Living wage policies and campaigns: Lessons from the United States

Stephanie Luce

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With the expansion of global labour markets, more countries are looking for policy tools to address growing low-wage work and working poverty. Does the “living wage” movement offer a path to reducing poverty and inequality? The term “living wage” was first used in the 1800s, as scholars and activists argued that the spread of wage labour should come with a mandate for employers to pay employees wages high enough to support themselves. (Many assumed a male breadwinner, so called for a living wage high enough for a worker to support themselves and a family). There was never a consensus on how to define a living wage, although several governments and administrative bodies took up the task of developing complex formulas.

In recent times, the term “living wage” has resurfaced in the United States. In the early 1990s, there was much attention on the growth of low-wage jobs. Activists in Baltimore, Maryland pushed their city government to find a policy tool to address the problem. The city passed a “living wage ordinance” that required any firm holding a contract for service work to pay their workers a living wage. The idea spread quickly around the country and today, some 17 years later, there are living wage ordinances in over 140 cities, counties and universities. The campaigns and ordinances vary in terms of how to define a living wage, who they cover, and their impact, but the general “living wage” concept has strong public support.

This paper will review the US living wage movement, including the details of the ordinances and the definition of a living wage. Then, I will review the existing research on the economics and political outcomes of the living wage movement. I will then attempt to draw some lessons from the living wage movement for the United States, and internationally.

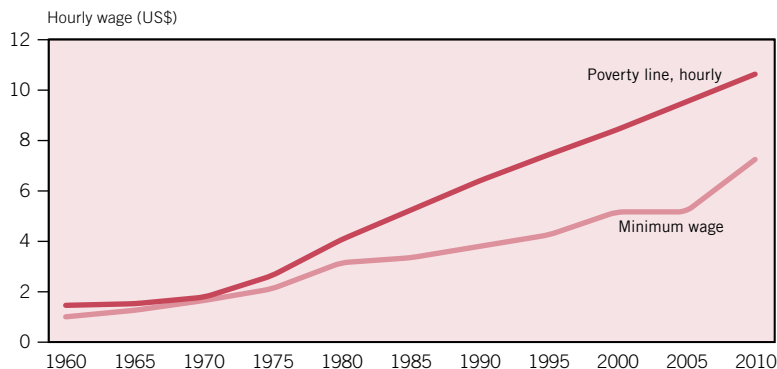
Defining a living wage

There are several approaches used to define a living wage. In the United States there are a few formulas that are used to measure the basic cost of living for different-sized families (e.g., two adults, two children), and by region. The most common are the Basic Family Budget Calculator developed by the Economic Policy Institute, and the Self-Sufficiency Standard, developed by Diana Pierce and the Wider Opportunities for Women. The formulas are similar, and use government data to estimate the minimum costs for housing, food, shelter, transportation, health care, taxes and childcare.

Both formulas come up with annual total income needed to cover basic costs. These can be divided by the number of workers and hours worked for an average hourly wage. For most cases, the result is an hourly wage significantly higher than the federal or state minimum wage.

Living wage activists knew that it would be very difficult to win ordinances with these wage levels. Instead, they chose to campaign for an hourly wage that would allow a worker working full time to meet the federal poverty

Figure 1. Federal minimum wage versus US poverty threshold, 1960 to 2010



Note: Poverty line data is the annual poverty threshold for a family of four (including two children), converted to an hourly rate assuming 2,080 hours of work per year. Poverty thresholds before 1980 are for Male Head of Household, Nonfarm. Data not adjusted for inflation.

Source: United States Department of Labor Wage and Hour Division; United States Census Bureau Poverty Division.

line for a family of three or four. The United States began setting a poverty threshold in the 1960s, based on a formula centred around the caloric needs for different family types. The formula is simple and outdated, and does not vary by region. However, it is adjusted annually for inflation so the level has gone up steadily over the past few decades.

Meanwhile, the US federal minimum wage has not been regularly increased. There is no formula underlying the minimum wage, and it is only raised by an Act of Congress. This happened more frequently in the past, but less so in recent years. By the early 1990s, the value of the minimum wage was significantly below the poverty line (see figure 1). Activists knew that the poverty line was not a real “living wage” and in fact was even an underestimate of poverty. Yet since the poverty level was significantly above the minimum wage, it seemed a reasonable target for living wage campaigns.

Most US living wage ordinances have set the living wage to the federal poverty line for a full-time worker with a family of three or four, although a few are set at 110 per cent or 120 per cent of that level. Unlike the federal minimum wage, most ordinances require the living wage to be adjusted annually by some cost-of-living measure. And notably, most ordinances set two wage levels. Employers can pay the living wage amount and provide health insurance benefits, or, if they do not provide health insurance, they must pay a higher wage, usually about \$1.50 to \$2.00 an hour more. Table 1 shows the various wage levels for a few cities.

In a few cases, living wage activists launched campaigns to establish citywide minimum wage laws, covering all workers in the city borders (usually exempting very small employers). The right to set municipal wages varies by state. Currently, there are citywide minimum wage laws in four cities, including San Francisco, California, where the minimum wage is set to increase

Table 1. Wage levels, 2011, selected cities

	Boston, Massachusetts	Portland, Oregon	Miami, Florida
Federal minimum wage	7.25	7.25	7.25
State minimum wage	8.00	8.50	7.31
Federal Poverty line for a family of four*	10.63	10.63	10.63
City living wage	13.02	9.50 with health, or 11.26 without	10.58 with health, or 11.83 without
EPI Basic Family Budget for a family of four**	33.13	22.62	23.42

* Data is for 2010. Assumes 2,080 hours of work, for a family of two adults and two children. ** Data is for 2008. Assumes 2,080 hours of work, for a family of two adults and two children.

Source: Author's calculations.

to \$10.24 on 1 January 2012. This highlights the complexity of the discussion because the citywide “minimum wage” rate in this case is higher than the “living wage” in some cities, and suggests that it is not helpful in the US context to focus too closely on the terminology.

Coverage

Living wage ordinances also differ in terms of the firms and workers covered. The earliest ordinances applied to private sector firms holding service contracts with cities. The contractors primarily did work that was once done by city workers, but had been contracted out in an effort to save money. This included jobs such as security guards, school bus drivers and assistants, food service workers, and landscaping.

The ordinances were expanded to include other categories: firms receiving economic development subsidies from the city, firms operating on city-owned property (such as an airport or sports stadium), subcontractors of covered firms, and direct city or county employees. A few universities passed living wage policies that apply to contractors and subcontractors.

Many of the ordinances did not cover many workers, and so activists have been searching for ways to expand the kinds of firms they can include. The city of Los Angeles passed a living wage ordinance that applied to hotels near the airport, and in Chicago activists got a “Big Box” ordinance passed that would require large retailers to pay a living wage – although that was vetoed by the mayor. The movement helped spawn “Community Benefits Agreements” that apply to some large economic development projects. These can include a variety of things built with some public money, such as a new hospital; a new airport or airport expansion; a sports stadium; convention center; or mixed-use development that includes retail, restaurants and office space. In some cities and states, building trades unions were able to win “Project Labor Agreements” which would guarantee that these structures

were built with union labour who were paid union wages. However, those agreements only covered construction and not what happens in the structures after they are built. “Community Benefits Agreements” are a way to build off the Project Labor Agreement concept and add other requirements to the development project, such as a requirement that employers operating in the development remain neutral in a unionization campaign, that the development be environmentally sound, that the development include space for affordable housing, and that all tenants in the development (such as restaurant and retail) pay a living wage. New York City alone spends over \$2 billion a year on economic development programmes, and for the most part there are no wage requirements attached to this spending (Fiscal Policy Institute et al., 2011). Attaching living wage mandates to economic development projects could impact tens of thousands of low-wage workers performing janitorial, retail, food service and clerical work in these developments.

As mentioned above, the living wage movement has supported efforts to raise minimum wages at the city level, but also at the state and federal level. The majority of “living wage” advocates also support raising the federal and state minimum wages, and indexing them to the cost of living. However, it has been very difficult for living wage supporters to influence federal policy. Even when Democrats are in office, there is resistance to raising the minimum wage despite the continued and strong public support. It may be that Democrats who receive large campaign contributions from businesses and industry groups fear repercussions for raising minimum wages. It might also be that they (or their economic advisers) do not ideologically support the concept. Robert Reich writes about the challenges of serving as Secretary of Labor under President Bill Clinton, who was resistant to raising the minimum wage.¹

Because of the difficulties of winning a federal minimum wage increase, living wage advocates focused on the local level where “people power” had a greater chance to combat money. Unions, community and faith groups had better chances to mobilize members to visit City Council members and lobby on a regular basis. At higher levels of government, money plays a bigger role in terms of media (such as television and newspaper ads), and campaign contributions.

As the living wage movement gained momentum, activists began to focus on state-level minimum wage campaigns – either through statewide legislation, or by putting the measure on the ballot. Statewide ballot initiatives can be difficult and expensive to win, as the influence of money is great here too, but despite some intensive countercampaigns, all the minimum

1. When he was running for President against George Bush in 2004, John Kerry refused to be associated with the ongoing campaign to raise the minimum wage in Florida. That ballot initiative went on to win in every county in Florida, while John Kerry’s loss in that state was likely the difference in his winning the presidency.

wage initiatives on state ballots in recent years have won.² Between 2004 and 2006, 25 states increased their minimum wage, and six states had for the first time attached cost-of-living increases. That momentum led to the federal government finally raising the level from \$5.15 to \$7.25 in three steps, from 2007 to 2009.

However, given that most states, and the federal government, still do not automatically increase minimum wages with the cost of living, the real value of the wages has been eroding, and activists are again looking to raise state and federal minimum wages in the next few years.

Research: What is the impact?

Because of the variety in the kinds of living wage ordinances and what they cover, it is difficult to estimate the number of firms or workers impacted by the movement. In fact, in my own work I found that not all cities have implemented the ordinances – some have been repealed, or blocked, but others are only weakly enforced and city administrators grant waivers. Therefore, the most reliable information we have about the ordinances are case studies of particular cities.

In almost every campaign, opponents claim that setting a living wage will have negative consequences – including increased unemployment, increased costs for city contracts translating into higher taxes, and a decrease in the number of firms bidding on contracts and moving into the city.

The debate on the impacts has taken place on a number of levels. First, opponents rely on standard neoclassical models and predictions. Proponents initially relied on Keynesian models to predict positive impacts from wage floors. Both sides also attempted prospective studies to estimate the potential impact of the ordinance.

After the ordinances had been in place for a while, researchers conducted empirical studies to assess the impacts. These fell into a few methodological categories.

1. Surveys and interviews. Scholars in Los Angeles, San Francisco, New England, and Baltimore conducted surveys with covered employers and workers, to assess the impacts of the living wage (e.g. Fairris, 2005; Reich, Hall and Jacobs, 2005; Brenner and Luce, 2005). Elmore (2003) interviewed city administrators to assess the costs and impacts on cities.

2. Republicans realize that a minimum wage measure on the ballot can increase voter turnout, and that turnout is likely to increase votes for Democratic candidates. Therefore, in some states Republican legislators promoted bills to increase state minimum wages through the legislature, to divert efforts to put the issue on the ballot during the Presidential or Congressional election.

2. Contract evaluation. Other studies examined specific patterns in city contracting to determine whether the number of bidders, or the price or content of contracts, changed from before and after the living wage (Weisbrot and Sforza-Roderick, 1996; Niedt et al., 1999; Brenner and Luce, 2005).
3. CPS analysis. Neumark and colleagues used government data to analyze whether the living wage ordinances had an impact on unemployment and poverty rates in cities with ordinances compared to those without (Neumark, 2002; Adams and Neumark, 2005). This work has been critiqued by Brenner, Wicks-Lim and Pollin (2002) due to several methodological concerns, primarily in using a large government data set to measure the impact of a very targeted law.
4. City studies. A few cities have conducted their own evaluation of the impact, as mandated by the ordinance. These assess the impact of the wage on contract bidding and costs. Some also survey employers.

The studies have various results but the overwhelming conclusion of the empirical studies is that the ordinances have not had the negative outcomes predicted by opponents. None of the studies find examples of employment loss.

The exception is a set of studies by economist David Neumark and colleagues, which rely on CPS data. Neumark and Adams (2005) find that cities with living wage ordinances experienced a slight increase in unemployment, along with a slight drop in poverty, compared to cities without living wage ordinances. However, the authors note that the main impact of their finding comes from the cities that cover economic development projects. Brenner, Wicks-Lim and Pollin (2002) challenge these findings, highlighting that the economic development piece covers very few projects, as only a handful of living wage ordinances include this provision, and only a few cities have actually implemented the living wage requirement on development projects. When they attempt to control for the implementation effects and look more specifically at particular ordinances, Adams and Neumark (2005) find that “the evidence does not point unambiguously in one direction, and is not statistically overwhelming”.

In an effort to examine the impact of living wage requirements on economic development projects, Lester and Jacobs (2010) use the National Establishment Time Series data set to compare employment in cities with living wage ordinances for economic development versus cities that do not have such ordinances. The authors find no evidence for the hypothesis that the living wage negatively impacts employment.

While the evidence shows the total costs are relatively low, it also shows that while impactful for individual workers, the living wage ordinances do not address a range of problems related to poverty. The living wage raises the hourly wage but not necessarily the hours worked, although Brenner and Luce (2005) did find evidence that some employers covered by the Boston

ordinance were converting some part-time jobs to full time. However, the hourly wage is generally only enough to raise a worker to the poverty line even with full-time work, so the ordinances are not yet capturing “living wages” if that is understood to mean annual income high enough to cover basic costs.

Studies also suggest the limited coverage of the ordinances. Los Angeles has one of the broader ordinances, which covers about 10,000 workers (Fairris, 2005). The L.A. metropolitan area has a labour force of approximately 6.5 million. About 27 per cent of all US workers earn hourly wages below the poverty line. If the proportion is similar in Los Angeles (and there is reason to believe the proportion is higher, given its higher than average poverty rate), there are almost 1.8 million workers earning poverty wages. The living wage ordinance covers only a small fraction.

Expansion of the movement

Despite the limited reach of the living wage to cover large numbers of workers or address poverty on a major scale, the concept remains popular, and continues to spread. In the United States there is a campaign to expand the living wage requirement to large economic development projects in New York, and a number of universities have ongoing campaigns. Activists are again pushing to raise and index state minimum wages. Restaurant workers are working to address minimum wages for tipped workers, who are only entitled to \$2.13 per hour under the federal law.

The “living wage” has spread internationally as well, with variations of living wage campaigns in the United Kingdom, Canada, and Japan. The London Living Wage Campaign has targeted private sector employers, and according to the campaign, has won living wages at over 100 employers since 2001, resulting in 70 million pounds sterling in higher wages for over 10,000 families.

“Living wages” are up for discussion in global South countries as well, from South Africa to Bangladesh to China, where a team of law professors and students just completed the first living wage study to contribute to the debate about the level of minimum wages.

Lessons learned for the United States

After more than 15 years, what can we say about the living wage movement in the United States? What is the evaluation of the strengths and weaknesses of the movement?

The outcomes of the living wage movement are mixed. On the positive side, the campaigns have been enormously successful. In a period of declining

union power, falling or stagnating average wages, and a conservative political climate, living wage campaigns have had a remarkable success rate. Very few campaigns have lost, and the vast majority has passed in city councils or county boards, or voter referendum – despite fairly rigorous opposition. There are over 140 living wage ordinances in existence around the country, in large and small cities, and every region of the country. Neither political party supports the living wage idea as a party, and in most cities the campaigns begin with most city leaders and administrators, as well as business groups and the major newspapers, opposed. Through steady organizing and hard work, usually over several years, the campaigns have been able to craft new coalitions and pressure their elected officials to pass legislation supported by the majority of voters.

The living wage can have a large impact on workers who receive the raise. Opponents claim that low-wage workers are primarily teenagers looking for extra cash on the side, but living wage researchers found that the median workers covered are in their 30s, work full time, and have been working in their jobs for quite some time. These workers are disproportionately female and not white. The workers surveyed in Boston were disproportionately poor before the ordinance was passed. On average, the living wage raised earnings by \$6,950 per year for covered workers who stayed with the same employer before and after the ordinance – from \$21,770 to \$28,720, or a 32 per cent increase (Brenner and Luce, 2005). The ordinances do not lead to the negative outcomes predicted by opponents.

On the other hand, the ordinances are not always enough to raise workers out of poverty, and still do not reach enough workers. They are difficult to enforce and, in fact, have been repealed or blocked in some cities. Where implementation is more successful, it requires constant effort by workers or worker organizations to monitor employers and the city.

Are the campaigns effective? This depends on the goal. As a solution to low-wage labour markets and working poverty, they may be a help but are incomplete. The economic impact literature suggests that they have concentrated benefits with diffuse costs.

But activists have used living wage campaign to achieve other goals. This includes at least three major outcomes: (1) building new alliances and coalitions among those working to address problems associated with low-wage work; (2) influencing the national dialogue and debate about low-wage jobs; and (3) assisting in unionization efforts.

The first goal – building new alliances and coalitions – is probably where living wage campaigns have had their greatest impact. Union leaders and community activists note that they have pursued campaigns sometimes specifically for the purpose of building alliances between groups that had not necessarily worked together in the past. For example, in Boston, Massachusetts, the living wage campaign helped develop strong connections between the primarily African-American low-wage organization ACORN,

and the historically white trade unions. The Los Angeles living wage campaign helped create a new organization called Clergy and Laity United for Economic Justice (CLUE), which is an interfaith organization that works with low-wage workers. In many cases, the living wage campaign was a popular idea that could easily unite unions, community organizations, faith-based organizations, students, poverty advocates and others. In some cities it was unions that took the main initiative to start the campaign and build a coalition, such as with the hotel workers' union in Los Angeles or the National Education Association union in Ithaca, New York. In other cities community groups like ACORN or the Industrial Areas Foundation were the initiators. Not all of these coalitions stayed together but many did, and some went on to campaign for and win other kinds of policies, such as "paid sick days" ordinances, earned income tax credits, and protection against wage theft.

It is difficult to measure the impact of the living wage movement on the national discourse. A search of major newspapers showed a dramatic increase in the use of the term "living wage" from 1990 to 2002 (Luce, 2004), and a number of outspoken living wage opponents reversed their position after the movement had gained some success. This is perhaps surprising given that opponents of the living wage, such as the Chamber of Commerce, Heritage Foundation, and policy-makers, have maintained a steady barrage of criticism for the idea of minimum wage and living wage. The Mayor of St Paul, Minnesota said the living wage bill was the "fastest way to kill jobs", and the proposal was "dumb and dangerous" (Ojeda-Zapata, 1995), and a Deputy Mayor in Los Angeles claimed that if the ordinance passed then "entire industries could be wiped out or move overseas" (Pollin, 1998). The Mayor of New York City, Michael Bloomberg, has likened the living wage proposal there to Communism, stating: "The last time people tried to set rates, basically, was in the Soviet Union. And that didn't work out very well" (Blau, 2011).

Despite this, public polling data show consistent support for both minimum wage and living wage increases over the past several decades. The polls do not ask questions in a consistent way, making it difficult to show whether support has increased or decreased. However, a sampling of polls on living wage campaign shows that support remains high. For example, a May 2011 poll shows 78 per cent of New York voters support the living wage proposal (including 56 per cent of Republicans) and at least 72 per cent of Baltimore residents were in support of a living wage proposal there in 2010.

The third outcome of the living wage movement is the relationship with union revitalization efforts. Some unions have played an active role in living wage campaigns – particularly those that represent low-wage workers such as UNITE HERE, and SEIU, but other unions have been active in some places, as have labour bodies such as Central Labour Councils. The participation of unions has depended in part on particular goals of the local and the kinds of workers covered by the campaign. This involves at least three categories:

- (a) Workers already unionized. In a few cases, living wage ordinances have impacted workers already covered by a union contract, but who had been unable to bargain for higher wages on their own. With a living wage ordinance or policy in place, the union benefits by getting additional leverage to raise wages. Some examples include child care workers in Chicago, home health-care workers in New York and food service workers on college campuses.

The National Education Association has used living wage campaigns to push for higher wages for unionized teachers, assistants and other school workers who often make wages close to minimum. In Ithaca, New York, paraprofessionals – aides who worked with special education students – were earning \$6.35 an hour, and launched a living wage campaign during union negotiations to demand raises up to \$11.50. In the end they did not win their full demand, but did get a new three-year contract with starting wages 50 per cent higher.³

- (b) Specific workers trying to unionize. Living wage campaigns have been used to assist union organizing drives, such as with hotel workers in several cities. When Sheraton wanted to build a new hotel in Petaluma, California, they asked the city for a loan of up to \$2.75 million. The Sonoma County Living Wage Coalition launched a campaign to demand that the loan come with the requirement that the hotel remain neutral in any unionization campaign. The Council and hotel agreed, and after some time the union UNITE HERE was able to win an election for representation, and then a first contract (Morris, 2006).

In some cases living wage coalitions also provided community support for union drives of workers not covered by the ordinance, such as when city workers in Tucson, Arizona organized after watching the living wage campaign take place. Some workers contacted one of the unions active in the campaign and asked how to get union representation for themselves (Luce, 2004).

- (c) Unions using living wage campaigns to change standards by industry. The current New York living wage campaign is being championed primarily by the Retail Workers and Department Store Union. The ordinance would apply to developments in the city that receive public money to build things like shopping malls. Theoretically, the living wage would be a way to raise wages in an industry that is very hard to organize and has a low union density. The Santa Monica, California living wage would have applied to large retail, hotel and restaurants in the downtown. That also would have helped the hotel workers union organize hotels where they been fighting for years to start a union. When union density is low and wages are at the minimum, employers fight particularly hard to keep unions out.

3. Interview of New York State paraeducator Debbie Minnick with the author in 2011.

One theory is that once employers are mandated to pay the higher wage, they – or neighbouring employers – may not fight so hard to keep the union out.

Some unions have pushed for a “union opt-out” clauses in living wage ordinances. This would allow the employer to not pay the living wage if both an employer and union agree to this. Unions say this could be beneficial because they might use this as leverage: they can make an offer to an employer to accept the union and union contract, and perhaps pay a lower wage – providing they agree to provide other things, such as longer hours, job security, grievance procedures, and other benefits. Some skeptics worry that this could be an incentive for dishonest unions to sign bad contracts with employers. In reality, it is difficult to find a case where this has been used despite being in place in some ordinances for over a decade.

Lessons in the international context

Given the increased interest in living wages around the world, what lessons from the US movement might be helpful elsewhere? This section discusses a few findings that might be applicable for those working to establish living wages elsewhere.

Methodology. The methodology for calculating minimum wages, living wages, and poverty levels differs dramatically by country. Even the form of payment differs, as some countries set minimum wages based on hourly rates whereas others set them by week or month. The US case suggests that it is a mistake to get pulled into too much technical debate about the methodology or formula. There will never be one correct formula to establish a “living wage” as even the stronger methodologies note strong variation in family size and geography – let alone the physical characteristics of the worker. Debates that get too technical will most likely leave workers out of the decision making and wage setting. This is relevant for the second lesson.

Implementation. The US case shows that living wage implementation and enforcement is not easy, and the more that workers themselves have some agency and power to help with the enforcement, the better (Luce, 2004). If workers themselves have little or no voice in wage setting, they may be less likely to understand their rights, and less likely to be effective in working to enforce their rights. In my research, I found that the cities that had the best implementation shared two characteristics. First, they had gone through lengthy and contentious campaigns (rather than quick-fix technical revision of city code, for example). These long campaigns helped workers and their organizations develop the capacity to monitor and fight on wage issues. In most cases, employers would try to get exemptions or avoid paying the living wage after the ordinance was enacted. Workers and their organizations that have developed the capacity to fight employers had a better chance of winning implementation.

Second, the cities with stronger implementation had at least one “outside” force involved in monitoring and enforcement. This could be an official Implementation Task Force that includes city, worker and employer representatives, or it could be a union that monitors and pressures the city. But there is almost no case where the city does a good job of enforcement on its own. Many city administrators are themselves opposed to living wage ordinances as they see their main task as creating a “friendly business climate”. Other city administrators might support the living wage, but feel powerless to enforce it in the face of employer threats. Outside forces can increase the capacity of the city to enforce the laws.

Expect a fight. The first two lessons highlight a third, which is that at least in the US case, workers and unions should not expect to win living wages without a serious fight. As much as technical debates and academic research can help us advance our understanding of wage levels, the living wage campaign has been highly contested, particularly on ideological grounds. In the United States, neither political party has embraced the notion of regular increases to the minimum wage, let alone establishing living wages. Local campaigns encounter consistent opposition from the Chamber of Commerce, most Mayors, and most major newspapers. Employer organizations fight against wage laws, and fight harder the more expansive the potential coverage. Over the past few decades, the mainstream economic research has shifted from a strong critique of minimum wage laws to a mixed, and even positive evaluation. Economists have used “natural experiments” to test the impacts of minimum wage laws and find that, at best, they help low-wage workers at minimal cost and, at worst, have little impact in either direction. Yet in recent years the prominent Heritage Foundation has argued that the 2007 federal minimum wage increase was a cause of high unemployment in the wake of the 2008 economic crash, and a number of conservative politicians have called for eliminating wage mandates on the grounds that they interfere with the free market, hurt the poor and lead to large job loss. The state of New Hampshire repealed its state minimum wage law in September 2011, with the House Speaker calling minimum wage laws “job-killing regulation” (*International Business Times*, 2011).

Despite strong public support for setting and raising wage floors, the campaign to win them in any meaningful sense will likely be difficult. Living wage advocates have won their campaigns, despite the opposition, through a combination of factors: relying on empirical economic research to show that wage mandates can be helpful and not harmful to the economy; appealing to moral arguments via faith-based organizations and leaders; making arguments for responsible use of public money (i.e. requiring firms to meet certain standards in order to receive contracts or subsidies); showing support from a segment of businesses which themselves pay a living wage; and showing consistent and solid support from a wide range of voters. The campaigns usually take several years and repeated rallies, marches, lobby visits, one-on-one meetings with City Council members, and other tactics to win. In the end, what

is most persuasive to policy-makers is probably not the economic studies but the potential that tens of thousands of voters may not re-elect you if you do not support the living wage.

Worker organizing. Some unions have been able to use the living wage as a way to strengthen their relations to low-wage workers, to raise the floor, to assert their right to intervene in labour market regulation, and sometimes to organize new groups of workers. At the same time, a few unions in the US have opposed the ordinances. Some public sector unions have argued that living wage ordinances divert money from unionized workers to non-union workers in the public sector. Others have argued that living wage legislation could be a threat to organizing as workers might not see the need to join a union if they can get higher wages and health benefits through legislation. In some cities, the building trades unions have opposed the ordinances that would apply to retail and restaurant workers in subsidized developments. For example, a representative from Painters union in New York testified against the living wage proposal there, arguing that such an ordinance would discourage development and fewer projects would be built – resulting in fewer jobs.

There are not enough cases to make solid conclusions about the relationship between living wage campaigns and unionization, but anecdotal observation suggests that where unions have embraced the campaign, it has benefited them through new organizing or winning higher wages for already organized workers. Where they oppose it, it has hurt them, in that it has resulted in increased negative public opinion about “greedy unions”. Ken Jacobs, an organizer with the San Francisco campaign, states that this was the exact outcome at the San Francisco airport, where the unions that worked for the living wage ended up benefiting from it, while those that opposed did not (Luce, 2004).

Legal constraints. Finally, the campaign for living wages will involve not only technical debates about the economics of the living wage, but political debates about rights and laws. When the Baltimore living wage campaign was initiated, city officials told activists that it was not legally possible to affect wages at the municipal level. They ostensibly agreed with activists that working poverty was a problem in the city but insisted it had to be addressed at the state or federal level. By pushing, activists were able to come up with an angle that opened the door to living wages, by attaching them to government contracting. Over the next 17 years, living wage activists continued to push the boundaries of what was “possible” under the law. This has not always resulted in victory, and in some cases the opposition fought back to get new laws in place to restrict the space for wage laws. For example, a number of states passed “pre-emption” laws at the state level after living wage campaigns were underway, or ordinances passed. After voters in New Orleans passed a citywide minimum wage law in 1998, the restaurant and hotel lobbies got a law passed at the state level, overruling the city’s right to do so. The law was challenged in court but in the end the State Supreme Court ruled that the new law held.

There is no doubt that establishing wage mandates in a global labour market will also involve legal challenges. Trade laws and international institutions like the World Trade Organization primarily give capital greater rights vis-à-vis labour and local governments. Global supply chains cross multiple jurisdictions, making it difficult to apply regulations. Research shows that it would be quite difficult for many employers to pay a living wage to their direct employees as long as they are themselves restricted in their ability to bargain for higher prices for the goods or services they provide to multinational corporations. No matter what the law says in any country or municipality, the living wage might not be possible within one country.

The living wage movement asks: What rights do cities and states have to set wage mandates? What are the restrictions on these rights? What is the role of workers and their organizations in wage determination? Who sets the rules and regulations for labour markets, and how?

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Rescuing the minimum wage as a tool for development in Brazil

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No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.

Adam Smith, *The Wealth Of Nations*, 1776, Book I,
Chapter VIII, paragraph 36

The International Labour Organization (ILO) defines the minimum wage (MW) as the salary which constitutes the floor of the wage structure; its objective is to protect workers who occupy the lowest position in wage distribution (ILO, 2008, p. 34). According to international standards, the MW is analogous to the lowest monetary value which may be paid to workers in a region and a point in time, either through existing acts or through collective bargaining. In some countries it is determined by law, while in others it is determined through tripartite dialogue (by means of a negotiation including workers' representatives, employers and the government), or through collective agreements (with negotiations between workers and employers).

The minimum wage is generally related to a survival standard which is considered basic in a given society, and has the purpose of safeguarding the income and living conditions of workers who are considered to be the most vulnerable in the labour market and that of their families. This means the insertion of a moral or ethical dimension in price formation (through the introduction of a limit which is inferior to the price given to labour force), based on political criteria for establishing the value of labour and the reasonable living conditions in some societies (Medeiros, 2005).

The minimum wage has a 70-year history in Brazil. In the course of its long and eventful life, it went through different stages in attempts to achieve different political and economic objectives, being at times increased or reduced. In the most recent period, however, trade union centrals have mobilized their members again in order to get a MW value that will be more in keeping with the constitutional precept and, as a consequence, the government finally established a MW valorization process, with explicit rules, as a tool of their socioeconomic policy.

Public debate about the revitalization of basic wages in the country has been reignited by the recent raise of the MW (January 2012), which saw the rate increase by 75 per cent over the inflation rate, and its impact on public finance, especially on social welfare. Some segments of the population have resisted this increase because of the pressure it exerts on families who hire housekeepers and on company expenditures. But as the problem of income inequality remains severe in Brazil, it becomes critical to maintain the revitalization of the MW and to discuss the role of that process in the cultural development of the country.

The role of politics and of trade union centrals in shoring up the minimum wage in Brazil

Rescuing the minimum wage as a tool for development in Brazil

Since 1995, the MW has been adjusted approximately every 12 months.¹ From 2004 to 2010, at the end of each year the trade union centrals have waged national campaigns around topics of relevance to the Brazilian working population. Among other achievements, at the initial stages of joint annual campaigns, the centrals attained agreed raises, which had a greater impact on the MW. In December 2007, Lula da Silva's government agreed to an explicit and more permanent policy of valorization of the MW. This meant that adjustments and raises of the MW would no longer be negotiated according to historical circumstances and that a longer-term norm was established for the valorization of the MW. For the 2008–15 period, it has been agreed that adjustments would be based on the price inflation incurred since the previous adjustment and on the real variation of the GDP during the past year (based on the last month of the year). In addition, since 2010, the month for the implementation of the raise has been January. This policy, which was negotiated between the government and the trade union centrals, intends to increase the value of the MW until 2023. The current act that rules the process (Act No. 12.382/2011), proposed by the executive power at the beginning of Dilma Rousseff's government, makes explicit the convention governing the raise until January 2015, though in a more general sense it crystallizes what had been agreed in the previous period. Thus, the act or a new mechanism to increase the value of the MW will have to be discussed, negotiated and revised at the end of Rousseff's term of office.

The purpose of raising the MW every year is that of fighting inequality and poverty, but also that of stimulating economic growth through increasing income. By making the process of MW real growth foreseeable (through explicit rules and a long-term view), this policy makes it possible for employers and for the various administrative levels of the public sector to plan ahead and even to make the necessary investments related to the increase of the consumption power and demands for infrastructure, which greatly energizes growth. The norms governing raises also serve as a reference for macroeconomic policies.

Raising MW value, combined with the establishment and extension of welfare policies, has contributed to reducing inequality and combating poverty in Brazil. Similarly, the valorization of MW, the widening of coverage and of the value of welfare assistance, the growth of consumer credit and of regularized employment – with a decrease in unemployment – resulted in the widening of the home consumer market. This has helped to overcome the impact of the 2008 financial crisis, first mitigating the contraction of economic activity, and later boosting economic growth.

1. See in figure 1 on what months the MW was adjusted and raised on the first day of the month as from 1995.

Brazil's minimum wage: A bit of history

The MW was established by law in Brazil in 1934, and the act was enforced in 1940, during the presidency of Getúlio Vargas. The Federal Constitution of 1934, which corresponds to the “democratic phase” of Vargas’ government, established the MW as a way of “satisfying, considering regional conditions, the worker’s regular needs” (according to the first paragraph in article 121). However, the MW was not enforced until 1940, during the authoritarian phase of Vargas’ government.² Before that, Act No. 185 and decree-law No. 399 – passed in 1936 and 1938, respectively — specified what types of expenses the MW was supposed to cater for (food, housing, clothing, hygiene and transportation).

Art. 2 – By minimum wage it is understood the minimum remuneration owed to an adult worker, with no sex distinction, for an ordinary day’s work, which is enough to satisfy, at a specific time and region in the country, his or her regular needs in terms of food, housing, clothing, hygiene and transportation. (Brazil, 1938)

Those legal instruments also created the “MW Commissions”, which were mandated to determine the value of the MW for the different regions of the country. Decree-law n° 399/1938 established the existence of joint Commissions which were to be formed by workers and employers and by a chair designated by presidential decree. The value of the MW for a region would be proposed to the government by each Commission, and would result from an analysis that took into account the cost of the vital needs listed in the Constitution, the economic circumstances and the wages paid in the region at the time. The final value which the Commission proposed to the President of the Republic would be published in the Official Journal and would be enforced 60 days after publication. It is possible to see, then, that the introduction of the MW in Brazil meant the participation of the social actors, though always under state control.

On 1 May 1940, decree-law No. 2162 instituted the MW in Brazil; it set 14 different values for the 50 national regions, to be enforced as of 1 July 1940. The MW had, then, the following characteristics:

- regionalization of the country;
- satisfaction of workers’ needs (not mentioning their families’);
- food, housing, clothing, hygiene and transportation as the basic needs to be satisfied;

2. From 1937 to 1945 President Getúlio Vargas was the head of a dictatorial government, due to the introduction of a new Constitution which legitimized emergency powers in that period.

- MW per day of work; and
- the adult qualification requirement.

1943 saw the publication of a legal instrument which organized, in a single text, all the labour legislation which had been passed in Brazil until then: the so-called Consolidation of Labour Laws (CLL), which includes a chapter titled “About the minimum wage.” Article 76 in the CLL ratifies the concept of MW presented in the Decree-Law No. 399/1938 but goes further, enlarging coverage to rural workers.

Though the law explicitly states that rural workers are entitled to a MW, it was not until 1963, through the Rural Worker Statute (Act n° 4314, 2 March 1963), that the MW was progressively extended to rural areas in the country. Perhaps it is no coincidence that the gradual extension of the MW among rural workers coincided with its loss of real value during the period that followed the 1964 military coup d’état.

The criterion of tending to a worker’s basic needs has thus been present in the Brazilian concept of MW since its origin, in the 1934 Constitution and its regulations, though those initial laws disregarded family needs. The 1946 Constitution considered that the MW also has to cater for the expenses of the worker’s family, a principle which was reasserted by subsequent constitutions. The 1988 Brazilian Constitution, currently in force, explicitly includes in its legal text a more thorough expense structure:

Article 7. The following are rights of urban and rural workers, among others that aim to improve their social conditions:

(...)

IV – nationally unified minimum wage, established by law, capable of satisfying their basic living needs and those of their families with housing, food, education, health, leisure, clothing, hygiene, transportation and social security, with periodical adjustments to maintain its purchasing power, it being forbidden to use it as an index for any purpose; (Government of Brazil, 1988)

As for the procedures to determine MW value, “Minimum Wage Commissions” were active from the late 1930s, until the beginning of the 1964 Military Government in Brazil. It is worth noting that the 1943 Consolidation of Labour Laws is still in force, though other constitutions have been passed since then. Some articles were introduced and others modified or repealed, several of which referred to the Commissions. The termination of the Commissions as soon as the military political cycle started (a cycle which continued until 1985) signals the importance given by military authorities to the process of silencing social dialogue (to use the present-day expression) and to the “strict control” of the MW as an economic, political and social strategy.

Regarding the different MW values in Brazil, there were 14 different regional values in 1940, then 38 in 1963 and only five in 1974 and three in

1982. Finally, in May 1984 the MW came to have the same value throughout the country, though the Constitution which was then in force determined it had to be adapted to the living conditions of each region. This implies that, in 1984, the MW was *de facto* unified for the whole country, though not by law; the situation would change with the adoption of the current Constitution in 1988.

Under the current Constitution, the MW value is to be fixed by the legislative power, i.e. the National Congress, once it has been established by law. Nevertheless, once this Constitution came into force, the executive power started to legislate through a legal instrument called “provisional measure”, which in theory should only be used in exceptional or emergency cases. In this way, the MW value was established through successive provisional measures. Since the adoption of the new Constitution, Parliament has proposed only two laws to determine the MW value, one in 1989³ and another one in 1992 (Silva, 2009, p. 126).

The 1988 Federal Constitution also stated that the MW would be the basis for pension benefits (second paragraph, art. 201) and of welfare benefits for the elderly and the disabled who cannot support themselves or have no family to cater for their needs (fifth item, art. 203⁴). Note that in the second item of art. 194 the 1988 Constitution had already established the equivalence between the welfare benefits in urban and rural communities. In other words, the Constitution unified the basic pension and welfare benefits for urban and rural workers, making them coincide with the MW. Also, through Art. 7, which deals with workers’ right to a MW, the Constitution guarantees the right to unemployment insurance, which is also based on the MW (Act No. 7998/1990).

Therefore, apart from establishing the basic salary within the income range in Brazil, the MW plays a central role in the country’s public policies. The fact that the MW determines the floor for pension, welfare and unemployment insurance benefits probably derives from a view of the MW as the minimum necessary value to tend to a family’s vital needs. Its power as a referent also makes of it a spotlight, a beacon to fix retribution values in the formal sector of Brazilian economy, which is quite an expressive sector in the national labour market. Its incidence on social policies and on the labour market bestows on the MW great power to make an impact on poverty and

3. The first adjustment to the MW after the creation of the 1988 Constitution derived from this law, whose bill was presented in February 1989. This means that from the very beginning Parliament tried to exercise its power.

4. The Continuous Cash Benefit Programme (Benefício de Prestação Continuada, BPC) is oriented towards two specific sectors of the population: people with disabilities which hinder an autonomous working life, and people who are 65 or older, on condition — for both groups — that they have no other means or family that can support them; this condition is determined by a per capita monthly family income inferior to one quarter of the MW (Act No. 8.742, 1993).

Table 1. Estimates of beneficiaries of social welfare and of unemployment insurance, and of active workers earning exactly the equivalent of the minimum wage (September 2009)

Type	(thousands)
Social pension beneficiaries ¹	14477
Welfare assistance beneficiaries ²	3411
Formal employees	4409
Informal employees	2138
Civil servants and military	739
Self-employed workers	859
Domestic workers	1443
Employers	65
Unemployment insurance beneficiaries	530
Total	28071

1. Included here are those who receive benefits from the General Programme for Social Pensions and from National Pension Programmes. 2. Calculated on the basis of those who receive welfare benefits (LOAS) and a life monthly welfare income (benefit which is being removed).

The values considered here correspond to September 2009 because the National Household Sample Survey (PNAD-IBGE), on which the data corresponding to the different categories of employed workers are based, considers September as its reference month.

Sources: Boletim Estatístico da Previdência Social – Vol. 14, No. 9 – MPS, 2009. PNAD-2009 – IBGE. Coordenação-Geral do Seguro Desemprego, do Abono Salarial e Identificação Profissional – MTE.

inequality, and to stimulate economic activity by raising the purchase power of the lowest-income sectors in the country.

In September 2009, approximately 28 million people were paid exactly the MW in Brazil, including active workers, retired or unemployed workers or very poor individuals, who received the Continuous Cash Benefit Programme (BPC in Portuguese) from social welfare (see table 1).⁵ Throughout that period, there were 17.9 million welfare beneficiaries who were given the value of the MW. Of those, 14.5 depended on social security, 3.4 million depended on social welfare (BPC or LOAS⁶) and other benefits which may soon be removed. In September 2011, out of 25 million pension benefits, 61 per cent amounted to the value of the MW. Ninety-eight per cent of all beneficiaries in rural areas received a pension equivalent to the MW as compared to 42 per cent in urban sectors (MPS, 2011). Similarly, a great number of people received a MW as unemployment insurance: 530,000 or 32.2 per cent of all beneficiaries in September 2009, according to data provided by the Ministry of Labour and Employment.

5. Table 1 may present a double count, since a retired worker who gets a MW as pension benefit may be working again and be earning also a MW as a formal or informal worker.

6. LOAS, Lei Orgânica da Assistência Social – Organic Law of Social Assistance is the legal Brazilian structure defining social rights, which includes, in the case of the most poor, income support programmes.

The recent evolution of the minimum wage

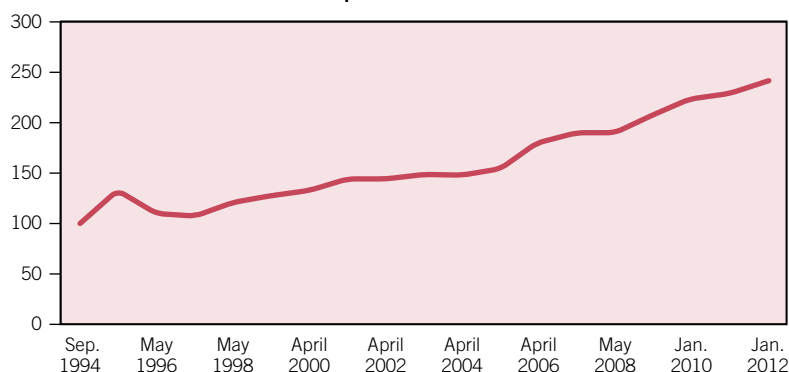
Since its beginnings in Brazil, the MW went through different phases in terms of its real valuation. The periods during which it lost purchasing power or, alternatively, gained in terms of purchasing power, testify to the priorities in socioeconomic policy and to the effects of the more general economic context. Some authors (e.g. Silva, 2009) distinguish between cycles which are properly political and others which are more strictly economic, and maintain that politics, more than economics, explains fluctuations in the value of the MW, as the real value of the MW dropped during many economically favorable circumstances.

In its different phases, the purchasing power of the MW was the result of whether the MW was viewed as a mechanism to raise workers' purchasing power and to widen and consolidate the domestic market or, on the contrary, as a means to control basic wages in the national economy. In addition, its real value depends on the evolution of inflation, combined with the frequency in wage adjustments and raises. On some occasions in the past, these factors were reinforced, for example, in circumstances of accelerated inflation and, among the political and economic measures taken to stabilize the government, wage controls were instituted (especially controls over the MW) as a means of containing demand and/or production costs and, supposedly, combating price upswings.

In the most recent period, i.e. as from the mid-1990s, the MW has experienced a positive evolution in Brazil (see figure 1). Considering the MW value after its first adjustment following the creation of the new Brazilian currency, the real (R\$ 70.00 in September 1994) and its value in January 2012 (estimated at R\$ 622.60), it is now 789.4 per cent higher. This percentage greatly surpasses the estimated growth of consumer price indices over that period of about 270.7 per cent according to the INPC-IBGE (National Consumer Price Index, from the Brazilian Geography and Statistics Institute) or 275.1 per cent according to the ICV-DIEESE (Cost of Living Index, from DIEESE, the Inter-Union Department of Statistics and Socio-Economic Studies) for the poorest third of the population. Such a difference between the nominal variation in the MW and inflation resulted in a significant rise in purchasing power. On the basis of the September 1994 value, the evolution of real MW on each adjustment date since then shows important and precise rising moments in 1995 and 2001 and a process of slow growth as from 2004, with a slight fall in January 2011.

However, when considered over a longer period, this recent rise in the MW is shown to be relative. Figure 2 shows the real MW evolution for the city of Sao Paulo, which, when the MW was created in 1940, was the second highest in the country, only inferior to that of the Federal District of Rio de Janeiro (the value of the MW value was only unified on a national basis in the eighties). Even though the evolution of the reference value for another region

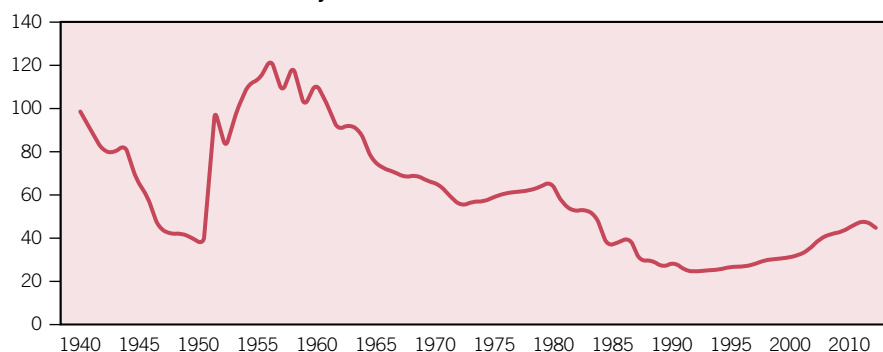
Figure 1. Real value of the minimum wage on each adjustment date (ICV-DIEESE – 1st social stratum – 1 Sep. 1994 to 1 Jan. 2012 (1 Sep. 1994 index = 100)



Note: "ICV-DIEESE – 1º social stratum" corresponds to the consumer price index for the third of lowest income families. January 2012 MW is estimated in R\$ 622.60 and 2011 November and December monthly inflation in 0.5 per cent.

Source: DIEESE; IBGE. Authors' own computations.

Figure 2. Evolution of the real minimum wage annual average in Sao Paulo, 1940–2011 (ICV-DIEESE – July 1940 index = 100)



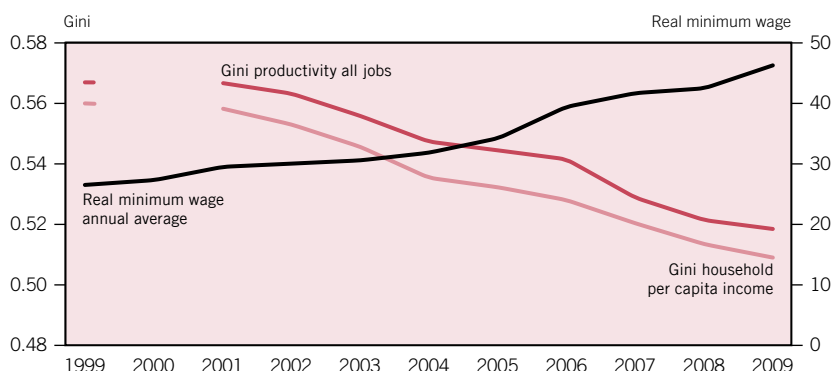
Note: In 2011, values until October.

Source: DIEESE.

would show a completely different trajectory, that of the city of Sao Paulo is representative as it has been one of the regions with the highest incidence of MW since its introduction. On the basis of the MW value in Sao Paulo, the 1995 national average (as well as those in 1994 and 1996) was at 25 per cent of its initial value. This is to say that the growth in purchasing power of the MW since 1995 constitutes a gradual recovery from the depths of its real original value. In October 2011, the real MW amounted to 44 per cent of its value in July 1940.

It has to be acknowledged that it may be controversial to consider real values over such a long historical period (almost 70 years) marked by many inflation outbreaks, some of which were serious. Criticism could be levied against methodological aspects, against the reliable measurement of the price

Figure 3. Gini coefficients of all labour productivity, per capita household income and real minimum wage, 1999–2009 annual average (July 1940 = 100)



Notes: This does not include data about people who have not presented their declaration of income for all jobs. When there is a Demographic Census, as in 2000, the PNAD does not visit rural areas.

Source: PNAD-IBGE; DIEESE. Calculations by DIEESE.

upswing rhythm, or against the extent to which it is reasonable to try to update values corresponding to such a long period, considering changes in consumption patterns. However, more direct indicators, such as the past and current correspondence between the value of the MW and the price of highly consumed food items (such as rice, beans, etc.), still show a significant deterioration in the level of real MW (DIEESE, 2010). In any event, figure 2 illustrates the low minimum wage levels by the mid-1990s and the subsequent increase in real value.

The recent process of real MW value increase took place in association with a reduction of income inequality in the country, whether from the point of view of distribution of labour income or of household per capita income (figure 3).

The process of improving the real value of the MW, begun in 1995 and accelerated from 2004, has been acknowledged as a mechanism which reduces the dispersion of the wage range (see, for instance, Dias, 2008; and Firpo and Reis, 2007). Besides, the valorization of the MW has coincided with union struggles for the establishment and rise of wage floors in the states and of the categories to raise the basic wages of Brazilian economy (DIEESE, 2010).⁷ It is worth remembering that, starting in 2003, the increase in the

7. Complementary Act No. 103, 2000, created the possibility for each Unit of the Federation (states and the Federal District) to determine the wage floor for professional categories which do not have floors defined by instruments of collective bargaining. In October 2011, five states have floors which were defined by state acts: Rio de Janeiro, Rio Grande do Sul, Paraná, São Paulo and Santa Catarina (in order of the creation of the floors in the states). The three references of “basic salaries” in force in Brazil, i.e. the MW, the state floors and the category floors (established by collective bargaining or agreements), have been combined to stimulate the increase of the lowest salaries being paid in the country. See DIEESE (2010).

MW purchasing power has taken place at the same time as the reduction in unemployment rates and the expansion of formal employment, which also contributes to a decrease in inequality.

Analysing a longer period through the comparison of similar processes in other countries, it is verified that the degree of concentration of income in Brazil is diminishing at a (relatively) rapid pace (Soares, 2008). In a complex way and in combination with other factors (as the improvement of the coverage and of the value in welfare benefits, including the *Bolsa família* programme), the rise in the real value of the MW has triggered, specifically, a reduction of income inequality, and in general, of income concentration (Saboia, 2007). As the MW establishes the floor for pension benefits and for the Continuous Cash Benefit Programme (BPC) of social welfare, the power of the MW to promote equity is enhanced, reaching far beyond the labour market.

The functions of the minimum wage in Brazil

The main function of the MW is to protect workers who are at the bottom of the wage hierarchy in a specific region or country. That is its *raison d'être*. But this function is not its only function in the economy and the society of a country. Considering the Brazilian experience, various other functions can be identified.

Protection for the “losers in the wage negotiation”

In Brazil the MW aims mainly to protect the groups of workers who are most vulnerable in the labour market. A study carried out by a technical expert of the Institute of Advanced Economic Research (IPEA), concludes, after analysing the effect of the MW by workers' characteristics, that

(...) the effect of the minimum wage is greater among women, (...) undeclared workers, workers who live in the Northeast, spouses and sons or daughters, uneducated people (0–3 years of schooling), youngsters, rural workers, domestic workers, black people and people in the first three tenth of household per capita income (especially the second and the third one). In other words, the minimum wage has a greater impact precisely among those workers whose inclusion in the labour market is made more fragile. The figures suggest that many individuals are working and that their jobs, therefore, have not been damaged by the minimum wage. But their returns are high because of its existence, and thus it seems to be an efficient instrument for the protection of those workers who are the losers in wage negotiations. (Soares, 2002, p. 12)

An instrument to combat poverty

Because it protects the income and the living conditions of the most vulnerable workers and their families, the MW constitutes an instrument to combat poverty. The MW (as the remuneration floor of hired labour) is obviously not enough and therefore cannot protect from poverty unemployed workers who have no access to unemployment insurance, or those who work outside capitalist forms of work (like those who work for their own consumption or for no remuneration), or those who are not covered by the institution of the MW (like self-employed workers). To guarantee the minimum standards for a decent life, workers who are not covered by the MW and their families need other instruments and measures, whether welfare policies, market supervision or policies for the labour market (such as unemployment insurance, work incentives or qualification grants).

An instrument to face wage inequality according to personal characteristics

As it protects the most vulnerable workers in the labour market, the MW reaches especially workers who are over-represented among them. For that reason, it has an important role in fostering income equality between men and women, considering that women carry out low-paid tasks and that they are mostly employed as domestic labourers. The MW has the same effect on black workers of both sexes.

Reference for wages paid to workers entering the labour market

The MW also works as a point of reference to estimate the wage to be earned by somebody who is entering the labour market, and therefore has a great effect on young people. Besides, the floors for the different categories, which are established through collective bargaining, frequently equal the value of the MW, which is a sign of its influence on the determination of the initial salary in some categories.

Reference for the lower salaries and for income in general

The evolution of the MW also fulfils three major functions in the definition of low-pay workers' income: (a) the beacon effect, which consists in the association of the remuneration of less qualified workers, even of those who

are undeclared, to the evolution of the MW (Souza and Baltar, 1979); (b) a spillover effect, which corresponds to the automatic adjustment of salaries situated between the old and the new MW value; and (c) a numerary effect, which holds when the MW is formally or informally related to remunerations which are higher than the MW. It has to be highlighted that the beacon effect seems to bear a more intense and direct impact on undeclared workers' earnings than on self-employed workers' earnings (Dias, 2008), which does not amount to saying that the MW does not work for self-employed workers as an indicator of the minimum income they could obtain if they came to be employed.

Organizer of the remuneration scale

The MW organizes the remuneration scale in the labour market because it advocates paying the same wages for similar functions associated to basic occupations. Apart from bringing about income equality to the base of the wage scale, the MW guides the building of a remuneration hierarchy according to an occupations structure. As a consequence of its functions in relation to equality (at the base) and hierarchy (of the structure), the MW constitutes an instrument capable of bringing about the narrowing (or, alternatively, the widening) of wage distribution. In other words, low real MW values are associated to a rise in wage dispersion, whereas higher MW values are associated to lower wage dispersion (Hoffman, 1978; Bacha, 1978).⁸ In this way, though income inequality is not restricted to inequality in labour earnings and is greatly determined by the concentration of generated profit in the hands of the capitalist, a rise in the MW tends to contribute to an improvement in the country's income distribution, as long as it pushes the wage structure upwards.

An inhibitor to staff turnover

One of the consequences of the contribution of the MW to the levelling of basic salaries is that it discourages the rotation of workers. Because of low costs of hiring and training new workers, less qualified labourers are more subjected to rotation, which is understood here as a company policy consisting of firing workers to hire others for the same position. Employers often intend, by those means, to substitute a worker who gets a higher salary with one who gets a

8. These two articles are part of a great 1970 theoretical (and political) debate about the causes of the worsening in the distribution of income in the country starting in the 1960s; they point out that the combination of a low minimum wage and the growing power of social layers which were associated to the administration of the great companies resulted in a widening of the wage disparity, with the subsequent deterioration of income distribution.

lower one. For that reason, raising the basic salary, which is generally earned by less qualified workers, brings closer together the incomes of those who already have a job and of their possible substitutes, discouraging staff turnaround.

Promotion of regional equality and dynamism

Considering the differences among the different regions in the country, the MW contributes to equality. The basic salary valorization process stimulates the economic circuit in areas where a great number of workers depend on the MW (as income for their work, or as pension or welfare income transfer).

Introduction of a floor for social security benefits

As the Constitution dictates that the MW has to amount to the minimum value necessary for the survival of a family, the MW constitutes an important reference at the moment of determining the value of benefits in the Brazilian social security system. The Constitution establishes that the MW should be the floor for pension and welfare benefits. The value of the *Bolsa família* programme benefits, however, is not related to the MW value.⁹

Stimulation of the home consumer market and of socio-economic development

The MW may also be seen as a macroeconomic policy tool, though in Brazilian history since the mid-1960s it has been used to the disadvantage of low-pay workers and of a more civilized social project. Due to its impact on the mass and structure of remunerations in the country, the MW was used in different historical moments, especially at times when inflation was fought by means of reducing the demand, as an instrument to limit workers' purchasing power in the home consumer market. It has been frequently argued that raising the MW brings about higher inflation, but as reported by the ILO, if variations in the MW can affect inflation, their impact tends to be modest, and the fear that MW raises may trigger a generalized increase in prices is often exaggerated (ILO, 2008, p. 50).

This belief in the control of the MW as a means of restraining inflation and of the political measures based on it resulted in a significant reduction in the MW purchasing power along history; at specific moments, this belief also exacerbated (or, in other contexts, contributed to the persistence

9. The *Bolsa família* programme is a welfare government programme (i.e. it is not state policy) which combats extreme poverty via conditional income transfers.

of) wage and income equality in Brazil. Analysing its historical trajectory until the first years of the twenty-first century, Dedecca (2005, p. 199), asserts that “(...) maintaining an undervalued MW has made it possible to validate a productive scheme based on low salaries and on low worker productivity.” Medeiros (2005) proposes, however, that against the usual historical practice in Brazil, the MW could be used as an instrument that opened a way out of the trap of an economy based on low wages, as shown in certain historical moments (like the second half of the fifties).

In the case of Brazil, the recent trajectory of MW value recovery did not bring about inflation; neither did it breed unemployment or undeclared or illegal hiring. On the contrary, unemployment fell, formal employment grew, inflation remained stable in the past years and the concentration of income has started to decrease progressively and noticeably.

In 2008, the dynamism of the home consumer market played a very important role at the moment of fighting the severe effects of the international financial crisis in Brazil. The MW policy, combined with income transfer programs, an accessible credit system and an improvement in the labour market (through the reduction of unemployment and an increase in standard and regular employment), had already started to foster growth in consumption. During the most severe phase of the international crisis, when it struck serious blows on Brazilian economy, the government found fertile ground to stimulate consumption, which was achieved by means of tax cuts and credit expansion. The MW policy contributed to the strengthening of the home consumer market, which in turn proved central to overcoming the harmful effects of the international crisis on Brazilian economy.

Conclusion

Some who are critical of the MW and its valorization process in Brazil argue that this instrument is not the most efficient one in combating poverty, since it does not reach the poorest people (see, for example, Giambiagi y Franco, 2007). Despite its role in Brazilian social policies, the MW must be seen as part of a set of institutions which regulate the market and the working conditions of employed workers in a certain country or region. Labour market institutions can be understood as scaffolding components of rules, practices and policies (written or unwritten, formal or informal) which influence working conditions and the functioning of the labour market (Berg, Kucera, 2008; ILO, 2008, p. 33). Among other things, these determine working hours, working conditions, ages at which the working life starts and finishes, hiring and termination conditions, the right to unionize, collective bargaining, striking, conflict resolution (including the possibility of state intervention) and remuneration (which, apart from the MW, includes the payment of bonuses and of indirect benefits).

The gradual rise in the MW level, which started in 1995 and was briefly interrupted in 2011, has lasted over 15 years now. As a result of this process, there has been a significant real increase in the MW, of about 80 per cent if we compare the average 2011 MW with that of 1995. In the light of this, many analysts have been warning about the possibility of setting limits to that process. Medeiros (2005, p. 15) summarizes the ideas of those who are against the use of MW in three arguments: “(...) it is counterproductive, because it results in unemployment; it is inefficient, because it discourages productivity; it is ineffective as an income distribution policy”. The same author questions each of these arguments. To assert that the MW brings about more unemployment entails not acknowledging its dynamic effect on income and consumption; lower salaries could place Brazilian society and economy in a low-productivity trap; the MW protects the weakest workers in wage bargaining, and its increase pushes the lower salaries up and improves income distribution.

Increases in the MW in the past few years and agreements about a more permanent MW valorization have been without a doubt a great achievement of Brazilian trade unions’ action. The rise in the MW has had positive effects by reducing social inequality, lowering poverty levels, improving the life of the elderly, stimulating the home consumer market as well as reducing regional inequalities. However, the rise in the value of the MW demands that its effects on the labour market and on public, social pensions and welfare expenditures be monitored so as to make the continuation of this process viable through guaranteed and adequate funding sources. To propose and to make possible another socio-economic scheme in the country makes it necessary to:

(...) propose a minimum wage policy as part of a national development project, of an economy that will be able to compete internationally because it is based on a vigorous home consumption market, on a wide labour market which demands workforce and which has a development strategy capable of putting growth at the service of the fight against inequality. (Lucio, 2005, p. 178)

The MW means, above all, the introduction of a moral consideration in price formation. It reflects the value that a specific society attributes to work, and is based on ethical criteria of justice and equality. In the case of Brazil, a country which is extraordinarily unequal, the struggle against all forms of iniquity should be prioritized. Unlike income concentration levers, such as monetary policies and persistently high interest rates, the MW and its increase do not contradict other measures (such as welfare programs, especially the *Bolsa família* programme) as powerful means to promote income dispersion. On the contrary, a decent MW is an instrument which, combined with others, contributes to the achievement of justice in the country. Brazilian

society, therefore, has to undertake the effort to make possible the continuity of the MW valorization process, and accompany it with an improvement of other already existing policies and with the introduction of new measures to combat inequality in the country.

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The effectiveness of minimum wages in developing countries: The case of India

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After years of relative neglect, minimum wages are again perceived as a useful and relevant policy tool which can make a major contribution to social justice by improving the lives of low-paid women and men worldwide. A number of countries around the world have experienced positive changes which have contributed to this change in perception. In the United Kingdom, for example, a survey by political experts¹ has identified the national minimum wage introduced in 1999 as the most successful government policy of the past 30 years. In emerging countries, too, minimum wages are making a strong comeback. In Brazil the reactivation of the national minimum wage since 1995 is widely credited – together with *Bolsa família*, a cash transfer programme – for the recent reduction in poverty and inequality (Berg and Tobin, 2011). In South Africa, wage floors were introduced in 2002 to fight the racial discrimination introduced under apartheid and to support the wages of millions of low-paid farm workers, hospitality workers, domestic workers and others in sectors where unions are weak. In China, new regulations were issued in 2004 in the face of growing concerns about increasing wage inequality. Finally, in Egypt and other countries rejuvenated by the “Arab Spring”, governments have been forced to respond to the demands for minimum wages by young revolutionaries and trade unionists.

In developing countries, however, two questions frequently arise. First, to what extent can minimum wages be enforced in a context characterized by a large number of casual and informal wage earners who operate beyond the reach of understaffed labour inspection services? Second, where minimum wages are implemented, do they benefit the poorest and most vulnerable groups in society or do they merely reinforce the segmentation and inequality between a few fortunate salaried workers and all the others?

Our paper discusses these questions in the context of India, a developing country with a particularly strong minimum wage tradition. India was one of the first developing countries to introduce a minimum wage policy. According to John (1997), the enactment of the Minimum Wages Act in 1948 was the result of both internal and external factors. Internal factors included the increase in the number of factories and wage earners during the first half of the twentieth century, as well as the growing number of industrial unrests and strikes of workers who rebelled against their “starvation wages”. External factors included the adoption by the International Labour Organization (ILO) in 1928 of Convention No. 26 on minimum wage fixing in trades in which no effective collective bargaining takes place or where wages are exceptionally low. The Minimum Wage Act of 1948 is still considered to this day to be one of the most important pieces of labour legislation in India.

1. See http://www.instituteforgovernment.org.uk/pdfs/PSA_survey_results.pdf and <http://www.bbc.co.uk/news/uk-politics-11896971?print=true>.

The first section of the paper describes briefly India's complex system of minimum wages. The second looks at the effectiveness of minimum wages in the country. Using the 2009–10 Employment-Unemployment Survey data, we estimate the proportion of salaried and casual wage earners among India's workers. We then discuss the extent to which the minimum wage is paid for wage earners at all-India level, and also for certain specific schedules of employment. The third section considers who benefits from the various minimum wages in India. Finally, we discuss the role of the National Rural Employment Guarantee Scheme² (NREGS) in enforcing minimum wages.

Minimum wages in India

While India was one of the first developing countries to adopt minimum wages, its system also remains to this day one of the most complicated in the world. The 1948 legislation determines that the “appropriate government” should fix minimum wage rates payable to employees in a number of listed sectors (or “scheduled employments”). In practice, this means that the central Government sets minimum wages in all companies operating under a railway administration or in relation to a mine, oilfield, or major port or any corporation established by the central Government, and that all other rates are essentially set by state governments, who have appointed tripartite Advisory Boards that include representatives of government, employers and workers.

The proportion of workers covered by the minimum wage depends on the number of “scheduled employments” and is decided at the state level. The original Minimum Wage Act of 1948 obliged states to protect workers from 13 scheduled employments that were identified as the sectors uncovered by collective bargaining and therefore most vulnerable to unduly low wages and exploitation (Labour Bureau, 2005). But the Act also empowered state governments to expand this list, so that today there exist more than 300 different sectors that are covered in one or more of the Indian states. While some states such as Tamil Nadu and Orissa have massively expanded coverage, others such as Mizoram and Manipur have left it almost unchanged (see Labour Bureau, 2005).

India is therefore a country with multiple minimum wage rates, which vary across states as well as across jobs within a state. According to the figures for 2009 published on the website of India's Labour Bureau,³ the central Government sets 48 minimum wage rates for different job categories, while

2. The National Rural Employment Guarantee Act (NREGA) was passed in 2005 and later implemented as NREGS in 2006; it was renamed as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in 2009. We use the term NREGS consistently throughout this paper.

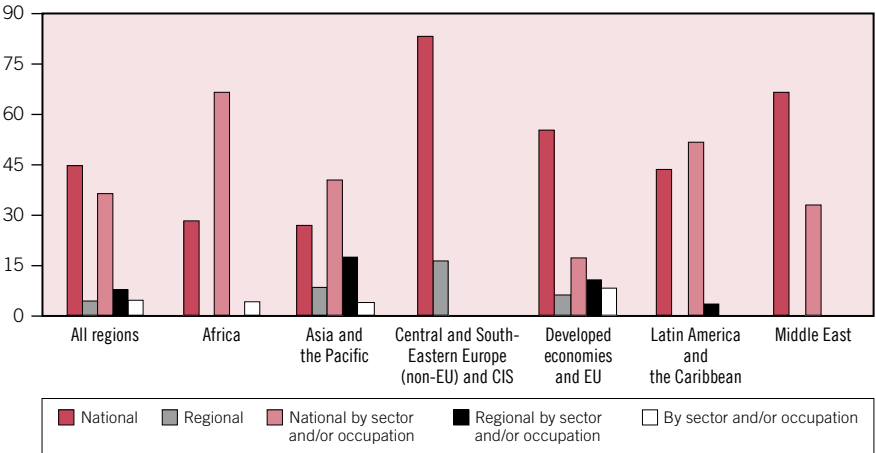
3. See <http://labourbureau.nic.in/wagetab.htm>.

various state governments determine minimum wage rates for 1123 job categories among the sectors “scheduled” in the Act. In other words, there exist 1171 different minimum wage rates in India. To some extent this reflects the enormous size of the country. And, India is not an exception in relying on sectoral and/or occupational minimum wages rather than on a single national minimum wages. Figure 1 from the ILO’s Working Conditions Law Database shows that about half of the countries implement systems with multiple rates which vary by industry and/or occupation. While national minimum wages prevail in developed economies, multiple rates dominate in Africa, Asia and to a lesser extent in Latin America and the Caribbean.

The difference between multiple and single rates can be traced, in part, to historical developments, as the tendency has been for countries to switch from multiple systems to national systems, thereby increasing both the coverage and the simplicity of minimum wages. The United Kingdom, for example, abolished its system of industry-wide trade boards in the 1980s and replaced it in 1999 with a simple national minimum wage. This trend is reflected in the evolution of ILO standards themselves. While ILO Convention No. 26, adopted in 1928, encouraged the adoption of a select system of minimum wages to groups of workers who are in a weak bargaining position in the labour market, the more recent ILO Convention No. 131 of 1970 promotes a more comprehensive approach which covers as many workers as possible.

While both systems are legitimate, international experience has shown that relatively simple systems are more effective⁴ and that the least effective minimum wages institutions are often those that are too complex. The absence of central coordination can lead to chaotic outcomes, where the various

Figure 1. A typology of minimum wage systems (%)



Source: ILO Working Conditions Law Database, 2010 (based on 108 countries).

4. See, for example, ILO (2008a), p. 50.

rates lack overall coherence and appear to be set in an arbitrary fashion. In addition, multiple rates can be difficult to communicate and enforce, particularly when both workers and employers are confused over which rate, if any, is applicable to them. One study therefore concluded 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” (Cunningham, 2007, p. 4). This has also been put succinctly by Ghose who argues that, in the case of India, having “a plethora of statutory minimum wages, all arbitrarily set, which vary across jobs within a state and across states in the same job” is simply “indefensible” (Ghose, 1997, p. 697).

In India, the Government has taken a number of steps in recent years to improve overall coherence by strengthening the coordination functions ability of the Central Advisory Board to coordinate the work of all the State Advisory Boards and by requesting that states determine minimum wage rates through consultations within five broader regional committees (for the Eastern, North-eastern, Southern, Northern, and Western regions). Further, policy-makers have discussed for years the possibility of simplifying and extending the coverage of minimum wages to the whole labour force. A step was made in 2003 when the Central Advisory Board constituted a Working Group which led to the introduction of an indicative, non-binding national minimum wage floor initially set at Rs 66⁵ (GoI, 2007), and later raised to Rs 80 per day in December 2008, to Rs 100 per day in December 2009 and to Rs 115 per day in April 2011 (corresponding roughly to US\$1.5, US\$2.0 and US\$2.3 per day, respectively).

The effectiveness of minimum wages in India

By definition, minimum wages can only apply to wage earners and it is worth remembering that in developing countries, wage earners often represent a minority of workers compared to the self-employed. In fact, the share of wage earners (or “paid employees”) in total employment varies widely by region and is positively correlated with economic development. According to data from the ILO’s *Key Indicators of Labour Market* (KILM), wage earners represent 86 per cent of all workers in developed economies, but this share goes down to 48 per cent at the global level and to 25 per cent or less in South Asia and in sub-Saharan Africa. What is the proportion of wage earners in India? Table 1 shows the data from the latest Employment-Unemployment survey, which covers all the major Indian states. We see that in 2009–10 there were

5. To arrive at the national minimum wage floor, the working group considered the principles laid down in the of 1957 International Labour Conference and the 1992 Supreme Court judgement. The group then used the NSS 50th Round Consumption Expenditure Survey to calculate the minimum wage.

Table 1. Employment by activity status, all India, 2009–10

		Male	Female	Total
Rural	Self-employed	53.5	55.7	54.2
	Salaried	8.5	4.4	7.3
	Casual	38.0	39.9	38.6
	Total	208426100	94059100	302485200
Urban	Self-employed	41.1	41.1	41.1
	Salaried	41.9	39.3	41.4
	Casual	17.0	19.6	17.5
	Total	79257800	18281200	97538900
Total	Self-employed	50.0	53.3	51.0
	Salaried	17.7	10.1	15.6
	Casual	32.2	36.6	33.5
	Total	287683900	112340300	400024100

Source: Computed from the Employment-Unemployment Survey, 2009–10.

about 400 million persons employed in India,⁶ 51 per cent of whom were self-employed. This leaves a total of about 196 million wage earners (mostly men), roughly two-thirds of them casual workers – many of whom were working in the rural informal economy and for whom minimum wage enforcement is particularly challenging. Urban salaried workers, the population for whom minimum wages are presumably most easily enforced, accounted for no more than 10 per cent of total employment in India.

Given the complexity of the minimum wage system, it is beyond the scope of this paper to estimate the proportion of wage earners who are legally covered by the “employment schedules” of the Minimum Wage Act. What is possible, however, is to obtain an estimate of the proportion of wage workers who are paid less than the indicative national minimum wage floor, or less than the average state-level minimum wage. These proxies for the effectiveness of minimum wages are typically larger in developed than in developing countries. In the United States, for example, a statistical analysis found that 2.6 per cent of all hourly paid workers were paid less than the minimum rate in 2008 (Bureau of Labor Statistics, 2009). Similarly, in the United Kingdom, it was found that about 1.3 per cent of all wage earners – a majority of them women – were paid below the national minimum wage (Metcalf, 2008). By contrast, in developing countries, the proportion of workers who are paid less than the minimum wage can go up to 45 per cent in Latin America (Cunningham, 2007) or even higher for some groups in Asia, such as migrant workers in China, for example.⁷

6. There has been a decline in employment over the last period. According to GoI (2011), the declining trend in labour force participation has been argued to be due to the reduction in subsidiary employment, increase in the level of income in rural areas due to the increase in real wages, and a higher level of participation in education. This decline is observed largely among self-employed women in both rural and urban areas.

7. See ILO (2010), pp. 70–71.

Table 2. Proportion of workers below minimum wage (Rs80) pay, all India

		Male	Female	Total
National minimum wage floor				
Salaried workers	Rural	17.0	49.7	23.0
	Urban	8.1	26.4	11.3
	Total	11.2	34.9	15.4
Casual workers	Rural	35.0	62.4	42.9
	Urban	19.9	59.1	27.4
	Total	32.7	62.1	40.9
State level minimum wages				
Salaried workers	Rural	24.6	58.3	30.8
	Urban	14.0	33.9	17.5
	Total	17.7	42.8	22.2
Casual workers	Rural	42.7	69.4	50.5
	Urban	28.5	66.3	35.7
	Total	40.6	69.2	48.6

Source: Computed from the Employment-Unemployment Survey, 2009–10.

What is the share of wage earners paid less than the minimum wage coverage in India, using either the national or state-level minimum wages? Our most recent computation is shown in table 2. We find that throughout India an estimated 15.4 per cent of salaried workers and 40.9 per cent of casual workers earned less than the indicative national minimum wage of Rs 80 per day, and that these figures increase to 22.2 per cent and 48.6 per cent, respectively, when we use our proxy for state-level minimum wages. Unsurprisingly, female workers and those residing in rural areas are more likely to earn below minimum wages. Overall, these figures indicate that in 2009–10 there were 61.6 million wage workers – equivalent to 33 per cent of all wage workers – who were paid less than the national minimum wage floor. These figures are slightly lower than in 2004–05, when 73 million workers (42 per cent of all wage earners) received wages below the national minimum wage floor (Belser and Rani, 2011). A higher proportion of male casual labourers were paid minimum wages in 2009–10 compared to 2004–05, but the same was not true for female workers. Though payment of the minimum wage has slightly improved the deficits still seem to be quite high. Even if it is not possible for us at this stage to determine the extent to which these high figures are due to the low coverage of “employment schedules” or to pervasive non-compliance, they nevertheless clearly point towards the difficulties in implementing an effective wage floor throughout the Indian economy.

Our next tables illustrate the extent of statutory state-level minimum wage payment for certain specific groups of workers. In table 3, we see the situation of domestic workers who at the time of the 2009–10 Employment-Unemployment Survey were covered in only two Indian states. And where they were covered, only a small proportion of them received minimum wages and most of the workers were usually underpaid. In Andhra Pradesh, for

Table 3. Domestic workers not receiving minimum wages, 2009–10 (%)

	Rural		Urban	
	Male	Female	Male	Female
Andhra Pradesh	100.0	96.9	23.3	90.2
Karnataka	0.0	85.2	1.9	64.4

Source: Computed from the Employment-Unemployment Survey, 2009–10.

Table 4. Proportion of workers in specific schedules of employment paid less than the minimum wages, 2009–10 (%)

State	Construction workers				Agricultural workers				Hospitals, nursing homes and private clinics			
	Rural		Urban		Rural		Urban		Rural		Urban	
	M	F	M	F	M	F	M	F	M	F	M	F
Himachal Pradesh	7.8	4.0	25.6	35.7	0.8	0.6	0.0	0.0				
Chandigarh	0.0	0.0	48.0	66.6	20.8		26.1				20.2	6.0
Uttaranchal	28.9	53.6	14.7	100.0	5.0	1.9	55.9	58.2	0.0		0.0	0.0
Haryana	23.7	28.0	18.9	51.9	11.6	19.3	3.8	88.3	14.7	1.9	18.6	46.6
Delhi	14.5	0.0	22.7		6.0	12.1	0.0	22.3	0.0		1.9	0.0
Rajasthan	25.0	69.1	12.0	23.6	0.1	0.0	0.0	0.0	0.0		0.0	6.0
Arunachal Pradesh	4.5	0.0	3.1	8.5	0.2	0.0	0.0	0.0				
Manipur	22.0	49.1	2.2	45.6	1.3	1.2	1.8	0.6				
Mizoram	4.1	0.0	5.6	13.5	1.7	10.9	0.0	3.3				
Meghalaya	2.6	49.8	0.0	0.0	17.1	29.5	33.3					
Orissa	28.5	40.0	12.5	26.8					67.0	17.4	12.3	34.5
Gujarat	32.9	88.3	36.9	52.3	14.0	36.9	11.6	43.1	5.1	40.7	17.5	44.6
Maharashtra	77.7	70.7	60.2	83.8	39.0	55.5	22.6	60.9	48.9	22.3	21.6	23.3
Andhra Pradesh	63.0	90.9	38.0	82.4	41.1	53.7	29.2	58.7	0.0	86.8	0.0	30.8
Karnataka	33.8	90.3	27.2	82.4	0.0	0.0	6.8					
Kerala	14.0	45.3	11.6	34.6	0.6	5.3	0.0	10.4	36.9	71.7	40.6	57.5
Andaman and Nicobar Islands	18.1	17.6	32.2	4.3	1.2	0.0						

Source: Computed from the Employment-Unemployment Survey, 2009–10.

example, more than 90 per cent of female domestic workers in both urban and rural areas were paid below the minimum wage. In Karnataka, the situation was only slightly better with 85.2 per cent and 64.4 per cent of female domestic workers being underpaid in rural and urban areas, respectively. Here it is hoped that the support of the Indian Government⁸ and social partners to the adoption of a new ILO Convention No. 189 on decent work for domestic workers will bring about in the future an improvement of the situation of this

8. The Government of India has recently set up a task force on a national policy for domestic workers to discuss the issue. See <http://labour.nic.in/dglw/FinalReportTaskForceDomesticWorkers.pdf> for more details.

particularly vulnerable group of workers. Table 4 looks at other groups of low-skilled workers who are explicitly covered by the employment schedules of the states under analysis. We can observe that non-compliance seems especially high in the states of Andhra Pradesh, Karnataka, Gujarat, and Maharashtra. Women are particularly affected. So even for certain schedules of employment where workers are to be paid minimum wages, non-compliance seems to be quite high. These tables are broadly consistent with the results of more refined data analysis which will be presented in the next section.

Who benefits from minimum wages?

The relatively weak effectiveness of minimum wages in India documented in the previous section does not mean that minimum wages have no positive effect. In fact, our earlier analysis of the data for 2004–05 (Belser and Rani, 2011) shows that being paid the minimum wage – and controlling for all personal characteristics – reduces the probability of being poor by about 10 per cent. The same analysis reveals that being paid the minimum wage is the third most important factor in reducing the poverty risk for wage earners after education and geographic location. These findings dispel the stereotype sometimes held among developed-country academics that minimum wages only benefit workers from the formal economy who live in non-poor families. In reality, in India as in other developing countries, a relatively high proportion of the poor are casual wage earners, both in rural and urban areas. Our earlier analysis for 2004–05 showed that about 30 per cent of salaried workers and 40 per cent of casual workers who earn below minimum wages live in poor families, and that among the wage earners living in poor families about 50 per cent earn less than the minimum wage. This confirms the huge potential of minimum wages to contribute to poverty reduction and indicates that making minimum wages more effective is a worthwhile challenge.

Of course, there are a number of other factors that determine the level of pay or who is able to earn minimum wage. Table 5 provides the marginal effects from a probit model⁹ for both national and state-level minimum wages for salaried and casual labour. Our analysis for 2009–10 shows that everything else held constant, there is a marginally higher probability for scheduled tribes and other backward castes to earn below minimum wage compared to upper castes (table 5). But there is a higher probability for salaried workers from scheduled castes to earn minimum wages, though these effects are

9. We employed a simple bivariate probit model for the population in the age group 15–64 years. The dependent variable in the model is “Minimum wages”, which indicates whether a worker receives minimum wages (either national minimum wage floor or statutory state-level minimum wages). The independent variables include a number of employment characteristics of each worker (age, experience, sex, education level, occupation and industry categories, and the size of the firm) and household characteristics of the worker (caste, region).

Table 5. Probit estimates of workers receiving below minimum wages, ages 15–64 years, India, 2009–10

	Salaried		Model 2	
	Model 1		Marginal effects	
	Marginal effects		Marginal effects	
Predicted outcome	0.071		0.116	
Age	–0.0135***	(0.001)	–0.018***	(0.001)
Age squared	0.0001***	(0.000)	0.0002***	(0.000)
Sex (male)				
Female	0.185***	(0.006)	0.226***	(0.007)
Living in urban areas	–0.0332***	(0.003)	–0.0548***	(0.004)
Level of education (reference group: above secondary school)				
Illiterate	0.236***	(0.013)	0.249***	(0.0131)
Literate	0.176***	(0.014)	0.173***	(0.014)
Primary school	0.165***	(0.011)	0.172***	(0.0109)
Middle school	0.105***	(0.007)	0.138***	(0.008)
Secondary school	0.0521***	(0.006)	0.0690***	(0.007)
Caste (reference group: forward castes/Hindus)				
Scheduled caste	–0.0115***	(0.082)	–0.047***	(0.005)
Scheduled tribe	0.0295***	(0.005)	0.0342***	(0.006)
Other backward caste	0.0263***	(0.003)	0.0365***	(0.004)
Union membership	–0.0545***	(0.003)	–0.089***	(0.004)
Industry categories (reference group: mining, electricity, gas and water)				
Agriculture	0.0711***	(0.016)	0.107***	(0.02)
Manufacturing	–0.0135**	(0.006)	0.0005	(0.009)
Construction	–0.0482***	(0.005)	–0.042***	(0.0101)
Low-productive services	0.0335***	(0.009)	0.101***	(0.013)
High-productive services	–0.0277***	(0.007)	–0.027***	(0.009)
Occupation categories (reference group: professionals)				
Administration	–0.0024	(0.010)	0.0206	(0.0142)
Clerical	0.0509	(0.012)	0.0850***	(0.0157)
Sales	–0.0071	(0.010)	0.0272*	(0.014)
Service	0.0397***	(0.011)	0.0769***	(0.0155)
Farmers		(0.037)	0.0207	(0.0238)
Production workers	0.0291***	(0.0102)	0.0855***	(0.0138)
Size of enterprise (reference group: large enterprises)				
Tiny				
Small				
Medium				

Notes: Text in parentheses is reference category. Figures in parentheses are standard errors.

* Denotes significance at the 10 per cent level. ** Denotes significance at the 5 per cent level.

*** Denotes significance at the 1 per cent level.

Model 1: National minimum wage floor. Model 2: State-level minimum wages.

Source: Computed from the Employment-Unemployment Survey, 2009–10.

	Casual labour			
	Model 1		Model 2	
	Marginal effects		Marginal effects	
Predicted outcome	0.303		0.393	
Age	−0.015***	(0.001)	−0.016***	(0.001)
Age squared	0.0002***	(0.000)	0.0002**	(0.000)
Sex (male)				
Female	0.0252***	(0.006)	0.260***	(0.006)
Living in urban areas	−0.0017***	(0.006)	0.0068	(0.006)
Level of education (reference group: above secondary school)				
Illiterate	0.110***	(0.0148)	0.0368**	(0.0146)
Literate	0.109***	(0.0165)	0.0304*	(0.0156)
Primary school	0.0694***	(0.0156)	0.0056	(0.0149)
Middle school	0.0464***	(0.0153)	0.0232	(0.0149)
Secondary school	0.0276*	(0.0167)	0.0076	(0.0163)
Caste (reference group: forward castes/Hindus)				
Scheduled caste	0.0818***	(0.009)	0.0072	(0.009)
Scheduled tribe	0.0153*	(0.008)	−0.013	(0.008)
Other backward caste	0.0192**	(0.008)	0.0186**	(0.008)
Union membership	−0.135***	(0.010)	−0.068***	(0.0105)
Industry categories (reference group: mining, electricity, gas and water)				
Agriculture	0.129***	(0.0164)	0.115***	(0.0168)
Manufacturing	0.0438**	(0.0184)	0.0126	(0.185)
Construction	−0.115***	(0.0154)	−0.150***	(0.016)
Low-productive services	0.0928***	(0.0217)	0.0822***	(0.022)
High-productive services	−0.0178	(0.019)	−0.021	(0.022)
Occupation categories (reference group: professionals)				
Administration	−0.0507	(0.0595)	−0.018	(0.068)
Clerical	0.0087	(0.0533)	0.0483	(0.0577)
Sales	0.024	(0.067)	0.0897	(0.0706)
Service	0.0055	(0.029)	0.148***	(0.0336)
Farmers	0.0581**	(0.028)	0.0564	(0.0349)
Production workers	−0.0234	(0.0273)	0.0620**	(0.0275)
Size of enterprise (reference group: large enterprises)				
Tiny				
Small	−0.191*	(0.108)	−0.263**	(0.121)
Medium	0.285**	(0.142)	0.211	(0.142)

reducing over time. This may be because many work in formal enterprises at the lower cadre (Class IV employees), which is to a large extent due to the reservation policy to support such groups. This becomes evident in the case of casual workers, for whom the policy does not apply and who have a higher probability to earn below minimum wages.

The risk of being paid less than the minimum wage increases for workers with no more than middle-level education – and especially for illiterate workers. Being a woman or living in a rural area also increases the chances of receiving less than the minimum wage. Strikingly, for women this difference is not just due to the differential treatment in the market for casual workers but is also evident among salaried workers, where being a woman increases the probability of not receiving the minimum wage by 19 to 23 per cent (table 5). Across industry groups, we observe that for salaried workers the probability of receiving less than the minimum wage is much higher in agriculture and low productive services sector compared to other sectors, while casual workers seem to be particularly at risk in agriculture, manufacturing and low productive services sector. In terms of occupation, clerical, service and production workers are most frequently underpaid, whether they are salaried or casual workers.

Being part of a trade union increases the probability of receiving minimum wages for both salaried and casual workers in the range of 5 to 13 per cent (table 5). The importance of trade union membership is also confirmed in our analysis of the proportion of workers with low pay (for a discussion on the definition of low pay, see Rani and Belser, forthcoming). We found that being part of a union or an association considerably reduces the probability of low pay for both salaried and casual workers. For salaried workers, the probability of low pay for otherwise similar workers falls by 25 per cent in urban areas and by 14 per cent in rural areas. These results indicate that there are large benefits for workers who can become part of trade unions or associations that defend the interests or rights of the workers.

Unfortunately, the overall collective bargaining coverage in India remains relatively limited, with an estimated 24.9 million unionized workers in 2002, representing a union density of 6.3 per cent (Ahn, 2010).¹⁰ While many of the same problems related to fragmented trade unionism in other countries in the region also apply to India (Shyam Sundar, 2010), the case of West Bengal, where an estimated 5 million workers are unionized, is perhaps interesting. One important reason for the relatively high collective bargaining coverage in West Bengal is linked to the increasing inclusion of unorganized

10. Note that these figures are likely to underestimate the true impact of union density as they are based on a Government verification process of unions who are members of the central trade union organization and thus excludes independent unions (Ahn, 2010). Data from the 2009–10 Employment-Unemployment Survey suggest that in total 10.8 per cent of workers are attached to a union or an association which defends their common interest.

sector workers into the ambit of industry-wide collective bargaining. So, for example, many small units in the sponge iron industry, cold storage enterprises, hosiery workers, have been covered as a result of Government facilitating the signing of agreements in industries hitherto uncovered by collective agreements (Sen, 2009). At the same time, there is also a perceived need for a paradigm shift in the trade union movement in India which should evolve from “political unionism” to a “services-based trade unionism” more suitable for developing industrial relations (Cunniah in Ahn, 2010).

Enforcement and the role of employment guarantee schemes

As observed earlier, although many of the working poor in India are self-employed, a substantial fraction of poor workers are also casual wage earners. There is thus an urgent need to improve the effectiveness of minimum wages in India. As already observed by others, “simply legislating a minimum wage will not make it happen” (Murgai and Ravallion, 2005, p. 2). This is also evident from tables 3 and 4 of the sectoral analysis in the earlier section which shows substantial non-compliance even for certain schedules of employment where the minimum wages are applicable.

Ensuring a high rate of compliance normally requires a coherent enforcement strategy based on provision of information, effective labour inspections and sanctions in case of violations. Lack of clear information available to employers and workers about the level of minimum wages, and about possible sanctions in case of violation, also reduces the likelihood of compliance.¹¹ Another mechanism could be greater involvement of workers’ organizations and NGOs to ensure that the implementation machinery is effective (see Labour Bureau, 2005).

But perhaps the most effective enforcement mechanism in a developing country context is coherence with the pay provided through employment guarantee schemes. Murgai and Ravallion (2005) suggest that minimum wage legislation in poor countries can only be made really effective if the government acts as the “employer of last resort” and commits to employ the entire excess supply of unskilled workers at the stipulated minimum wage rate. Indeed, from the perspective of workers, the supply of labour at a wage below the minimum depends on whether a better alternative is available. If no minimum wage jobs are available, labour will continue to be supplied at sub-minimum wages. In this section we try to assess to what extent

11. In this context, it is interesting to note that a recent evaluation study on the implementation of the 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 reported awareness of the Minimum Wage Act and 27 per cent were aware of the prescribed/statutory minimum wages paid to the workers. Among workers, only 8.4 per cent stated awareness of the Minimum Wage Act and 18.5 per cent were aware of any inspection authority (GoI, 2009).

programmes such as those under the 2006 NREGS can play a key role in fostering compliance with a mandatory minimum wage. The key questions are whether NREGS can increase employment, raise wages, and reduce poverty, in the rural areas. We discuss the employment and wage issues in this section.

The NREGS which was 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 are willing to supply labour are required to register with their village council (*gram panchayats*) and are issued with a job card. After receiving the job card, a household can demand work at anytime and will be provided employment within 15 days of expressing demand, otherwise they will be compensated with a daily unemployment allowance. The employment will be provided within a 5-kilometre radius of the village where the applicant resides. Under this scheme only productive work is to be undertaken, which includes developing and maintaining community assets like community land, basic infrastructure, land improvements, water harvesting, and so on (GoI, 2008). The scheme also allows for land improvement and provision of irrigation facilities in private land belonging to lower caste and backward communities. 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,¹² and later to the national minimum wage floor. The Act also stipulates that both men and women be paid similar wages, which is a significant policy change from earlier employment guarantee schemes. An important aspect of NREGS is that the Right to Information (RTI) and Social Audits are made an integral part of the Act, which we address later.

Data show that in 2009–10 about 52 million households in 619 districts were provided employment, with an average of 65 person days per household (see www.nrega.nic.in). Our analysis of the 2009–10 Employment-Unemployment Survey data shows that in rural areas about 37 per cent of men and 45 per cent of women possess a NREGS job card. Across the employment status categories, a comparatively higher proportion of casual labour and self-employed households are seeking such employment compared to the salaried workers. More than 70 per cent of those with job cards were able to access employment under NREGS, and of the total employment generated under the programme, the share of employment created for women was 32 per cent. About 50 per cent of the participating households belonged to the socially marginalized communities of scheduled castes (30 per cent) and scheduled tribes (18 per cent) (see table 6). The higher participation of socially marginalized communities is also reflected in field-based studies (Mehrotra, 2008; Jeyarajan, 2011; Azam, 2011).

12. As observed earlier, even though agriculture is part of the schedule of employment, a large proportion of workers are not paid the statutory state-level minimum wages.

Table 6. Beneficiaries of national rural employment guarantee scheme, rural India, 2009–10 (%)

	Self-employed	Salaried	Casual labour	Total
Having a NREGS job card				
Male	30.6	19.2	50.1	37.1
Female	40.2	22.8	54.1	45.4
Beneficiaries of NREGS work				
Male	67.1	79.0	68.2	68.1
Female	32.9	21.0	31.8	31.9
Scheduled caste	19.1	34.8	36.1	30.4
Scheduled tribes	22.3	13.8	18.7	18.4
Other backward caste	42.0	36.8	34.1	36.2
Upper caste	16.5	14.6	11.1	14.9

Source: Computed from the Employment-Unemployment Survey, 2009–10.

For many poor rural communities NREGS seems to be the lifeline in the absence of any other employment opportunities. In some states like Andhra Pradesh, the programme is said to have created jobs when there were few or no alternative work opportunities (Johnson, 2009). There is some evidence that NREGS participants are able to reinvest some of the earnings into farms, increase agricultural productivity and reduce their underemployment, especially among poor households (Saraswat, 2011). The additional employment created under this programme has reduced underemployment and increased total incomes of the households in rural areas, which is a remarkable feature of the programme. As the scheme provides an alternative source of employment, it might also lead to a reduction in the pool of workers migrating to urban areas for work and lead to a rise in wages in urban areas.

While NREGS has clearly been an effective tool to provide income security and enhance productivity of existing work opportunities, does government acting as the “employer of last resort” alone ensure effectiveness in the provision of minimum wages? Initially some of the states were evidently paying less than the statutory minimum wage, in violation of the Act (Drèze and Oldiges, 2007). One of these was Rajasthan, which was initially commended for the implementation of NREGS, especially as it propagated the right to work and information. However, NGOs raised the issue of low wages and organized protests against this blatant violation of law. Public pressure and regular monitoring of the civil society efforts ensured that the payment process was streamlined. As a result, in Rajasthan it increased the wage negotiation capacity of the workers and also seems to have increased the bargaining power of the working class in the private sector (Menon, 2008).

Some nine states in 2008–09 had NREGS average wages just below Rs 80 and all other states had higher wages (Johnson and Tannirkulam, 2009). However, in all these states NREGS wages were higher than the market wages. For example, in Chhattisgarh it was found that “before NREGS agricultural labourers or casual labourers in brick kilns worked for

Rs 25 or Rs 30 per day, but under NREGS they receive Rs 62 to 64 per day, more than double even though it is below minimum wage” (Jandu, 2010, p. 4). Even in Maharashtra the wages offered under NREGS were higher than the existing agricultural wages but they were lower than the minimum wages prescribed initially. However there is a trend towards wage increases offered under NREGS over the years. Some have argued that the low wages paid under NREGS could be due to the improper methods of measurement of productivity; lack of information to the workers about the wages rates for different kinds of work; lack of bargaining power of the workers; and fudging of muster rolls (Shah and Mohanty, 2010; Reddy et al., 2011).

What has made the functioning of NREGS efficient is that it has provided a space that allows non-governmental local groups to be participants in the implementation and outreach work and not just watchdogs (Sudarshan, Bhattacharya and Fernandez, 2010). The point here is that the government alone cannot ensure that minimum wages are being paid to all. The role of civil society is very important to ensure that the rights of the workers are met. Social audits¹³ in particular have played a very important role in ensuring that wages were paid for the work done. Article 17(2) of the NREGA says that “the *gram sabha* shall conduct regular social audits for all projects under the scheme taken up within the *gram panchayat*”. Even the Central Operational Guidelines issued by the Union Ministry of Rural Development clearly mention continuous social audit as well as monthly social audit through the *gram sabha*.

The concept of social audit is a powerful tool for ensuring transparency and accountability and the various civil society groups – activists, academics and policy-makers – are able to use this tool effectively to ensure social justice for the workers (Burra, 2008; Lakha, 2011). For example in Andhra Pradesh, “volunteers, officials, civil society activists and journalists from across the country inspected the villages and went from work-site to work-site looking at muster rolls and asking wage-seekers whether they had been given work on demand, whether equal wages for equal work had been paid to men and women” (Burra, 2008, p. 6). In many of the villages “village social auditors” belonging to employment-seeking households were identified and trained by NGOs to ensure that work was done according to rules and full payment of wages was made. Social audits and public hearings played an important role in reducing corruption and ensuring enforcement of minimum wages in many of the NREGS districts in Andhra Pradesh (Burra, 2008). There is no doubt a need for partnership between civil society and state to make social audits effective, and this has proved so in states like Rajasthan, Chhattisgarh, Jharkhand and Tamil Nadu in ensuring rightful payment of wages.

13. “Social audits involve, for example, checking the number of works completed; the quality of works undertaken; examining the expenses incurred on projects; ensuring that appropriate facilities are offered at worksites; and making sure that the payment of wages corresponds to attendance of work by the labourers” (Afridi, 2008 cited in Lakha, 2011).

Table 7. Mechanisms of wage payment under NREGS, all India, 2009–10 (%)

	Scheduled tribe	Scheduled caste	Other backward castes	Upper caste	Total
Directly into post office account	34.5	30.7	38.5	37.9	35.3
Directly into bank account	35.5	40.1	33.3	36.3	36.2
In a <i>gram sabha</i> meeting	6.6	6.3	3.9	5.3	5.3
By the field assistant	11.0	12.4	13.9	12.0	12.6
By an SHG member	0.7	0.4	0.3	0.7	0.5
Through a smartcard	1.2	0.1	0.3	0.2	0.4
Not yet paid	4.5	3.5	4.2	3.7	4.0
Others	6.0	6.5	5.6	3.9	5.7

Source: Computed from the Employment-Unemployment Survey, 2009–10.

Using the 2007–08 Employment-Unemployment Survey of India, Azam (2011) finds that NREGS has made a difference in terms of wages for male and female casual workers. Using the difference-in-difference estimates he finds that overall casual workers in NREGS districts experience a 5 per cent increase in real wages compared to non-NREGS districts. These effects are found to be much more pronounced for females (8.3 per cent) compared to males (3.8 per cent). The socially backward communities (SC and ST) also experience a larger increase in wages in NREGS districts. Banerjee (2011) also notes that wage rates have been enhanced by 17 to 30 per cent over the past few years in the rural areas.

A number of evaluations have pointed out that in many states there have been delays in the payment of wages (ISWSD, 2007; Drèze and Khera, 2009; Dey and Bedi, 2010). To infuse transparency in wage payments and so as to separate payments agencies from placement agencies, the Government of India decided that wages are to be paid through the workers' accounts in banks or post-offices.¹⁴ This system was introduced in September 2008. An analysis of the mechanisms of wage payments under NREGS based on 2009–10 Employment-Unemployment Survey data shows that about 70 per cent of the wage payments have been made directly into bank accounts or post office accounts; the proportions are similar across castes (table 7). The extent of wage payments through field assistants, which was one of the sources for leakages, fell to 12.6 per cent. Through this mechanism the programme has been quite successful in developing a link between financial institutions and the previously financially excluded poor population.

What has been the impact of NREGS on the wages in rural areas? The average wage paid to workers under NREGS has been systematically raised over the years, from Rs 65 in 2005–06 to Rs 93 in 2009–10, adjusting for the cost of living. There is enough evidence to suggest that in many rural areas where NREGS has been operational, it has helped to raise the agricultural wage rates (Mehrotra, 2008; Drèze and Khera, 2009; Banerjee, 2011). In Tamil

14. There is also an effort towards making biometric payments in the future.

Nadu, NREGS wages were higher than the market wage rate and in many of the villages it was observed that workers “demanded to be paid on par with NREGS wages to be enticed back into agriculture”, which led to a doubling of wages (Jeyarajan, 2011, p. 68). In many of the villages there was a cascading effect of NREGS in terms of increased agriculture wages, which resulted in a doubling of wage income for women in agriculture, in addition to the wage income from NREGS (Jeyarajan, 2011; Dasgupta and Sudarshan, 2011). Actually this brings out the issue of empowerment too as NREGS has allowed workers to fight for their rights. The improvement in wages has also led to an increase in consumption of both food and non-food consumables in some states like Andhra Pradesh (Ravi and Engler, 2009; Liu and Deininger, 2010).

NREGSs intervention in the rural labour market has also created labour shortages and raised wages paid by farmers to agricultural labourers (Roy, 2010). In Kerala, NREGS work exacerbated agriculture labour shortages, and this had an added effect on pushing up wages in the agricultural sector, moving slowly towards the NREGS wage rate (Nair, Sreedharan and Anoopkumar, 2009). In Kerala the wage rate for women in agricultural work increased from Rs 80 to Rs 110. The scheme was successful enough in raising the level of employment and income of the rural households, thereby enhancing their purchasing power. The NREGS income has been a substantial supplement to other sources of irregular earnings. Sudarshan, Bhattacharya and Fernandez (2010) also find that NREGS has led to an upward movement of female unskilled wages. The shortage of female workers for agricultural work has also led to an increase in wages in the rubber and coconut plantations.

A major contribution of this programme for the poor and the weaker sections of the society has been the governance system – transparency and accountability – which has made for its efficient functioning (Menon, 2008; Sudarshan, Bhattacharya and Fernandez, 2010). In addition, with payment of better wages under the programme, the bargaining power of the poor or the weakest has gone up. However, some have argued that the rise in wages is not just due to “collective bargaining in certain pockets of the country” but also to the fact that the Central Government pays the wage bill and therefore “state governments have an incentive to raise the minimum wages” (Banerjee, 2011, p. 18). Roy and Dey (2009) argue that the programme actually shows how “the Right to Information (RTI) Act can be woven into the fabric of the delivery system and the whole legal and governance and legal paradigm”.

Conclusion

In India, the Minimum Wages Act of 1948 is of great importance, particularly to the unorganized casual workers who account for two-thirds of all wage earners and a total number of 133 million workers, a majority of whom are males. In this paper we show that about 33 per cent of the wage

workers – that is, 61.6 million wage workers – were paid less than the national minimum wage floor. Our analysis for certain sectors – domestic work, construction, agricultural workers and hospital, nursing homes and private clinics – clearly brings out that the effectiveness of the minimum wage coverage is mixed. In none of the states is there full compliance, and non-compliance seems to be particularly high in the states of Andhra Pradesh, Karnataka, Gujarat and Maharashtra, all of which are highly developed and industrialized states. So enforcement seems to be a major issue even for sectors which are covered under the schedules of employment.

Yet there has been a slight improvement in the situation compared to 2004–05, when we found that 73 million wage workers – equivalent to 42 per cent of wage workers – were paid below the national wage floor (Belser and Rani, 2011). What explains this improvement? Even though the reasons for the improvement are not completely obvious and straightforward, we attempted in this paper to look at what role NREGS might have played in improving enforcement of minimum wages. There is no doubt that the impacts and achievements of NREGS have varied across the different states, largely depending on the commitment of the local leadership at the village council level, the level of institutional preparedness and governance capacities (Reddy et al., 2010). Nonetheless, it seems probable that NREGS – despite having some teething problems – has been able to provide wages at the minimum wage level or at least above the prevailing market wage rate. This has benefited a large proportion of casual workers in the rural areas. Here the role of civil society – activists, academics, media, and policy-makers – has been essential in ensuring effective implementation of the programme, and social justice for the workers through the governance system. The role of social audits in particular has been very important to ensure that wages were paid for the work done.

In a number of states, the higher NREGS wages have also clearly led to higher market wages – especially for agricultural workers – through two different but related mechanisms. First, NREGS has indirectly empowered workers to fight for their rights and provided a space for collective bargaining, especially among the unorganized workers. Banerjee argues that NREGS has managed to improve agricultural wages by “providing labour a basis to ask for higher wages” (Banerjee, 2011, p. 18). Second, by attracting a number of low-paid workers into the programme, NREGS led to a shortage of labour for regular agricultural work in some places. This has allowed workers to demand better wages for agricultural work, which clearly resulted in improving their incomes.

However, the road towards full compliance with the minimum wage is still a long one and changes will take time. While there are deficiencies in some NREGS entitlements and a number of institutional improvements need to be made, the programme is clearly a step in the right direction. This is crucial not only for ensuring better wages but also to tackle poverty. At the same

time, NREGS alone will not be enough. There is no doubt that to ensure a high rate of minimum wage compliance throughout the country there is a need for a coherent enforcement strategy based on provision of information, effective labour inspections and sanctions in case of violations. Also, as long as the national minimum wage floor remains indicative and non-binding on all states, it will remain difficult to enforce for those who are not covered by state-level legislation. In addition, one needs to keep in mind that when casual workers are involved in different types of work, it is possible for them to receive minimum wages on certain days when they work for NREGS but not on the other days. This might on an average bring them below the minimum wage threshold. One important lesson learned from NREGS, though, is the crucial role of civil society in ensuring compliance with laws and regulations. This suggests that greater involvement of civil society in ensuring compliance with the Minimum Wages Act beyond NREGS might also help to further raise the overall effectiveness of minimum wages in India.

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Asia Floor Wage and global industrial collective bargaining

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Wage in the global economy

Dominant development norms

Freer capital flows, expanding global companies and expansive trade policies have made the world a smaller place for capital. At the same time, the gap between the rich and the poor has grown and precarious jobs overshadow hard-won security gained through numerous struggles in the twentieth century. According to the ILO, “since the mid-1990s, the proportion of people on low pay – defined as less than two-thirds of median wages – has increased in more than two-thirds of countries with available data” (ILO, 2010). Furthermore, “the number of workers in vulnerable employment is estimated at 1.53 billion workers globally in 2009, more than half of all workers in the world” (ILO, 2011, p. 58).

According to the ILO, there are 555 million working poor, a significant percentage being female. It is important to note that the global labour force implicit in these discussions is often viewed as a homogenous bloc. However, in reality, this labour force is far from homogenous. It is highly segmented geographically and its characteristics depend on the poverty level of the region and the country. Asia the largest recipient of foreign investment, also holds the largest workforce and represents most of the global working poor among which women comprise an increasingly significant proportion. This is no coincidence because foreign investment seeks out the most pliant poor and undervalued working class. However, it is also this dual reality that makes Asia central to any strategy for making large-scale change – either from capital’s point of view or labour’s. In Asia, “South Asia has one-fifth of the world’s population and nearly half of its poor population. A large proportion of world’s unskilled workers live in South Asia. Given the relative scarcity of natural resources, South Asia’s comparative advantage is clearly in labor-intensive goods” (Ramaswamy, 2003, p. 5). The garment industry is of course one such labour-intensive industry that absorbs low- and high-skilled workers.

The common wisdom among governments is that the pliancy of labour force attracts foreign investment; and without foreign investment, development comes to a standstill. The architects of such globalization believe that unfettered corporate-led trade and investment, along with labour flexibility and capital market restructuring, are the tools for prosperity. The multinational companies leading this approach are based primarily in the global North. Northern governments, through their disproportionate power in international financial institutions, help in forging the road to this illusive prosperity. Governments and corporations of the global South have, for the most part, acquiesced to such policies with varying degrees of resistance.

This view of development “imposes a tremendous downward pressure on the quality of life of many societies in the developing world, for governments have bet their sustainability in power on customary centre-periphery

relationships. They put emphasis on the attraction of so-called foreign direct investment (FDI) by offering cheap labour at misery prices to global corporations. The argument is that this generates jobs and triggers other multiplying effects that benefit the overall economy” (de Regil, 2010, p. 3).

The downward pressure on wages in already low-wage countries and regions demonstrates the power relations within a geographically segmented labour market. Multinationals take advantage of low wages in production countries and high price markets in high-wage countries. They essentially pay wages in one currency and sell the goods produced in another currency, benefiting from exchange rates that are grounded in the demands of the currency market and not adjusted by the relative price levels in local currencies of two countries. One could describe this phenomenon of taking advantage of producing in one currency and selling in another as “wage arbitrage”. The split between production and consumption is demarcated by different currencies, by different price levels, thus providing additional profit that is not linked to the production process per se. The multinationals’ access to high-price markets in high-wage countries and their power to deny direct access to firms of production countries to that market allows their unchallenged power in the global supply chain to continue. This power to access labour from countries with poverty-level low wages and to control simultaneously the high-price markets introduces a structural element.

Wage share and purchasing power

Within a framework of unequal regional and national development, unequal and segmented labour market, and the power of multinationals to benefit from both these factors, labour rights have become one of the most threatened rights in the world today. According to one scholar: “There is no accurate data on the percentage engaged in global production systems, but case studies suggest that even in high value export sectors workers are not immune from vulnerability to poverty” (Barrientos, 2007, p. 18). As noted by another scholar, “[i]n the 1950s to the 1960s, there was huge and shared growth. However, now there are stark and growing inequalities. In the United States, from 1980–2000, the topmost layer (0.1 per cent) increased its growth by ten times but the median family only by 22 per cent. Average income of workers declined or stagnated. Whereas the income of the CEO of General Motors compared to the average worker used to be 1:70, today the gap between the same in Wal-Mart is 1:140. Capital can only be forced to accept social compact (between workers, state and capital) through strong working class movements.”¹

1. Address by Prakash Jha at AFW International Launch, 7 October 2009.

While the global economy grew at an average of 3.3 per cent per year between 1995 and 2007, annual wage growth was at 1.9 per cent. Wage share has been declining across the globe and, given its wide dispersion, this is a structural issue that must be attended to in order to avert further impoverishment (Vaughan-Whitehead, 2010). The ILO's *Global Wage Report 2010/11* sounded the alarm: "the overall short-term impact of the crisis on wages should be looked at within the context of a long-term decline in the share of wages in total income, a growing disconnect between productivity growth and wages, and widespread and growing wage inequality" (ILO, 2010). It is useful to note here that the practice of "wage arbitrage", as explained above, has led to this disconnect between productivity and wages, especially in the case of goods being produced in a poorer region and sold in a wealthier one.

The net result is a fall in the purchasing power of the majority of people in Asia, over production of goods for which there are not enough consumers and unemployment in the global North. People's purchasing power is falling and poverty levels are being pushed down so that few people can be listed below it (Patnaik, 2007). This has blocked out the majority of today's consumers from the consumer market. Paying decent wages is an essential measure for a stable capitalism. "It is a non-partisan belief even among those who wish to save capitalism. During the Golden Era of capitalism in the 1950s and 1960s, the United States established a floor below which the wage would not drop; this acted as a shock absorber. Ironically, as the welfare state's shock absorber prevented crisis in capitalism, it led to the false belief that capitalism had overcome the tendency for crisis."²

It is not enough to create any kind of employment; it is important to create decent jobs – that makes for sound social and economic policy. Labour standards are an indicator of what the working conditions are and what they ought to be. From basic issues of wage and hours, decent labour standards ought also to tell us about the decency of the work in terms of its ability to support families and educate children, remove social inequities, give workers a fair share of wealth, a voice in work and society, and human dignity.

Trade unions and labour organizations have learned that in today's world, enforcement of labour standards and rights can no longer take place solely within the nation-state boundaries. Global capital flows and the global structuring of corporations have taken the initiative for labour standards from the hands of any one local employer or unit. The global supply chain, which is created, is the stage on which the enforcement of labour standards and rights must take place.

2. C.P. Chandrasekhar, speech at AFW International Launch, 7 October 2009.

Global garment industry

Political economy of the global garment industry

The garment industry is perhaps the oldest, integrated international industry today. It has globalized and repeatedly restructured its production in the last two decades, moving from continent to continent in search of cheap labour and large-scale competitive advantage. The global fashion apparel industry is one of the most important sectors of the economy in terms of investment, revenue, trade and employment generation and the Asia-Pacific region is the locale of most of the production and trade in that industry. “It is estimated that there are 40 million garment workers, with a significant proportion female, globally” (Barrientos, 2007).

The global garment industry’s total revenue was estimated at US\$1,782 billion at the end of 2010. Garment sales rarely suffer; in fact, research shows that even when prices rise, sales continue. “Apparel imports of the United States witnessed an increase of 13.5 per cent in Jan-April 2011 from the corresponding period of previous year and amounted to US\$23.2 billion. For the same period, US imports of apparel from India increased by 12.7 per cent to US\$1,313 million against US\$1,165 million in Jan.-April 2010. US imports from China saw an increase of 8.3 per cent in Jan.-April 2011 over the corresponding period of last year and all the other major suppliers like Viet Nam, Indonesia, Bangladesh, Mexico also witnessed increase of 16.9 per cent, 18.2 per cent, 29.7 per cent, and 8.4 per cent, respectively. Among the top six suppliers, Bangladesh registered maximum growth from the previous year of same period.”³

Garment production is spread across the globe, primarily in the global South in regions like Latin America, Africa, Eastern Europe, and Asia. The ILO has called it the true “one world employer”. Garment manufacturing, although present on all continents, remains concentrated in Asia. Indeed, that continent manufactures 60 per cent of the world’s clothing. In terms of scale of production, size of workforce, access to raw materials, technology, diversity of skills, and labour cost, Asia offers the most competitive advantage. Within Asia, garment production takes place in many countries such as China, India, Bangladesh, Sri Lanka, Pakistan, Indonesia, Cambodia, Viet Nam, and Thailand. In the global North, multi-goods retail companies and big brands set the standard for the garment global supply chain.

An astonishing phenomenon is that even as prices of most commodities have recently shot upwards, the prices of garments have *fallen* in the global North. Moreover, the profits of garment brands have been impressive. This can be explained by the fact that the prices that brands pay to the manufacturers in Asia have decreased, reducing the profit margins of Asian

3. See Apparelresources.com.

manufacturers, which depresses the low wages production workers continue to get. American consumers, despite their own falling income, are relied upon as buyers by depressing prices and pressing down on wages at the production end. "Much of the emphasis on competitiveness has focused on production costs and, in particular, labour costs. Consumers in affluent nations benefit from low-wage imports when retail prices fall for the goods they purchase" (Heintz, 2002).

The brands have been able to do this through the monopoly use of the high wage/high price market, based on their brand power and associated legal instruments. As Gary Gereffi has described, brands and retailers are "manufacturers without factories", with the physical production of goods separated from the design and marketing. "Unlike producer-driven chains, where profits come from scale, volume and technological advances, in buyer-driven chains profits come from combinations of high-value research, design, sales, marketing and financial services that allow the retailers, designers and marketers to act as strategic brokers in linking overseas factories and traders with product niches in their main consumer markets" (Gereffi and Memedovic, 2003). The lavish advertising budgets and promotional campaigns needed to create and sustain global brands, and the sophisticated and costly information technology employed by mega retailers to develop "quick response" programmes that increase revenues and lower risks by getting suppliers to manage inventories, have allowed retailers and marketers to displace traditional manufacturers as the leaders in many consumer-goods industries" (ibid.).

Any intervention to benefit production workers in this global garment production structure has to simultaneously consider the interrelated factors of low retail prices, brands' huge profits, reduced profit margins for Asian manufacturers, and stagnant wages for Asian workers.

History of labour rights activism in garment industry

Labour's poor conditions in the garment global supply chain have been a sore issue for decades now. Garment workers' rights activists, at both production and retail ends, have been at the forefront of international accountability campaigns for over a decade, around the globe. Activists have supported organizing of workers, publicized labour rights violations, fought to hold employers and multinationals accountable to fair labour standards, and organized consumer-led anti-sweatshop campaigns. Campaigns have brought together companies, social organizations, unions, government, and international institutions in an effort to build multi-stakeholder initiatives for accountability. Garment workers' rights activists have also extensively documented the industry, working conditions, the global supply chain, consumer attitudes, etc. In short, activism in this area has a long and committed history.

Various sophisticated mechanisms have developed for corporate monitoring and accountability in the garment industry. One example is the Code of Conduct which many multinational companies voluntarily developed under pressure from activists. In a similar vein, the Code of Labour Practices was developed through dialogue initiated by the activist community. Along with codes, various monitoring mechanisms evolved, such as the multi-stakeholder Foundation Model and the Ethical Trading Initiative. SA8000 is another mechanism for certifying and monitoring companies that are supposedly practising fair labour practices. International complaint mechanisms like the OECD mechanism have been painstakingly developed.

This work has a long history and its limitations and strengths have been documented. These mechanisms have established the need for monitoring and have played a major role in developing powerful publicity campaigns to shape public opinion. These activities also help to develop a full understanding of the range of improvements needed for ensuring livable conditions for workers. Laudable as this work has been, it has not resulted in improving the protection of workers in the two ways that matter most – economic sustainability and collective voice at the workplace. Economic gains have to be bargained; no employer will share the gains without a demand. Collective voice has to be established legally and politically; verbal recognition of such a right by the employers does not mean that the conditions exist for operationalizing it.

Workers who have developed bargaining ability in a given factory and demanded higher wages have done so under the threat of closure and job relocation. They are also often told that their employers' hands are tied by the insufficient prices that they receive from the buyer, that is, the parent multinational.

There have been attempts at ensuring fair labour standards through the use of clauses in trade agreements (such as social clause or labour-side agreements). In an industry like the garment industry, where the production is spread across the globe, such clauses or agreements do not necessarily deliver bargainable power to workers in a specific country and may actually weaken workers' collective power by dividing them nationally when in fact they operate within the global production chain in an industry.

Trade unions and labour rights organizations in Asia, after years of experience in the garment industry, came together to frame a demand that is bargainable and deliverable, and that is appropriately targeted given the structure and economics of the industry as a whole.

Global industrial bargaining

“We are made to work... machines also need maintenance... we have none... if we have fever for 4 days then too we must work... We are made to work 24 hours; it is difficult to eat and live....They do not give overtime

payment.... They keep us 2–4 months and fire us...They fire any worker who demands his/her rights.”

Garment worker in Gurgaon, India

Global garment bargaining unit

Garment workers in Asia, the majority of whom are women, currently earn around half of what they require to meet their own and their families' basic needs, such as for food, water, education and health care. Living wage has been a key demand among labour activists in the garment industry for a long time. The demand has been made to the brands over a long period with very little progress beyond rhetorical support. Three main arguments have been put forward by reluctant brands. First, that there is no common definition of a living wage and no method of calculation; therefore, it is not possible to pay something that is not defined. Second, that any attempt to demand a living wage at a national level results in relocation across the border; and therefore is punitive to national economies. Third, that demand for a living wage is often driven by Northern activists without a collective demand from the global South.

The demand for an Asia Floor Wage (AFW) first began developing in 2006 through a collective consensus-building process among Asian labour organizations. In a segmented global labour market, Asian organizations have determined that the combination of scale and wage level of the workforce have made Asian workers the largest workforce producing garments. Moreover, the wage levels of the garment workers in the major garment-producing Asian countries were not too dispersed when compared in terms of purchasing power, and were nearer to the poverty level wage. The prevalence of a legal minimum wage in these countries did not affect the poverty level wages. In fact, in some countries the minimum wage was below the universally accepted poverty level norms. This understanding provided the basis for establishing the idea of a homogenous bloc that would act as the “bargaining unit” in the global garment industrial framework.

The Asian labour organizations have developed a regional bargaining bloc. This is in response to capital which today uses itself a regional strategy as opposed to a single country strategy since it is more efficient from a management perspective. Some scholars have called these regions “region states” because of their importance as investment units (Ohmae, 1995). A regional strategy for labour is necessary in an environment where capital strategizes regionally but keeps countries within that region divided through threats and promises. The AFW regional strategy overcomes the competitive divisions among Asian countries by a formulation that delivers living wage without compromising the competitive ranking of the countries.

The AFW Alliance comprises trade unions, labour and human rights organizations, development NGOs, women's rights groups and academics

in over 15 countries across Asia, Europe and North America. Agreed after extensive discussion within the Asian labour movement, the AFW formula accounts for differing economic and political environments in each participating country, and will support garment workers' demands for a living wage.

Garment workers' wages in different countries across Asia are roughly the same when measured by their purchasing power. Furthermore, global sourcing companies pay approximately the same prices to their supplier factories in Asia: around 25 per cent of the retail price. These similarities allowed for a common floor wage formula to be developed and applied across Asian countries. Because garment workers' wages make up a very small proportion of the final retail price for clothes – around 1 to 2 per cent – substantial wage rises could be achieved without increasing retail prices. The proposed demand is an AFW for Asian garment workers in conjunction with fair pricing that would make AFW possible. The AFW process has developed into a global industrial collective bargaining framework for a wage increase for production workers within the garment global supply chain. In this regard, the AFW demand and process is historic.

Power to deliver demand

The AFW bargaining process targets the brands in order to ensure decent wages for workers in the industry. Brands and retailers' financial power is built through the garment global supply chain and their sharing a negligible fraction of their profit could dramatically lift millions of workers and families out of poverty.

Scholars have found that brands force supplier companies to operate below production costs, causing wages to be adversely affected (Vaughan-Whitehead, 2010). "Buyer-driven value chains are those in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialization has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics" (Gereffi and Memedovic, 2003).

Scholars have also studied whether business expands or contracts during wage increases and have found the cost to be minimal. They have found that "most firms would not make any kind of adjustments in their business operations due to such a small cost increase" and have shown the effect to be less than 1 per cent on sales revenue. There is no evidence to show that wage increase has had negative employment effects (Pollin et al., 2008).

In the global garment industry, global buyers (or brands and retailers) exercise maximum influence over the way that production is organized. They

set prices and determine how production takes place. These practices immediately impact the capacity for suppliers to pay a living wage. Central to the demands of the AFW is, therefore, the need for a concerted effort by brands and retailers to address the issue of pricing, as an important first step towards the implementation of a living wage in the garment industry. The AFW is formulated based on the paying capacity of the global industry whereas national wage definitions arise from an analysis of prevailing wages within the country.

Right to a minimum living wage

The AFW is a practical implementation of the concept of a “minimum living wage”, the original ILO concept. Although the minimum living wage is an important qualitative concept, there exists no concrete quantitative definition. The AFW is a quantitative definition of a minimum living wage for garment workers in the global garment industry. The AFW campaign seeks to define and assert the right to a minimum living wage for garment workers and set a precedent for assertion of the right to a minimum living wage.

The AFW has several other social benefits. It will help decrease the gender pay gap by raising the floor. Worldwide, women form the vast majority of garment workers. They are over-represented among low-paid workers and their mobility to move into higher wage work is also lower. The AFW raises the value of women’s work to a dignified level, demonstrating to female workers that they are worthy. In fact, some believe that the garment industry, a modern manufacturing industry, has such low wages because it employs predominantly women (unlike, say, the more male automobile industry).

Workers work back-breaking overtime hours to earn a minimum living wage. Workers’ family lives, health, and basic humanity are lost in the race to earn a minimum living wage. A new generation of children without parental care or education will lead to more child labour. Raising workers out of poverty leads to sustainable communities where new generations can lead a better future.

The AFW affirms the principle that the only way to enforcement is through unions. AFW implementation requires the existence of a union, and is not a substitution for unionization. In so far as the AFW is a collective bargaining strategy, the right to “effective recognition of collective bargaining” is essential, and efforts must be made to secure the necessary legal and institutional framework for this. The ILO makes explicit the link between collective bargaining and wage setting in its *Global Wage Report 2008/09*. It notes that “higher coverage of collective bargaining ensures that wages are more responsive to economic growth, and also contributes to lower wage inequality”. Indeed, collective bargaining is not simply a means to various welfare-related ends for workers, but a process by which they assert and realize their rights,

and expand the scope of their rights and of justice in society. In that it includes an assertion of the right to equal participation in social life and in the project of human development, the AFW can be understood as an essential mechanism for ensuring “the continuous improvement of living conditions” as envisioned in the Universal Declaration.

Asia Floor Wage

The Asia Floor Wage was formulated after a combination of top-down and bottom-up processes. The AFW Alliance used data from need-based surveys in India, China, Bangladesh, Sri Lanka, and Indonesia as a basis for the AFW formula. It compared the purchasing power of the Asian workers to the poorest worker in the developed world – that being an American minimum wage worker. We found that an Asian garment worker has 20–25 per cent purchasing power of the American minimum wage worker.

The AFW is based on widely accepted norms that are institutionalized in existing policies, laws, and practices in Asian countries and on Asian governmental figures and international research.

Components of the Asia Floor Wage

The Asia Floor Wage is composed of two categories: food and non-food. Both categories are estimated without subtle internal differentiations, the goal being to provide a robust regional formula which can be further tailored by trade unions in different countries, based on their needs and context.

The food component of the AFW is expressed through calories rather than food items to provide a common basis. The calorie figure is based on studying calorie intake in the Asia region by governmental and intergovernmental bodies while defining poverty line, living wage and minimum wage. The two salient issues that the AFW considers are the physical nature of work (sedentary or moderate or heavy) and the caloric measures prevailing in current discourses. Garment factory work can be described as requiring moderate to heavy physical work.

In a report in June 1999, the Economic and Social Commission for Asia and the Pacific (ESCAP) published that “the per capita food intake for survival assumed for deriving the food poverty line varied across countries as well as within countries from 2100 calories to 2750 calories per capita per day.”⁴ Official Chinese statistics plus a study produced by the Food and Agriculture Organization in 2000 show that the calorie requirement of the national

4. See <http://www.unescap.org/stat/cos11/wgse11/wgse1106.asp>.

poverty line for China was 2,400 kcal/day (now revised to 2,100 kcal), while that used by the FAO is 1,920 kcal/day.

The Indian Labour Conference in 1957 made 2,700 calories the norm for minimum wage for an adult worker (performing moderate to heavy physical work). The Indonesian government most recently defined 3,000 calories as the intake figure for a living wage for a manufacturing worker (performing moderate to heavy physical work). The AFW Alliance has decided that the floor wage should not result in lowering standards in any country and therefore adopted the Indonesian norm of 3,000 calories as its standard.

Garment workers from Indonesia, India, Bangladesh and elsewhere spend a great deal – frequently around half – of their income just on food items. For example, an often-quoted figure internationally is food costs amounting to 60 per cent of costs at poverty level (e.g. Poverty Statistics in China, Rural Survey Organization of National Bureau of Statistics, China, Sep. 2004). The Ministry of Labour and Employment in India released working class data in June 2008 where the share of food items was 47.5 per cent of the income. In Thailand, food consumption is assumed to account for 60 per cent of total consumption at poverty lines. The AFW study of various countries, for working-class population, shows an average of 50 per cent of the income being spent on food. Therefore non-food costs are taken to be the other half of the income, leaving the details of what comprises non-food to be left to the trade unions in local contexts. The 1:1 ratio of food costs to non-food costs was thus calculated based on the ratio that currently exists for the working class of different garment-producing countries in Asia.

Family basis

Living wage definitions normally include the notion that wages should support more people than just the individual worker. Minimum wage regulations, by contrast, may (as in India) or may not (as in Indonesia). The AFW unions decided to base the AFW on a family. The AFW Alliance studied the family sizes in key Asian countries and came up with an approximate average figure. The ratio of earner to dependants was calculated based on the family sizes in different countries. For example, the Ministry of Labour in India calculated the average size of a working-class family to be 4.46 in 2008, and the Ministry of Commerce in China calculated the average family size in China to be 3.38 in 2003.

In order to account for childcare costs, the AFW makes it a single-income family. The AFW defines the formula to be based on three adult consumption units. As a child consumes less than an adult, a child is calculated as half of one consumption unit. The three consumption units can be configured in various ways: as a family of two adults and two children or one adult and four children or three adults.

Benefits

The AFW is a basic wage figure prior to benefits such as health care, pension and so on.

Delivery of other benefits by employers to workers is not the norm in the industry; thus, they have not been made the basis for AFW. Therefore, if an employer provides dormitory housing or canteen lunch, the AFW figure is not lowered. This is because not only are the benefits not the norm but also that workers should have the option to obtain these basic necessities from the wage. The AFW provides a minimum living wage with which a worker can support him/herself and dependents. The AFW is a minimum figure that should provide basic costs so that the worker is not at the mercy of the employer for basic needs.

Hours

The AFW Campaign defines the regular work week as a maximum of 48 hours prior to overtime. AFW definition of a work week and its independence from benefits sends a clear message that workers need to earn a minimum living wage without sacrificing other humane working conditions.

Asia Floor Wage currency

The currency through which the AFW is expressed is the imaginary currency of the World Bank, Purchasing Power Parity (PPP). The reasoning for choosing PPP as opposed to a specific national currency is that for comparative purposes and for conversion to actual wage, the exchange rate is not a good and appropriate measure. Exchange rates are determined by supply and demand for each currency globally, in other words by the currency market. They are highly volatile and fluctuate on a daily basis and are not reflective of national conditions. PPP, on the other hand, is based upon the consumption of goods and services by people within a country, reflects the standard of living and hence a more appropriate tool for comparing wages. PPP allows one to compare the standard of living between countries by comparing the price of a basket of identical goods and services in terms of the currencies of the two countries.

The PPP system does have some weaknesses. One is that in the PPP definition of a basket of goods and services based on habits of consumption in developed countries (buying countries) tend to dominate. Also, the PPP reflects overall consumption habits in a country and is not adjusted for working-class population. In short, the PPP-defined basket of goods has a bias towards developed country and middle-class habits. The second weakness is that the basket used in the PPP calculation is not the same as that of the

AFW. The AFW basket is a variable basket divided only into food and non-food (as a factor of food cost) based on actual averages of working-class food and non-food expenses. The third weakness in the PPP definition is that its calculation is done at longer intervals and is not a current reflection. Despite its weaknesses, the PPP is the only relevant and stable measure reflecting consumption. If the weaknesses and biases explained above are corrected, it will only push the value of AFW upward. The current formulation of the AFW continues to be a conservative estimate for a minimum living wage.

Asia Floor Wage formula

The AFW, based on food costs for a family where an adult consumes 3,000 calories per day, was calculated in local currency for several Asian countries. This AFW in local currency was converted to PPP\$ and the result was a comparable spectrum of values in PPP\$. The AFW Alliance unions then discussed the spectrum of values and came to a consensus on AFW in PPP\$ for the region. It was determined to be 475 PPP\$ as of 1 January 2009, based on 2008 data. The report *Stitching a decent wage across borders* explains how the AFW was defined and calculated as a minimum living wage benchmark for several Asian countries (AWF, 2009). Naturally, this benchmark figure needs to be regularly adjusted to account for the price rises in the cost of living (that is, inflation). The AFW was revised to be 540 PPP\$ for 2011.

Country	Minimum wage in local currency	PPP conversion factor for 2009	AFW 2011 in PPP	AFW 2011 in local currency
Cambodia	250899 riels	2086.5	540	1126735 riels
China Schenzhen	1500 RMB	4.2	540	2244 RMB
India	5034 INR	19.2	540	10368 INR
Indonesia	1529150 rupiahs	5375.9	540	2902995 rupiahs
Sri Lanka	7900 SLR	58.9	540	31795 SLR

Implementation

Asian labour organizations in the AFW Alliance believe that the AFW must be implemented by the brands as they possess the political and economic power in the global supply chain. They are the primary employers in the global subcontracting chain. In fact, there is evidence to show that a structural change has occurred in the global garment market, with the emergence of networked firms that displace cross-border markets for goods following the arm's length principle, to internal markets within the networked firms for long-term supply contracts. It is a market for contracts as opposed to goods. The brands are responsible for generating the revenue through profit-sharing since they benefit immensely through wage arbitrage and through their

position as primary employers of the global subcontracting chain. One way could be for the brands to pay a fair price to Asian manufacturers and to work closely with trade unions to ensure the delivery of AFW to Asian garment workers. The FOB (freight on board) cost of production and the profits generated by buyers are reflected in the AFW formulation. A generalized pricing mechanism can be developed taking into account the unit AFW labour cost of a garment in terms of both FOB and retail costs. The AFW fixes the floor for the labour cost so that the FOB costs can be adjusted through other factors and the price agreed accordingly.

The premise of AFW implementation requires freedom of association to be respected and for unionization to occur, since enforcement can only be done effectively with union and workers representatives as part of the process. Therefore, the right to organize is central to the ultimate success of the AFW campaign. The AFW is possible only in the presence of dynamic workers' struggles. In fact, it creates a framework for the convergence of national struggles and in so doing, complements and adds to the power of bargaining at national levels.

Impact

Since the Asia Floor Wage was made public a little over two years back, on 7 October 2009, it has gained recognition as a credible benchmark for living wage in the industry, in the garment labour movement, and in scholarly discussions. The AFW has become a point of reference for scholarly living wage debates such as by Richard Anker (2011) and Daniel Vaughan-Whitehead (2010). It has been adopted as a living wage benchmark by the multi-stake holder forum, Fair Wear Foundation, and is a point of reference for brand level associations such as the Fair Labor Association. The AFW has been adopted by a few brands as a comparative benchmark for wage analysis; its credibility and feasibility continue to act as a pressure point. The Workers Rights Consortium has used the AFW in a variety of ways in its analysis and benchmarking.

The AFW has become a factor in national wage struggles and serves as a measure of the gap between living wage and national minimum wage, as seen in recent wage debates and struggles in the garment industry in Bangladesh and in India. The AFW process has opened up the possibility of a collective bargaining process for higher wages, not restricted to minimum wages, along the global supply chain. This was apparent in the recent wage struggles in Cambodia. In China and Viet Nam, the AFW has been vindicated by recent struggles that have raised wages and demonstrated the feasibility of doing so. The AFW process has opened up forums for dialogue in the producing countries that can be further strengthened for regional collective bargaining. However, much remains to be done as garment workers continue to work and live in poverty, and brands amass fortunes.

Moving forward

A Global Union Research Network report on precarious work confirms what trade unions and workers in the garment manufacturing industry experience every day. It defines “precarious work” as “work characterised by atypical employment contracts, limited or no social benefits and statutory entitlements, high degrees of job insecurity, low job tenure, low wages and high risks of occupational injury and disease. From a workers’ point of view, precarious work is related to uncertain, unpredictable and risky employment.” The report points out that “precarious work is a key factor contributing to the global pay gap between men and women” (Evans and Gibb, 2009).

The report asks the challenging question: “Precarious work shifts social risks away from employers and governments and on to individual workers and their families – those who can least bear them: [I]f the costs are too high for employers and the state, what makes us think the vulnerable workers themselves are any more capable of bearing these costs? These risks affect not only vulnerable workers, but their families and society at large” (ibid.).

Trade unions in the AFW Alliance hold brands ultimately responsible for the payment of the AFW to Asian garment workers; and trade unions are willing to work with brands to ensure and monitor its delivery.

At this time, the AFW has reached sufficient credibility and legitimacy worldwide. In common parlance, the AFW has become a stand-in for a minimum living wage since it was introduced to the public on 7 October 2009, International Day for Decent Work. It has made wages a central issue and turned wage bargaining into a source of unity and solidarity across borders.

Dr Chang Kai in China says: “The conception of Asian Floor Wage needs to be widely admitted and announced.”⁵ Dr Upendra Baxi, eminent human rights scholar, says, “I salute the AFW campaign [...] please notice what you have achieved. You have achieved a formulation of a comparative idea of economic justice and workers rights as human rights. What more do you need as a starting point?”⁶

5. Remarks made at the AFW International Launch, 7 October 2009.

6. AFW International Launch, 7 October 2009.

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European minimum wage policy: A concept for wage-led growth and fair wages in Europe

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Minimum wages on the European agenda

In February 2012, the Greek government decided on a radical, 22 per cent cut of the national minimum. The decision was taken in the face of opposition from both the trade unions and the employers' associations which had jointly appealed to keep the minimum wage level as determined in the national collective agreement (Paphitis and Corder, 2012). However, the Greek government was under strong pressure of the so-called Troika, composed of the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), which had insisted that a radical drop in the national minimum wage would be necessary in order to restore the competitiveness of the Greek economy. As a result, the workers in Greece are confronted with a measure which has already been described as being "among the most radical steps backwards inflicted in peacetime in modern Europe" (Taylor, 2012).

What happened in Greece was only the culmination to date of European interventions on national wage developments. At the beginning of 2011, it was Ireland which was the first country to cut its hourly minimum wage by 1 euro, which was equivalent to a reduction of 11.5 per cent. Again, it was the EU-ECB-IMF Troika which had strongly pushed in favour of the wage cut. Consequently, the Irish government included the reduction of the minimum wage as a major "structural reform" in its Memorandum of Economic and Financial Policies to the international creditors (Irish Government, 2010). When in February 2011 a new Irish government came to power with the promise to restore the old minimum wage level, this was accepted by the Troika only after the government's announcement that it would compensate employers by an equivalent reduction in the pay-related social insurance contributions (IMF, 2011a).

In Portugal, the government agreed as part of its arrangement with the Troika that "any increase in the minimum wage will take place only if justified by economic conditions and agreed in the context of regular program reviews" (IMF, 2011b, p. 14). While the Portuguese government had frozen the minimum wage for the first time since decades, the Troika had de facto ensured itself a veto power against further wage increases in the coming years. Similar to Portugal, the Spanish government had decided for the first time since the introduction of the national minimum wage in the 1960s to suspend its annual adjustment (Carcar, 2011). At the same time the ECB had sent a letter to the Spanish government, demanding the introduction of a new form of "mini-jobs" to be paid below the national minimum wage in return for the central bank's purchase of Spanish bonds (El País, 2011). Since several years a major influence on the development of minimum wages especially by the IMF could also be observed in many Eastern European countries (Schmidt and Vaughan-Whitehead, 2011).

Against the background of the recent economic crisis in Europe, wages have become a core issue on the European policy agenda. Although the EU Treaty has explicitly excluded wages from the regulatory competences of EU institutions, the latter are becoming more and more active in influencing both the national wage developments as well as the national systems of wage setting. With the adoption of the so-called Euro-Plus Pact in March 2011, wages have become officially declared as a main adjustment variable for economic imbalances and national competitiveness in Europe (Dufresne, 2012; Janssen, 2011). As the European Commission has put it, “reforms on labour markets and in particular to wage setting mechanisms need to ensure efficient adjustment of labour costs in order to facilitate absorption of macro-economic imbalances and to reduce unemployment” (EC, 2011a, p. 20). The same view has been taken by the IMF, which demands to give priority to structural reforms at the labour market as a major precondition for economic recovery in Europe (Allard and Everaet, 2010).

The most direct European interventions in national wage policy can be found in those countries which currently depend on international loans by the EU and the IMF. However, within the new framework of European Economic Governance the systematic surveillance of national wage developments and the regular “recommendations” for national wage setting became a normal feature of European policy. In this context, the influence on minimum wages is of major importance for at least two reasons (see, for example, Groupe d’experts sur le SMIC, 2011). First, minimum wages have a strong influence on the national wage structure and the degree of wage dispersion. Second, in many European countries – especially those with relatively weak collective bargaining systems – minimum wages have a signalling character for the overall wage developments. Consequently, in its recent Macroeconomic Report the EC (2011a, p. 20) has complained that the Member States have so far made only “little progress on reforming wage indexation systems and *on minimum wages*” (author’s emphasis).

The wage policy as currently enforced at the European level has been strongly criticized for both social and economic reasons. For the European Trade Union Confederation (ETUC), the current EU policy represents a fundamental “attack on wages” where the costs of the economic crisis are imposed exclusively on the mass of European workers. Furthermore, the ETUC has criticized EU policy as increasingly undermining the national autonomy of collective bargaining. The most obvious cases of this have been the “bailout arrangements” between the EC-ECB-IMF Troika and national governments, whereby the latter were pushed by the former to intervene in valid collective agreements. The legal cut of the collectively agreed minimum wage in Greece is a prominent example of this (ETUC, 2010 and 2011).

Moreover, the ETUC has argued that all European initiatives on wages amount only to moderate wage developments or a freeze, or even a cut in

existing wage levels. The economic consequences of such a restrictive wage policy are for many reasons rather problematic:¹ First, a freeze or a cut in minimum wages depresses aggregate demand, as low-wage earners have a particularly high consumer propensity and spend most of their wage income. This effect is even more pronounced in those countries where the minimum wage has an influence on the overall wage developments. Second, restrictive wage developments are even worse in an environment of austerity where they further reinforce economic stagnation. Finally, a restrictive wage policy could only help to improve national competitiveness if it is limited to certain countries. Since the EU is basically promoting the same wage concepts throughout Europe, however, there is a strong tendency towards downward wage competition, which could lead to a deflationary spiral and solidify economic depression.

The obvious shortcomings of current European wage policies require an alternative concept. This would have to focus more on the meaning of wages for aggregate demand in order to encourage a more wage-led growth strategy in contrast to the currently dominating debt- or export-led growth models. As the sharp increase in income inequality has been identified as one of the more fundamental causes for recent economic crises, the basic notion of a wage-led growth model is that a sustainable economic development needs a much higher degree of equality (Hein, 2011; Stockhammer, 2011b). Considering this, there is a crucial role for minimum wages because they can influence the income distribution between both capital and labour as well as between different groups of workers (Herr and Kazandziska, 2011).

As a possible alternative to a strategy of downward wage competition in Europe, the idea of a European minimum wage policy has gained more and more attention in recent years (Schulten, 2008). Basically, a European minimum wage policy aims to guarantee every worker in Europe a “fair wage” through European-wide criteria for equitable national minimum wage standards. In practice, a European minimum wage policy would have to lead to – in some countries a rather significant – increase in national minimum wages and would thereby contribute to more expansive wage developments in Europe. Before discussing such a concept in more detail, however, a brief analysis on the different wage setting systems and levels of minimum wages in Europe is needed.

Different systems of minimum wage setting

All countries in Europe have at least some form of minimum wage. The national systems, however, differ widely regarding levels, scope and political and

1. For a critical view on the recent wage developments and policies in Europe see, for example, Andini and Cabral (2012), Busch (2012), Busch and Hirschel (2011), Collignon (2009), Janssen (2011), Stockhammer (2011a).

Table 1. Different systems of minimum wage setting in Europe

	Statutory regulation	Collective agreements
A single national minimum wage as a universal wage floor	<i>Western countries:</i> France, Luxembourg, Netherlands, Ireland, United Kingdom <i>Southern countries:</i> Malta, Spain, Portugal <i>Eastern countries:</i> Croatia, Czech Republic, Hungary, Latvia, Lithuania, Romania, Slovenia, Turkey	<i>Bipartite agreements:</i> Belgium, Estonia, Greece <i>Tripartite agreements:</i> Bulgaria, Poland, Slovakia
No universal wage floor but sectoral and occupational minimum wages	Cyprus	<i>Nordic countries:</i> Denmark, Finland, Norway, Sweden <i>Continental countries:</i> Austria, Germany, Italy, Switzerland

Source: Own composition.

institutional setting of minimum wages.² Basically, there are two main characteristics which can help to structure the various national minimum wage systems (table 1). First, there is a different scope and applicability of minimum wages. While some countries have a single national minimum wage, other countries set minimum wages only at sectoral or occupational level. Secondly, there are fundamental differences in the way minimum wage are determined which can be either by statutory regulation or by collective agreements.

Within Europe a majority of countries have a national minimum wage, including 20 out of 27 EU Member States and two EU candidate countries (Croatia and Turkey). There are only a few countries in which the national minimum wage is concluded by bipartite or tripartite collective agreements. In most countries it is the State that finally determines the national minimum wage by law.

In practice, however, even in the case of statutory minimum wages trade unions are usually very much involved in the process of minimum wage fixing. Most countries foresee even an institutionalized participation of unions and employers through national bodies such as the Low Pay Commission in the United Kingdom or the Commission Nationale de la Négociation Collective in France. Moreover, the determination of national statutory minimum wage is often a topic in public and political debates, which gives unions the opportunity to influence wage developments beyond the traditional channels of collective bargaining. From a union point of view statutory minimum wages are therefore not about leaving the initiative for wage setting to the State but more about shifting the wage battle to a more societal level.

Apart from Belgium and Greece (and more recently also Estonia), where national minimum wages are concluded within a national bipartite collective agreement, during the last two decades many Eastern European

2. For more detailed studies on the various systems of minimum wage setting in Europe, see the contributions in Schulten, Bispinck and Schäfer (2006) and Vaughan-Whitehead (2010).

countries have developed a tradition of negotiating national minimum wages within national tripartite commissions. In recent years, however, unions and employers' associations have found it more and more difficult to reach an agreement so that the State often had to overcome the blockade through unilateral determination of a concrete minimum wage level (Schulten, 2009, 2010a, 2011a). In Hungary the right-wing populist government even took the decision that unions are no longer consulted on the regular minimum wage adjustment (Komiljovics, 2011).

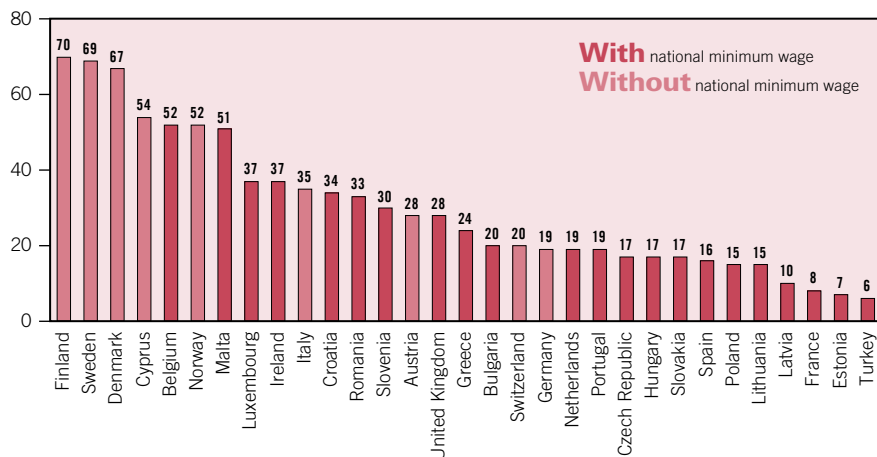
There is also a significant group of countries in Europe which has no national minimum wage but only minimum wages at sectoral or occupational level. This group involves mainly countries from northern and continental Europe plus Cyprus. The latter is rather an exception, as it is the only country where there is a statutory minimum wage but it applies only to a group of nine different occupations including security guards, caretakers, cleaners, etc. (Soumeli, 2011). In all other countries belonging to this group minimum wages are exclusively determined by collective agreements at sectoral and company level.

Among the countries which have no statutory national minimum wage are in particular those which still have a rather high union density (figure 1). Considering their relatively strong organizational power, the unions from the Nordic States especially but also those from Austria and Italy do not want to give the State any influence on wage setting and therefore reject any ideas of a statutory minimum wage (Eldring and Alsos, forthcoming). In contrast to that the unions from Germany and Switzerland, where union density is relatively low, have changed their position after long controversial debates and are currently running a campaign for the introduction of a national statutory minimum wage (SGB, 2011; Bispinck and Schulten, 2011).

The advantage of a national minimum wage is that it provides an universal wage floor which covers (almost) all employees. In countries with only sectoral minimum wages based on collective agreements the applicability depends mainly on the collective bargaining coverage (figure 2). Consequently, most of the countries with no national minimum wage as the Nordic States or Austria and Italy have a relatively high collective bargaining coverage of 80 and more per cent, so that the great majority of workers are protected by collectively agreed minimum wages. In contrast, in Cyprus, Germany and Switzerland the collective bargaining coverage is only between 50 and 60 per cent so that a significant proportion of workers are not protected by any minimum wages. This explains why the Cypriot, German and Swiss trade unions are in favour of the introduction of a national statutory minimum wage.

In many countries statutory minimum wage regulation and collective bargaining also form a rather complementary system. While the State fixes a general wage floor, above that level trade unions conclude higher minimum wages through collective agreements at sectoral level. There is not much

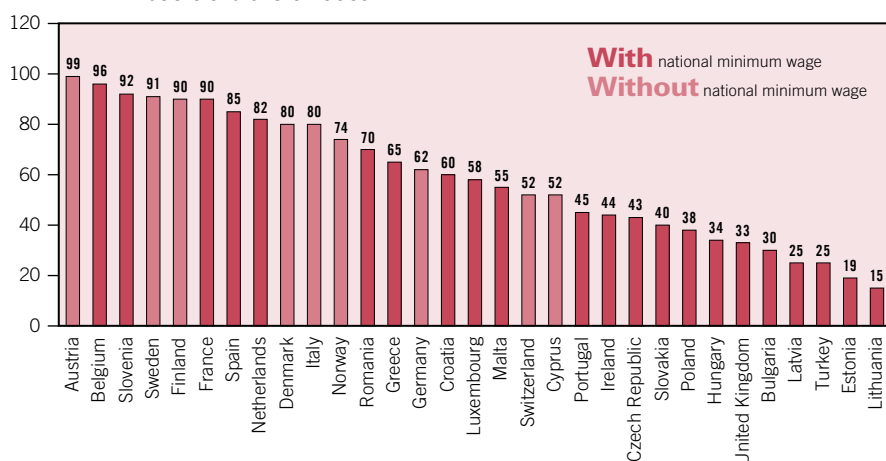
Figure 1. Union density and national minimum wages in Europe at the end of the 2000s*



* Net union density: organized employees as percentage of all employees, latest available figures.

Source: ICTWSS database (Version 3.0) for Croatia: Nestić and Bakarić, 2011.

Figure 2. Collective bargaining coverage and national minimum wages in Europe at the end of the 2000s*



* Employees covered by collective agreements as percentage of all employees, latest available figures.

Source: ICTWSS database (Version 3.0) for Croatia: Nestić and Bakarić (2011).

evidence that an existing national minimum wage weakens collective bargaining and puts downward pressure on collectively agreed wage levels. In many countries, as in France or the United Kingdom, for example, it is more a case of increases in national minimum wages creating a push factor for collective bargaining (Groupe d'experts sur le SMIC, 2011). Furthermore, in countries with very weak collective bargaining as, for example, in the Baltic States, for a large proportion of workers national minimum wages are the only form of collective wage regulation.

Finally, countries with no national minimum wage also depend to a certain extent on supportive state regulation. Since the level of minimum wage protection relies on the collective bargaining coverage, in many countries the latter becomes stabilized by the State through the extension of collective agreements (e.g. Finland, Norway, Germany, Switzerland) or through more indirect forms of legal support, as in Austria and Italy (Schulten, 2010b).

Levels of minimum wages in Europe

There are at least three methods on how to compare the levels of minimum wages in Europe. The *first* is to match the current value of the minimum wage calculated in a common currency, for example the euro. The problem with this way of comparison is that it always includes statistically distorting effects as a result of exchange rate developments. In addition, the current value of a minimum wage contains only little information on its real meaning for the workers in a certain national socio-economic framework. A *second* way on how to compare minimum wages in Europe is, therefore, to calculate them in Purchasing Power Standards, which reflects the different price levels and costs of living in the various countries. The *third* method is to compare the relative value of minimum wages in comparison to national average or median wages. The latter gives information on the real level of minimum wage protection and the status of minimum wage earners within the overall national wage hierarchy.

Comparison on minimum wage levels can be carried out on an *hourly* or a *monthly* basis. The Minimum Wage Databases of EUROSTAT and the OECD provide only information on monthly minimum wages. In contrast, the *WSI Minimum Wage Database* also contains information on hourly minimum wages.³ Since many countries (e.g. Belgium or the Netherlands) have only fixed a monthly minimum wage rate, the hourly rate has been recalculated on the basis of the average collectively agreed standard working time.

Minimum wages in euros

With regard to the current level of national minimum wages calculated in euros, three groups of countries can be distinguished (figures 3 and 4). The first group with the highest minimum wages covers only countries from Western Europe including France, the Benelux countries, Ireland and the United Kingdom. By far the highest national minimum wage, with an hourly rate of 10.41 euros, is paid in Luxembourg. In the other countries the hourly

3. For a comparison on the different database on minimum wages, see Schulten (2009).

minimum wage varies between 9.33 euros in France and 8.65 in Ireland. With an hourly minimum wage of 7.01 euros, the United Kingdom lags somewhat behind the other members of that group. However, this is mainly due to exchange rate effects, as in recent years the British pound has shown a significant devaluation against the euro. Without that devaluation the UK national minimum wage would have been at a similar level as the other western European countries.

The second group of countries, where the hourly minimum wage is between 2 and 4.50 euros, comprises mainly southern European countries – Greece, Malta, Spain and Portugal, alongside Slovenia, Croatia and Poland. The third group, with minimum wages of below 2 euros per hour, comprises exclusively central and eastern European countries, with Romania and Bulgaria – in both of which the minimum wage is still below 1 euro – bringing up the rear.

As the national minimum wages should in principle cover all employees, many countries have defined some exceptions. This holds true in particular for younger workers, job starters and apprenticeships for which many countries have established some special youth minimum wage rates below the general “adult” minimum wage level. A few countries such as Luxembourg also have a second minimum wage for more qualified workers which is somewhat above the general minimum wage.

For the countries with no national but only sectoral minimum wages, no fully comparable data are available. However, studies have indicated that in the Nordic States the lowest collectively agreed wages are mostly above the national minimum wages of most other European countries (Eldring and Alsos, forthcoming). In Germany currently there are sectoral minimum wages on the basis of extended collective agreements for 11 branches, varying between around 7 and 13 euros. Some 13 per cent of all wage grades in German collective agreements are still below the threshold of 8.50 euros per hour which is currently demanded by the German unions for a national statutory minimum wage (Bispinck and Schulten, 2011). In some cases hourly wages in Germany are as low as 6 or even 5 euros (Schulten, 2011b).

The problem of relatively low collectively agreed minimum wages exists also in Austria. In 2007 the main unions and employers’ organizations reached an agreement that no wage grade in collective agreements should be below 1,000 euros per month, which corresponds to an hourly wage of around 6 euros (Hermann and Schulten, 2007). However, thus far the agreement has never been adjusted. In Switzerland the unions are faced more with the problem of a relatively low collective bargaining coverage which led to a situation where about 10 per cent of all workers earn less than 22 Swiss francs per hour. This amount is demanded by the Swiss unions as the value for a new statutory minimum wage (SGB, 2011). Finally, in Cyprus, the statutory minimum wage for a couple of occupations is currently at 855 euros per month, which corresponds to an hourly wage of around 5 euros.

Figure 3. National minimum wages in Europe, January 2012 (per hour, in euros)

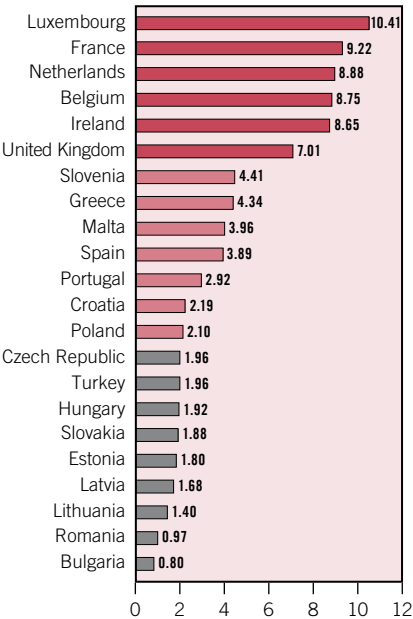
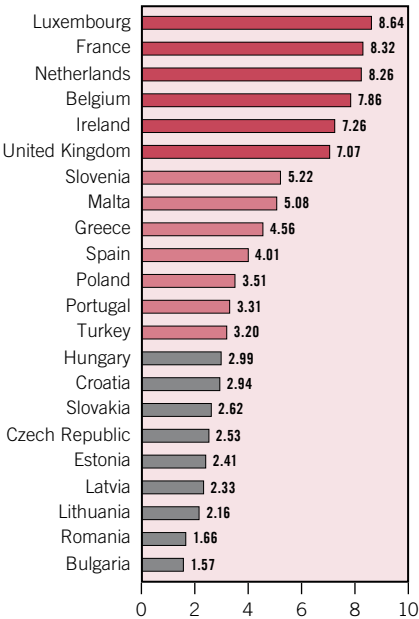


Figure 4. National minimum wages in Europe, January 2012 (per hour, in PPS)



Source: WSI minimum wage database 2012.

Minimum wages in Purchasing Power Standards

In order to identify the real value of minimum wages, an international comparison has to be recalculated on the basis of Purchasing Power Standards which reflect the different price levels in the various countries. Figure 5 provides data for the same group of countries based on EU Purchasing Power Standards (EU PPS). At first glance it becomes clear that the differences between countries are much less pronounced. Measured in EU PPS, the ratio between the lowest and the highest minimum wage falls from 1:13 to around 1:6.

Relative minimum wages levels (Kaitz Index)

Apart from the different purchasing power of minimum wages, the real significance of minimum wage protection can be measured by its *relative value*, i.e. the national minimum wage in relation to the national wage structure. The latter can be determined through the so-called Kaitz Index, that is, the relative minimum wage level measured as the proportion of either the national *median* wage or the national *average* (or mean). Considering *median*

Table 2. Minimum wages in % of median and average wages, 2010

Median		Average	
Turkey	66	France	48
France	60	Slovenia	47
Slovenia	58	Belgium	45
Portugal	56	Ireland	44
Latvia	54	Netherlands	42
Belgium	52	Latvia	40
Ireland	52	Portugal	39
Greece	49	United Kingdom	38
Hungary	47	Lithuania	37
Netherlands	47	Poland	37
United Kingdom	46	Slovakia	36
Lithuania	45	Hungary	35
Poland	45	Luxembourg	35
Slovakia	45	Spain	35
Spain	44	Turkey	35
Romania	44	Estonia	34
Luxembourg	43	Greece	33
Estonia	41	Romania	30
Czech Republic	35	Czech Republic	29

Source: OECD (<http://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE>).

wages, which is a statistical expression for a “middle” wage where 50 per cent of the workforce earns more and 50 per cent earns less, the differences in the relative minimum wage levels represent more than 30 percentage points (see table 2). The highest level with around 66 per cent can be found in Turkey, followed by France with 60 per cent, and a small group of countries with a relative minimum wage level of more than 50 per cent including Slovenia, Portugal, Latvia, Belgium and Ireland. In most countries the relative minimum wage levels vary between 40 and 50 per cent of the median wage. At the bottom there is the Czech Republic with a with very low relative minimum wage level of only 35 per cent of the median wage.

Considering the *average* wages, the highest relative minimum wage level can be found in France (48 per cent) and Slovenia (47 per cent), followed by a few countries with more than 40 per cent. In the majority of the countries the relative value of the minimum wage varies between 30 and 40 per cent of average wages, while the Czech Republic is again at the bottom of the table with only 29 per cent.

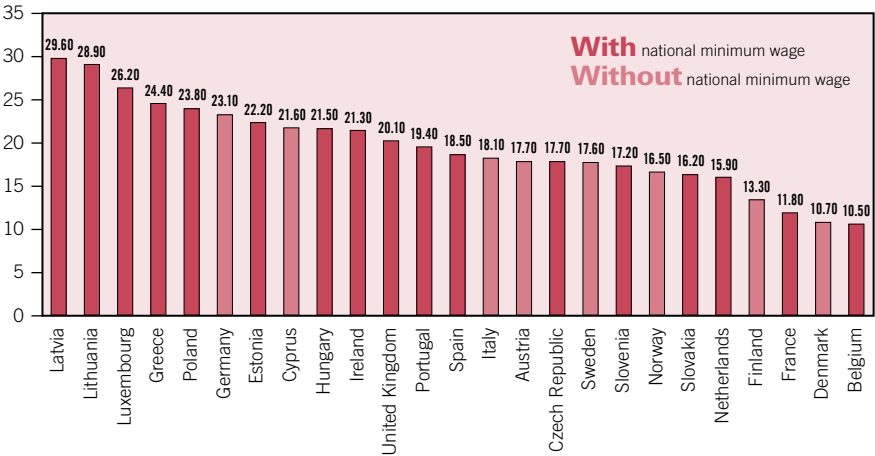
For countries that have no national minimum wages there exist no comparable data. However, some studies have indicated that the lowest collectively agreed wages in the Nordic countries are usually well above 70 per cent of the median or 60 per cent of the average wage (Hansen and Andersen, 2007; Eldring and Alsos, forthcoming). In contrast, some of the collectively agreed wages in Germany are still far below 30 per cent of the average and median wage (Schulten, 2011).

All in all, the relative values of minimum wages show very clearly that in most countries the minimum wage is fixed at a rather low level. In all countries it is below the low-pay threshold used by the OECD and other international organizations, that is, two-thirds of the median wage. Using the common thresholds on poverty, which are 60 per cent of the median income or 50 per cent of the average income, it must be said that in some countries minimum wages even determine “poverty wages” (EC, 2011b).

Low-wage sector in Europe

Despite the different systems of minimum wage setting, all countries in Europe have a significant low-wage sector (George, 2011). Following the international standard definition of a low wage, which is a wage below two-thirds of the national median wage, the low-wage sector in Europe ranges from 10.5 per cent of all workers in Belgium to 29.6 per cent in Latvia (figure 5). There seems to be no clear relation between the size of the low-wage sector and the particular national system of minimum wage setting. Countries with a relatively small low-wage sector include both countries with a national minimum wage (e.g. Belgium and France) and those with only sectoral minimum wages (e.g. Denmark and Finland). Countries with a low-wage sector of more than 20 per cent of the workers are mainly those with a national minimum wage, but also Germany and Cyprus.

Figure 5. Proportion of low-wage earners and national minimum wages in Europe, 2007*



* Low-wage earners with a wage below two-thirds of the national median wage as percentage of all employees.
Source: EU-SILC UDB 2007 (Version 4 August 2010) quoted from George (2011).

The concept of a European minimum wage policy

Although all European countries have some form of minimum wage, in many cases these are set at a rather low level and do not prevent the existence of a significant low-wage sector. The basic idea behind the concept of a European minimum wage policy is, therefore, to develop a coordinated policy approach at the European level in order to make sure that everywhere in Europe workers receive equitable wages. The debate on equitable wages has a long tradition and many countries recognize a right to a fair wage as laid down in several conventions at international, regional or national level (Ofek-Ghendler, 2009). In Europe the right to a fair remuneration, which should allow all workers a “decent standard of living”, was recognized for the first time in the 1961 European Social Charter of the Council of Europe (Lörcher, 2006). In order to operationalize the idea of a fair wage, during the 1970s the Council of Europe agreed on a definition according to which all work should get a gross wage which should not be below 68 per cent of the gross average wage in the respective countries. During the 1990s the Council of Europe changed its consideration from *gross* to *net* wages and developed a new threshold which determined that a fair net wage should be at least 60 per cent of the national average net wage.

The Council of Europe is doing regular evaluations on the adherence to the European Social Charter including a review on the conformity to the right to a fair remuneration by using the 60 per cent threshold. According to its latest evaluation in 2010, there were only five European countries which fulfilled the criteria for fair wages (table 3). Among them were only two States with a national minimum wage (France and Malta), plus three Scandinavian countries: Denmark, Norway and Sweden. For the Netherlands the Council of Europe considered that the national minimum wage fulfilled the criteria of a fair wage but criticized the much lower, sub-minimum wages for younger workers. For other countries, as for example Portugal, Spain, the United Kingdom and some of the Eastern European countries, the Council of Europe concluded that the national minimum wage has been set on a level clearly below the fair wage threshold. Non-conformity with the right to fair remuneration has also been considered for Germany and Italy, neither of which has a national minimum wage.

Table 3. Conclusion of the Council of Europe on the national conformity with the “right to a fair remuneration” (Article 4) of the European Social Charter, 2010

In conformity	Not (fully) in conformity	No conclusion because of insufficient information
Denmark, France, Malta, Norway, Sweden	Germany, Italy, Lithuania, Netherlands, Portugal, Romania, Slovakia, Slovenia, Spain, United Kingdom	Austria, Belgium, Finland, Greece, Ireland

Source: Council of Europe (2010).

Considering the often rather low level of national minimum wages, in many European countries the trade unions have demanded more substantial increases in order to make the minimum wage a real “living wage”, i.e. a wage which allows for a certain socio-economic minimum (Schulten, 2009, 2010, 2011). In the second half of the 2000s, in some countries (e.g. Spain, Portugal, Poland, Romania) the trade unions were even able to reach agreements with their governments for more substantial increases during a certain number of years. Usually, these agreements included a certain target figure for a minimum wage to become at least 50 per cent of the national average wage. In the Spanish case there was even explicit reference to the fair wage threshold of the European Social Charter (Banyuls, Cano and Aguado, 2010). However, during the recent crisis most countries have stopped their policy towards an upward adjustment of existing minimum wage levels (Schulten, 2012). The only exception was Slovenia, where in 2010 the national minimum was increased by more than 30 per cent in order to lift it well above the Slovenian subsistence level (Lukić, 2011).

Against the background of these national battles on minimum wages, the idea of a coordinated European minimum wage policy has received increasing attention in recent years (Schulten, 2008; Vaughan-Whitehead, 2010; Eldring and Alsos, forthcoming). Several prominent EU policy-makers, such as Luxembourg Prime Minister Jean-Claude Juncker and the former European Commission President Jacques Delors have called for a European minimum wage policy, according to which every employee should be entitled to a decent wage. However, the debate at EU level dates back already to the 1990s with the adoption in 1989 of the Community Charter of Fundamental Social Rights for Workers. This states that “workers shall be assured of an equitable wage, i.e. a wage sufficient to enable them to have a decent standard of living”. In 1993 the EC published an opinion on an equitable wage in which it demanded the Member States to take appropriate measures to ensure that the right to an equitable wage is protected. It emphasized that “the problem of low pay is an issue in all countries of the European Community” and that “the persistence of very low wage levels causes problems of equity and social cohesion, which could be harmful to the effectiveness of the economy in the long term” (EC, 1993). In reaction to the Commission’s activities the European Parliament demanded more binding European guidelines for national minimum wages and encouraged all Member States “to establish a minimum wage that amounts to a certain proportion of the national average wage” (European Parliament, 1993).

More recently, the European Parliament returned to the issue in 2007 when it noted that in many EU countries “the minimum wage is set very low or at below subsistence level” (European Parliament, 2007, p. 469). In 2008 it called “on the Council to agree an *EU target for minimum wages* ... to provide for remuneration of at least 60 per cent of the relevant ... average wage” (European Parliament, 2008, author’s emphasis). Moreover,

in 2010 it approved “that every worker should have a decent living wage” and stated “that a living wage must always be above the poverty threshold”. Furthermore, it took the view that “the Commission should study the impact which a legislative proposal it might submit concerning the introduction of an adequate minimum income at European level would have in each Member State; suggests, in particular, that any such study should examine the difference between the adequate minimum income and the minimum wage in the Member State concerned” (European Parliament, 2010). Finally, in 2011 it confirmed that the existence of “working poor” in Europe should be overcome “through pay levels in general and minimum wage levels in particular, whether regulated by legislation or by collective bargaining, so that they can ensure a decent standard of living” (European Parliament, 2011).

While the idea of a European minimum wage policy had already gained a lot of support in the political sphere, the issue has been much more contested within the European trade union movement (Schulten, 2008; Furåker and Bengtsson, 2011). While in many European countries the unions are rather supportive (e.g. Vande Keybus, 2012), a more sceptical view has come in particular from the Scandinavian and Italian trade unions which come from countries with a rather strong tradition of collective bargaining autonomy with only little state interference. Since the collective bargaining coverage in these countries is still rather high, the unions are against any form of statutory intervention on minimum wages. Moreover, the unions from the Nordic countries are afraid that any European norm on minimum wages might put downward pressure on their relatively high wage levels.

However, a European minimum wage policy is neither about a single European minimum wage rate nor about an institutional harmonization of national minimum wage setting. It does not mean that every country in Europe has to introduce a national statutory minimum wage. As proposed by the Party of European Socialists it is more about a “European Pact on Wages”, which should stipulate “that EU Member States ensure that all workers and employees receive a wage above the poverty threshold, either through collective bargaining or by law, while ensuring compatibility with, and respect for, national traditions and praxis and the autonomy of social partners” (PES, 2010). In practice, this could mean that the EU defines a European target or norm for national minimum wages which represents a certain percentage of the national average or median wages. Implementation of a European minimum wage policy might become a classic case of the so-called open method of coordination (OMC), according to which specific goals and deadlines are set at a European level and then have to be implemented in the national frameworks via the customary institutions and procedures (Schulten, 2008). Regardless of whether minimum wages are set by law or by collective agreements, a European minimum wage policy would offer a way to make sure that every worker in Europe gets a decent wage.

After long and controversial debates the ETUC finally came forward with a reasonable proposal whereby in all European countries with national minimum wages the levels should be at least 50 per cent of the national average and 60 per cent of the national median wage (ETUC, 2012). For many European countries the implementation of such a European target would imply rather substantial increases of their national minimum wage levels. In so far as a European minimum wage policy represented a real alternative to the current EU policy of downward wage competition, in many respects it would have positive social and economic effects:

- it would compress the national wage structures from below and would lead to a more egalitarian distribution of income between different groups of workers (including the reduction of the gender pay gap);
- it would also contribute to strengthen the overall wage developments in order to stabilise or even increase the wage share;
- it would help to fight poverty and would disburden the State from paying social welfare benefits;
- it would help to stabilize or increase private demand, since workers with low income will put the largest part of their additional income into consumption;
- it would support the function of wages as a nominal anchor for the price level in order to prevent deflation.

To sum up, a European minimum wage policy could make a major contribution for the development of a new more sustainable, wage-led growth model in Europe. At the same time it would give a concrete expression for the idea of “Social Europe” and would bring new legitimacy to the European integration process. However, the political enforcement of a European minimum wage policy requires a European social movement which is able to push this issue at the European policy agenda. In this respect it seems that the European trade unions and other social forces still have some way to go.

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At what level should countries set their minimum wages?

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At what level should countries set their statutory minimum wages? The academic literature has surprisingly little to say about this simple but fundamental question. A comprehensive review of the existing literature reveals that most research is exclusively concerned with the impact of marginal changes in minimum wage levels (see for example Neumark and Wascher, 2008). On one side, a large number of studies scrutinize the possible adverse effects of marginal changes on the quantity of wage employment in the formal and the informal economy. On the other side, a growing number of articles document the extent of the benefits of marginal changes on reducing low pay and inequality. Together, these studies feed a seemingly never-ending debate among economists about whether minimum wages are desirable or not.

Yet, policy-makers seem to have made up their minds long ago. According to the ILO's *Global Wage Report 2008/09*, minimum wages are a nearly universal policy applied in some form or another in more than 90 per cent of countries in the world (ILO, 2008, p. 34). In all these countries, the main question that policy-makers have to answer is not whether a minimum wage should be adopted or not; it is "How should it be operated?" and "At what level should it be set?" The present paper discusses some relatively easily available indicators that can be used for setting minimum wages at the appropriate level, taking into account country-specific characteristics. The methodology does not contain much sophisticated econometrics, nor does it push the frontier of mathematical modelling. It seeks to make a contribution to a practical question, building on previous work done at the ILO (including ILO, 1992; Starr, 1993; Eyraud and Saget, 2005; Marinakis and Velasco, 2006; Belser and Rani, 2010; Vaughan-Whitehead, 2010; and Lee and McCann, 2011a).

The paper recognizes that the determination of the minimum wage level is a sensitive issue which should be decided by governments after full consultation of – and ideally through negotiation with – social partners. Statistical indicators thus only represent a starting point or a reference point for these consultations. Ultimately, it is up to the national stakeholders to agree on one or more figures, depending on the weight that they attribute to different social and economic objectives. In fact, there is not one "ideal" minimum wage level. The objective of statistical indicators is not to substitute for tripartism or collective bargaining; rather, it is to inform governments and social partners about the range of values for which the benefits of a minimum wage are likely to exceed the costs.

Part I of the paper proposes some preliminary considerations which revolve around the question of how minimum wage policies should be operated. It discusses in particular the role of social partners, the structure of minimum wages, their coverage and implications for the gender pay gap, the definition of what counts as wages, and enforcement strategies. Part II then dives into the question of the level of minimum wages by starting with a review of the criteria listed in the ILO Minimum Wage Fixing Convention, 1970 (No. 131), and a review of the trade-offs involved in minimum wage setting. Finally,

part III proposes some operational indicators, including the calculation of a minimum living wage, the ratio of minimum to mean and median wages, and the estimates of the impact on the total wage bill and the level of prices.

At what level should countries set their minimum wages?

Some preliminary considerations

What exactly is a minimum wage? From a legal perspective, the minimum wage “represents the lowest level of remuneration permitted, in law or fact, whatever the method of remuneration or the qualification of the worker; it is the wage which in each country has the force of law and which is enforceable under threat of penal or other appropriate sanctions”.¹ According to ILO Convention No. 131, the primary purpose of such a minimum wage is to provide protection for wage earners against “unduly low wages”. In other words, a minimum wage aims to set a floor to the distribution of wages, below which no worker can legally be paid.

The role of social partners

Who should set the minimum wage? ILO Convention No. 131 suggests that minimum wage fixing should involve governments, social partners, and independent experts. In designing this system, “provision shall be made for the direct participation” in the operation of the minimum wage system of:

- (a) representatives of organizations of employers and workers concerned or, where no such organizations exist, representatives of employers and workers concerned, on a basis of equality;
- (b) persons having recognised competence for representing the general interests of the country and appointed after full consultation with representative organizations of employers and workers concerned, where such organizations exist and such consultation is in accordance with national law or practice.

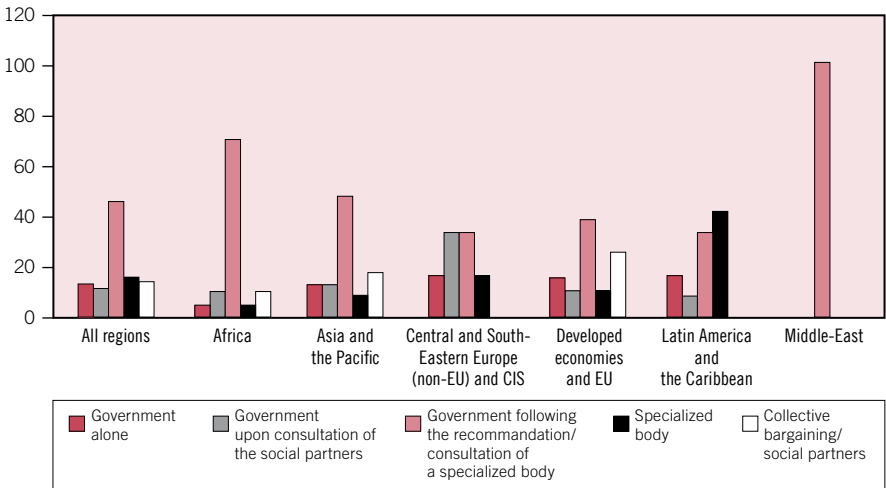
While many countries appear to have set up national “minimum wage commissions”, the actual minimum wage fixing “machinery” typically varies from country to country. ILO Convention No. 131 allows for the fixing of minimum wages by statute, decision of a competent authority, decision of wage boards or councils, industrial or labour courts or tribunals, or simply

1. ILO, 1992, p. 10, quoting from the report of a meeting of experts convened by the Governing Body at its 168th session (Geneva, February–March 1967). Minimum wages fixed by collective agreements made binding by public authorities are included in this definition.

giving the force of law to provisions of collective agreements.² But whatever system is chosen, decisions should not be taken by governments in isolation, but together with representatives of organizations of employers and workers. Social dialogue on minimum wages helps to promote consensus building and democratic involvement among the main stakeholders and encourages good governance. It also prevents erratic adjustments or unexpected changes to the system, which can disrupt economic activity. For social dialogue to work, social partners and policy makers also need timely access to relevant data and analysis from the national statistical office or other academic sources. Hence, sufficient resources should be devoted to the collection of statistics or other relevant data.

Available information from the ILO Database on Conditions of Work and Employment Laws³ analysed in the *Working Conditions Laws Report 2010* (ILO, 2010b) shows that in 13 per cent of countries, governments set minimum wages alone, without prior consultations. In a majority of countries, the government takes decisions either following consultations or recommendations of a specialized tripartite body such as the Low Pay Commission in the United Kingdom or the Minimum Wage Council in the Republic of Korea (45 per cent) or after direct consultation with social partners, as in Brazil, for example (11 per cent). Only in a minority of cases (16 per cent) is the full decision-making power handed over to some specialized body. Wage floors that are negotiated by collective bargaining without any intervention of

Figure 1. Minimum wages and social dialogue (%)



Source: ILO Database on Conditions of Work and Employment Laws.

2. This is the text from the Minimum Wage Fixing Recommendation, 1970 (No. 135).
3. <http://www.ilo.org/dyn/travail>.

the State, but which are made binding by public authorities (as in 14 per cent of countries) are also regarded as minimum wages by the ILO, even though they usually fail to cover vulnerable workers in sectors or industries where social partners are weak or inexistent.

At what level should countries set their minimum wages?

Keeping it simple

Throughout the world, an estimated 90 per cent of all countries have some kind of minimum-wage setting procedure (ILO, 2008). One striking feature, however, is their impressive diversity. Some countries implement relatively straightforward national minimum wages – which are economy-wide wage floors which apply to all workers, with some possible variation by regions or broad categories of workers (in particular young workers or other groups such as domestic workers). Examples include the UK National Minimum Wage or the SMIC in France. Another example is the United States' federal minimum wage, which in 2007 celebrated its 75th anniversary. A number of developing countries also rely on such a relatively simple system, including Brazil (with one national level), China (one level by Province), and much of francophone West Africa.

A minority of countries implement more complex systems of sectoral and/or occupational minimum wages. Systems in which public authorities determine such multiple minimum wage rates for different economic activities or occupations, are relatively more frequent in developing countries. Such minimum wage policies have often been implemented in order to compensate for the absence of collective bargaining in some sectors. In South Africa, for example, the Government sets minimum wages through so-called "Sectoral Determinations" in sectors characterized by a non-unionized and vulnerable workforce. Since 2002, this includes domestic workers and farm workers – categories which include some of the lowest-paid and poorest workers in the economy. Similar systems of mandated minimum wages at sectoral or occupation level exist in a rather large number of countries in Africa, Asia and Latin America.

While both systems are legitimate and depend largely on the historical choices in each individual country, the *Global Wage Report 2008/09* considered that it was preferable to keep the institutional design of minimum wage fixing as simple as possible (ILO, 2008). A similar recommendation emerges from Cunningham (2007). Indeed, simple designs are easier to communicate and make better known to the general public. Hence, even with industry-specific rates, it is advisable to keep their number within a manageable range. In addition, it must be remembered that industry-specific rates were initially considered as a temporary second best option to be suppressed once collective bargaining develops (see Starr, 1993). It is thus advisable to create a decentralized system of wage boards or commissions with the participation of

representatives of workers and employers for each industry. But when these boards or commissions set too many rates, the coordination and coherence of such systems can become a real challenge, and the system ultimately “crowds out” rather than encourages collective bargaining – turning into a permanent rather than a temporary “second best”.

A coordination challenge also arises when countries have minimum wages by region, sector, or occupation. If different regional wage boards do not agree on the criteria for minimum wage setting, there is a risk that similar workers in different provinces of the same country will be paid very different real wage rates. This can create tensions between the different regions, as it may affect the relative competitiveness of different regions and possibly even trigger large internal migration flows. In India, for example, the Indian National Trade Union Congress (INTUC) considered in 2007 that better coordination would avoid a shift of industries from one state to another in a kind of a race to the bottom to attract domestic and foreign investment.

Another complication arises when different aspects of social protection, such as pensions, disability payments, or maternity benefits, are linked to the level of minimum wages. In practice, this means that retirement and other benefits will be adjusted upwards when the minimum wage increases. Although this may be useful to maintain the purchasing power of the poorest pensioners, in practice it has sometimes prevented governments from increasing minimum wages for fear of the adverse impact on social security budgets and therefore makes the minimum wage an ineffective policy. Marinakis and Velasco (2006, p. 13) point out for example that in the 1980s the fall in the real value of the minimum wage in Argentina and Brazil was in fact mostly designed to reduce the budget deficit by cutting the social security expenditures.

Coverage and the gender pay gap

The over-representation of women in low-wage jobs seems to be a universal characteristic of labour markets, and the fact that women predominate in low-wage employment has a negative effect on the gap in average wages between men and women (ILO, 2010a). Part of the explanation in some countries has to do with women’s disadvantageous situation in terms of educational opportunities and, hence, their lower levels of skills and productivity; a situation which calls for policy measures to improve the education and skills (or “employability”) of women. At the same time, in many places the gender pay gap has decreased slowly in spite of an increasing alignment among the educational achievements and work experience between men and women; this points towards the continued existence of discriminatory wage practices against women.

In order to maximize the impact of minimum wages on gender equality, coverage acquires crucial relevance – as the jobs and sectors where women prevail are often excluded from the protection of minimum wage laws. In systems of sectoral or occupational minimum wages, female-dominated jobs or sectors are often the least likely to be covered. But even where national minimum wages are in place, some lower rates are frequently legislated for female-dominated occupations. The archetypal example is the case of domestic workers, who are often paid lower minima or are excluded altogether from the protection of existing labour law because they work in private households rather than in more conventional workplaces such as factories or offices. The new ILO Convention No. 189 on decent work for domestic workers seeks to ensure equal treatment in the future. In Chile, domestic workers are now entitled (since March 2011) to the same national minimum wage as other workers; this was achieved through progressively increasing the domestic workers' rate, which was previously set at 75 per cent of the general rate.

In other cases, even in the presence of collective bargaining, women can potentially benefit from the imposition of a statutory minimum wage. For example, in Finland it was shown that the over-representation of women in lower-paid collective agreements contributed significantly to the gender pay gap (Laine, 2008). Additionally, in Austria, in 2005, while collective bargaining coverage was about 99 per cent, at the lowest decile of earnings the gender pay gap reached 31 per cent, which was in part attributed to differential minimum rates in sectoral collective bargaining agreements; minimum rates in female-dominated sectors were consistently lower than those where males dominate (Rubery and Grimshaw, 2011). In 2009, social partners in Austria negotiated a cross-sector minimum which was inherently aimed at lower paid sectors, where women predominate. Although the cross-sector minimum was not statutory, one might nonetheless expect the agreement to help reduce the gap between men and women's earnings in the future.

What should be counted as wages?

The term “wages” refers to “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 for services rendered or to be rendered” (Protection of Wages Convention No. 95, Article 1). In principle, wages refer to gross wages before taxes, social security contributions and other statutory deductions and hence differ from the concept of net wages or “take-home” pay. Wages also differ from employers' total labour costs, which in addition to wages include contributions to social security, pension schemes or the costs of vocational training.

What components of the pay package count towards the minimum wage? In general, incentive payments (commissions, centralized tips, or piece rates) count towards compliance. That is, compliance is determined by adding base salary plus, say, centralized tips. However, allowances and premiums for non-standard work hours or overtime are not included – because workers should not be forced to work overtime to obtain the minimum wage. Tips paid directly by the customer to the worker are usually also excluded. In principle, a worker should be entitled to the minimum wage for each hour of actual working time, averaged over the worker's normal pay reference period up to a maximum of one month. For example, at the end of the month all workers – including homeworkers or those with piece rates – should receive the minimum whatever the piece rate or output achieved (Low Pay Commission, 1998).

One frequent question relates to the possibility of wage payment in kind. The ILO Protection of Wages Convention, 1949 (No. 95), recognizes that various allowances in kind may be customary or desirable in particular industries or occupations, and considers that such a method of payment is permissible when it is authorized at the national level. However, the payment of wages in kind may only be additional to cash payment, and therefore partial. The Convention also lays down that payment in the form of liquor or drugs is prohibited. Other conditions are that in-kind allowances are for the personal benefit of the worker and that the value attributed to the allowances is fair and reasonable. Also, cash and in-kind benefits are slightly different, as noted in the System of National Accounts: "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" (United Nations, 1993, para. 7.38).

Enforcement

While criteria for minimum wage setting are essential, so are measures to ensure compliance. Like other parts of labour law, minimum wages are seldom spontaneously complied with. Even under the most optimistic scenario, it would be unrealistic to assume that complete compliance can be achieved quickly in any country. Yet, there are measures that can be taken and which can dramatically increase the rate of compliance. First, simple systems that can be easily communicated to workers, employers and civil society will be easier to enforce. ILO research has shown that workers who know what they are entitled to are also more likely to be paid accordingly (Lee and McCann, 2011b). Even in the informal economy, a widely known wage standard can have a positive effect by altering workers' and employers' expectations – the so-called "lighthouse" effect (for a recent discussion on this effect in Brazil, see Boeri, Garibaldi and Ribeiro, 2010).

Second, compliance is a function of the probability of firms being visited by labour inspection services and of the level of penalties in case of non-compliance (Squire and Suthiwart-Narueput, 1997). Hence labour inspection strategies and the legal framework play a crucial role. The role of social partners is also important in ensuring observance of labour laws. Employers' organizations and trade unions can apply pressure on underpaying employers, while social peer pressure can also discourage abusive practices by employers. Third, policy coherence is also essential. If they pay the minimum wage, programmes such as national employment guarantee schemes can effectively sever labour supply to underpaying businesses – which can make compliance all the more likely (see the paper by Rani and Belser in this issue). For a fuller review of challenges and creative solutions to the implementation problem, such as the use of public procurement or social labelling, see Benassi (2011).

A balanced approach to minimum wage setting

Criteria for minimum wage fixing

We now turn to the main question of this paper: at what level should minimum wages be set? None of the ILO's international labour standards provide any mathematical formula. The ILO Minimum Wage Fixing Convention, 1970 (No. 131), in its Article 3 states the following:

The elements to be taken into consideration on 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.

These same criteria are listed in the Minimum Wage Fixing Recommendation, 1970 (No. 135), without further clarifications. It is to be noted here that these criteria are quite abstract but convey the message that national minimum wage fixing authorities should try to strike a balance between economic and social concerns (Starr, 1993). The exact interpretation and relative importance of each of the criteria are left undefined. In fact, the above criteria do not claim to give final and unequivocal answers to the question on how exactly a suitable minimum wage level should be calculated. The relative weight given to the different elements is a subjective choice (ILO, 1992).

Timing and criteria for the adjustment of minimum wages

Minimum wages are distinguished from other labour standards by the rapidity with which they can become obsolete; indeed, they must be regularly adjusted if they are to maintain their relevance. While Recommendation No. 30 only suggests that with regard to industry-specific minimum wages “provision should be made for the review of the minimum rates (...) when this is desired by the workers or employers”, the later Convention No. 131 considered that minimum wages need to be “adjusted from time to time” (Article 4). The Minimum Wage Fixing Recommendation No. 135 is more explicit and states as follows:

11. Minimum wage rates should be adjusted from time to time to take account of changes in the cost of living and other economic conditions.
12. To this end a review might be carried out of minimum wage rates in relation to the cost of living and other economic conditions either at regular intervals or whenever such a review is considered appropriate in the light of variations in a cost-of-living index.

Therefore, based on the analysis of these two Conventions on the subject, it is possible to infer that there was an evolution in the understanding of the need to periodically readjust the levels of minimum wages, leaving open the possibility that this be done at regular intervals or not. It is interesting to note that the Minimum Wage Fixing Convention, 1970 (No. 131), does not draw any distinction between the criteria used for fixing minimum wage rates and the criteria used for adjusting them. So, in principle, the criteria for setting minimum wages should also be the criteria for adjustment. Yet, because it is generally not feasible to take all criteria into account each time an adjustment is made, a set of dynamic and simplified criteria are widely used for this purpose (ILO, 1992).

The trade-offs in setting and adjusting the level of the minimum wage

The balanced approach recommended in ILO standards reflects the fact that a minimum wage is a redistributive tool which has both costs and benefits (see for example Freeman, 1996). On the benefit side, the literature from both developed and developing countries shows that minimum wages, by creating an effective floor in the distribution of wages, can succeed in reducing wage inequality or, more frequently, in limiting its increase. Recent academic research shows that inequality has increased in recent years in both developed and developing countries, “leaving more and more people behind” (OECD, 2008; see also Goldberg and Pavcnik, 2007). The ILO’s *Global Wage Report 2008/09* calculates for example that more than two-thirds of countries for

which data are available have experienced a growing gap between the best-paid 10 per cent and the worst-paid 10 per cent of wage earners. The proportion of employees with “low pay” relative to the national median wage has also increased in more than two-thirds of countries for which data are available.⁴ In such a context the minimum wage can be a useful instrument to limit the level of inequality and the number of “working poor” (workers living in poor households), and to ensure that low-paid workers also benefit from overall economic growth. Women may even benefit disproportionately from such a policy given their over-representation at the bottom of the wage distribution.

While these effects benefit some workers in particular, they may also benefit society at large. Indeed, low and stagnating wages at the bottom can undermine public perception that policies are fair or lead to a better future. This can lead to social conflict and political instability.⁵ It may be worth recalling that the Preamble to the ILO Constitution considers that “universal and lasting peace can be established only if it is based upon social justice”. More recent research shows that perceptions about inequality are one of the key determinants of social unrest (IILS, 2010). The political changes which occurred in the context of the “Arab spring” of 2010–11 were at least in part driven by perceptions that economic growth had not been distributed equitably across the population. As pointed out by Rodrik, markets are social institutions, and their continued existence is predicated on the perception that their processes and outcomes are legitimate: “Social disintegration is not a spectator sport – those on the sidelines also get splashed with mud from the field” (Rodrick, 1997).

Yet, minimum wages – if set too high – will be counterproductive. They may set off price inflation, hurt employment and turn out to be unenforceable by small and medium-sized enterprises. One particularly controversial debate revolves around the methodologies to measure the impact of minimum wages on employment. But it is intuitive that when the floor is set much too high, enterprises that are forced to implement these floors will be driven into bankruptcy.⁶ By contrast, a majority of research now considers that the impact of minimum wages which increase labour costs only moderately can be absorbed by companies through a combination of internal redistribution, lower profits, higher prices, reduced turnover, and measures that increase labour productivity. One analysis by the OECD (2010, p. 197) concluded for example that in advanced countries “statutory minimum wages have at best second-order

4. Low pay is defined here as workers paid less than two-thirds of the national median wage.

5. See, for example, ILO: *World of Work Report 2010*, Chapter 2.

6. Here it must be noted that even when minimum wages are set at the appropriate level, some enterprises based on exploitative wage practices may go into bankruptcy. When this concerns only a small proportion of firms, though, the result may simply be some reallocation of resources towards more productive firms. Hence singular examples of bankruptcy of inefficient firms do not mean that the minimum wage necessarily has an overall negative impact on employment.

impacts on labour reallocation". A similar conclusion was reached by the tripartite Low Pay Commission in the United Kingdom (see box 1).

One reason for the apparent absence of adverse employment effects predicted by orthodox economists is perhaps that the overall level of employment in any economy ultimately depends on the level of aggregate demand for its goods and services as well as on the overall labour supply. And whereas higher wages may lead to lower investments by firms, this negative effect on aggregate demand can be more than compensated by the increased ability of low-paid workers to spend their incomes on consumption. In any event, the effects of minimum wages (both positive and negative) on macroeconomic indicators tend to be diluted by the various ways and mechanisms through which firms and countries absorb relatively small shocks on aggregate labour costs.

In light of the trade-offs and the fact that – by definition – only wage earners can benefit, minimum wages alone cannot suffice for the overcoming of poverty and the satisfaction of the minimum needs of all workers

Box 1. The employment effects of the UK National Minimum Wage after 10 years

In 2010, the minimum wage was identified as the most successful government policy of the past 30 years in a survey of British political experts.¹ In this survey, a successful policy was defined as one which is successfully implemented, has a positive social and economic impact, and can be sustained over time. The UK minimum wage had been introduced in April 1999, after reforms in the 1980s had ended collective bargaining in many industries and abolished the former system of wage councils.

Perhaps most importantly, the much-feared negative impact on UK jobs failed to materialize. In 2009, the independent Chairman of the Low Pay Commission – the body which oversees the policy – recalled that "at its inception, the National Minimum Wage had its detractors. Many believed it would bring both unemployment and wage inflation. But a large volume of research has demonstrated that the minimum wage has not had a significant impact on either measure over its first ten years."²

The Commission's previous Chairman shared this view. He wrote: "Ten years ago, as the minimum wage was about to be introduced, it was just this fear of job losses that dominated discussion. (...) In fact, since the introduction of the National Minimum Wage, the Low Pay Commission has been at the forefront of the search for evidence of any damage caused by the minimum wage to the economy or to jobs. So far we have not found any significant negative effect, either in the work we have done ourselves or in the work we have commissioned from others. And we have looked long and hard in all the places that are most likely to reveal such an effect."³ Indeed, the Low Pay Commission devotes considerable resources every year on independent research which it posts on its website.⁴

¹ See www.bbc.co.uk/news/uk-politics-11896971?print=true. ² Low Pay Commission (2009), p. ix. ³ Low Pay Commission (2008), pp. vi–vii. ⁴ See <http://www.lowpay.gov.uk/>.

Source: Low Pay Commission Reports.

(ILO, 1992, p. 11). Indeed, a minimum wage should not be confused with a “minimum income policy”, which provides for minimum living conditions regardless of whether a person is a wage earner. Overall, the levels of incomes of workers’ households also critically depend on the existence of targeted income transfers and social security schemes as well as on their levels of taxation. So-called “in-work benefits” in the form of tax relief for low-paid workers can make a major contribution to the welfare of the poor without compromising the volume of employment.

In fact, minimum wages and in-work benefits are best seen as complementary policies, for in the absence of the former, employers may feel that they can reduce some labour costs by shifting them to tax credits. When in-work benefits remain a difficult policy option, broader income-transfer measures, which are not related to the employment status, can be used. Examples include *Bolsa família* in Brazil or the Child Support Grant in South Africa. The point here is that the minimum wage is only one of a set of different policies that can help increase the standard of living of low-paid workers and thereby reduce the rate of poverty and the level of inequality (ILO, 1992). Also, it must be kept in mind that while wages are paid to individuals, the poverty status is measured at the level of the household, whose total income depends not only on wages of household members but also on income from other sources, such as property income or social transfers.

Indicators for minimum wage setting

How can the criteria for minimum wage setting listed under ILO Convention No. 131 be operationalized? Based on international practice, the present paper suggests that social partners, governments and experts may find it useful to base their discussions on a few well-defined indicators, such as for example:

- (a) a minimum living wage threshold;
- (b) the ratio of the minimum wage to the average (mean and median) wage;
- (c) the number of employees directly affected by the minimum wage, and the impact on the country’s total wage bill.

The minimum living wage calculation

In many countries, the concept of the minimum wage has been intimately linked to the concept of a living wage. The Preamble to the ILO Constitution called for “the provision of an adequate living wage”. Later, this notion of an “adequate living wage” was transformed into the concept of a “minimum living wage”. Both the 1944 Declaration of Philadelphia and the 2008 ILO Declaration on Social Justice for a Fair Globalization called for “a minimum

living wage to all employed and in need of such protection". Therefore, according to the 1992 ILO General Survey, the "concept of a minimum wage level that cannot be abated implies the concept of a minimum living wage" (p. 10).

The difficulty lies with the definition and measurement of a minimum living wage. While it is generally accepted that a minimum living wage should provide workers and families with a decent standard of living (as stated in the United Nations International Covenant on Economic, Social and Cultural Rights), views diverge on the quantities of specified goods and services that are necessary to achieve this objective. One lower benchmark for living standards is provided by poverty lines. There exist both national poverty lines (defined at national level) and international poverty lines (calculated by the World Bank), which are usually based on the "cost of basic needs" for adequate nutrition (often 2100 calories per person per day) and other non-food essentials such as clothing, shelter, and other items.⁷

The lowest international poverty line from which the World Bank calculates global poverty estimates is set at US\$1.25 per day in PPP (purchasing power parity), while a second international benchmark is set at US\$2.00 PPP per day. In addition, country-specific national poverty lines are often published by national institutions or by the UNDP through their national Human Development Reports. In general, it should be noted that there are substantial debates about the adequacy of international poverty lines. A number of authors have questioned the relevance of such low thresholds as US\$1.25 and US\$2.00 PPP per day. According to Reddy (2008), for example, these poverty lines are far too low to cover the costs of purchasing basic necessities. Ravallion (2008) from the World Bank acknowledges that poverty is a socially specific concept and that international poverty lines are based on the standards of poor countries and most useful for the purpose of international comparison. Because different countries may have different perceptions of who is poor, it is more useful to base policy decisions on national rather than on international poverty lines.

How can poverty lines be used to calculate a minimum wage? As discussed in Anker (2006), a minimum wage will allow a typical household to escape poverty when the poverty line is multiplied by the household size and divided by the number of household members who work full time. In this case, the definition of a typical household may also wish to be defined using the particular characteristics of households with low incomes (hence those households most likely to benefit from the minimum wage). Household size may be defined in terms of "adult equivalent", which takes into account economies of scale (the fact that it costs less to feed and house a couple than to feed and house two single individuals) as well as the different needs of different individuals (particularly the lower consumption needs of children). Using the standard "OECD scale" the first adult counts as one adult, the

7. See the World Bank Poverty Manual at <http://siteresources.worldbank.org/PGLP/Resources/PovertyManual.pdf>.

second adult counts as 0.7 adults and children are given a weight of 0.5. Thus, the formula becomes:

$$\text{Minimum living wage} = \frac{(\text{poverty line} \times \text{adult equivalents in the household})}{\text{household members who work full time}}$$

It may be that national stakeholders consider that the minimum wage should provide for more than just relief from poverty, and also cover additional health or education expenses. It is of course up to them to define the

At what level should countries set their minimum wages?

Box 2. An illustration for Egypt in 2008–09

To estimate a “minimum living wage” one will need at the very least some reliable data on national poverty lines, on household size, and on working time. As an illustration we take the case of Egypt, where data on household size and working time were provided mostly by the Central Agency for Public Mobilization and Statistics (CAPMAS), which is the country’s national statistical office, while poverty lines are published in UNDP’s Egypt Human Development Report. According to the latter source, the national poverty lines defined the “poor” as people living on less than £2,223 in 2008–09 and the “extreme poor” as people living on less than £1,648 per year. Dividing these figures by 12 months, we obtain monthly poverty lines of £185 and £137, respectively. For the sake of illustration, we use the higher figure for our minimum living wage estimation.

According to official data, the average household size in Egypt is estimated at roughly 2 adults and 2.5 children. To calculate the number of “adult equivalents” we then use the following OECD formula:

$$\text{Adult equivalents} = 1 \text{ adult} + 0.7 \times 1 \text{ adult} + 0.5 \times 2.5 \text{ children} = 2.9$$

In terms of the labour market, Egypt is characterized by a very low participation of women in the labour force and a high rate of female unemployment. As a result, the actual employment-to-population ratio among the working-age population stands at only about 50 per cent, meaning that in most cases only one adult (the man) can realistically be expected to draw a wage from the labour market. As in many developing countries, the normal hours of work limit is set at 48 hours per week, typically spread over six days per week. Thus, to obtain the number of hours worked per month we multiply 48 by 52 weeks and divide it by 12 months to obtain 208 hours per month. With this information, we can now calculate a poverty-based “minimum living wage” for Egypt with the following formula:

$$\begin{aligned} \text{Minimum living wage (monthly)} &= \frac{(\text{£185 per month} \times 2.9 \text{ adult equivalents})}{1 \text{ full time equivalent worker}} \\ &= \text{£537/month} \end{aligned}$$

or

$$\begin{aligned} \text{Minimum living wage (monthly)} &= \frac{(\text{£185 per month} \times 2.9 \text{ adult equivalents})}{208 \text{ hours worked per household}} \\ &= \text{£2.6/hour} \end{aligned}$$

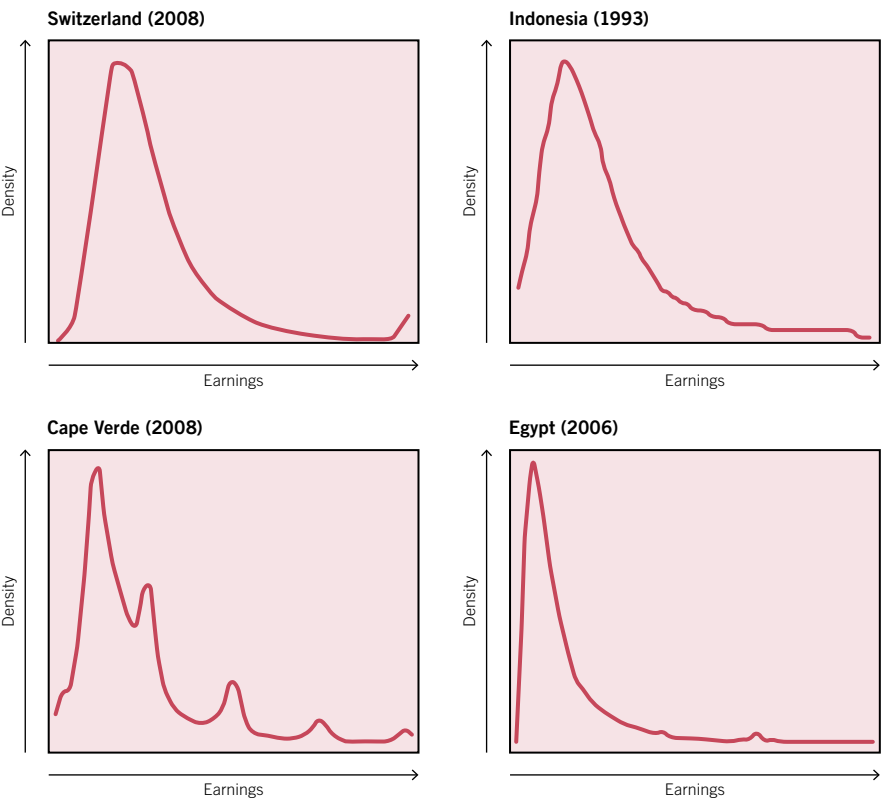
We find that in order to lift a “typical” Egyptian household out of poverty in 2008–09, the minimum wage should have been set at £537 per month (or £2.6 per hour) – substantially higher than the prevailing level of £35 per month where it was set in 1984.

minimum living wage in their national circumstances. The present section merely offers a formula which can also be used with a higher level “poverty line”. Also, while the minimum living wage calculation is unaffected by the industry in which workers are employed or by the workers’ occupation (the things a salary can buy does not depend on whether one is a cook, a nurse, or a bus driver), regional differences in price levels can have a large effect on the costs of basic needs. Such regional differences will show up in regional poverty lines. For countries which have regional minimum wages, regional rather than national minimum living wages should be calculated.

Minimum to average and median wages

While the minimum living wage calculation takes into consideration the needs of workers and their families, it turns a blind eye to the “economic factors”. Another insufficiency is that in assessing the needs of workers and their

Figure 2. The skewed distribution of earnings



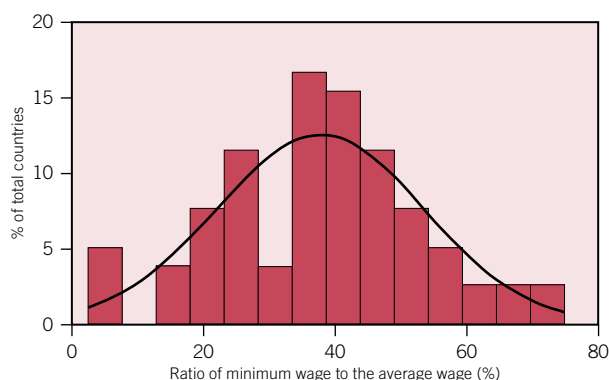
Sources: Switzerland: Swiss Wage Structure Survey 2008, Swiss Federal Statistical Office; Indonesia: Labour Force Survey 1993, distribution for Jawa Barat; Cape Verde: Employment Survey 2009, National Statistical Office; Egypt: Labour Market Survey 2006, Economic Research Forum.

families, it does not take into account the general level of wages in the country or the level of social security benefits, as specified in the ILO Minimum Wage Fixing Convention, 1970 (No. 131). The minimum living wage calculation thus raises a number of questions. First, will a reasonably large share of the employers be able to pay for the desired minimum living wages? Second, could the minimum wage perhaps be raised even further so as to provide not just for a minimum living wage, but also to serve as a tool for further reducing overall wage inequality? Some answers to these questions can be found by looking at the ratio of the minimum wage to the mean and/or to the median wages.

Before doing so, however, it is worth recalling some essential aspects of the distribution of wages. Neal and Rosen (2000) remind us that there is a remarkable regularity that is found in all observed earnings distributions in large populations, namely that earnings distributions are asymmetric and display a long right tail (i.e. they are skewed to the right). Such characteristics can be observed in the panels of figure 2. One key feature of such distribution is that mean earnings exceed median earnings,⁸ and that the most frequent scenario (i.e. the peak or mode of the distribution) is closer to the median than to the mean. The implication is that the top percentiles of earners always account for a strikingly disproportionate share of total earnings – and low-paid workers account for a disproportionately small share.

So what about the relationship between minimum and mean or median wages? The ILO's *Global Wage Report 2008/09* showed that countries for which data are available most frequently set their minimum wages at between 35 per cent and 45 per cent of mean wages. The data are reproduced, with updated figures, for 75 countries in figure 3. On this basis, the ILO *Global Wage Report 2008/09* considered that 40 per cent represented a useful reference

Figure 3. Ratio of minimum to mean wages in 75 countries



Source: ILO Global Wage Database.

8. The median wage refers to the wage in the middle of the wage distribution, while the mean is the sum of all wages divided by the number of employees.

point when considering the level for the minimum wage (p. 47), but also emphasized the need to extend the analysis beyond this rough ballpark reference figure. It is important in particular to disaggregate the analysis, and look at the distribution of wages separately for women and men, and for different industries, to observe where a minimum wage lies in these respective distributions.

Data on median wages are less frequently available. In the smaller set of countries for which data are available, the minimum wage is most frequently set at about 50 to 60 per cent of the median wage. According to the Low Pay Commission (2010), the UK minimum wage – known to be relatively low – corresponded to 52 per cent of median wages, while the French minimum wage (SMIC) was set at 61 per cent of median wages. These figures again represent a useful benchmark for minimum wage setting, even though here again, any country-specific analysis ought to dive into deeper detail and observe gender- and industry-specific distributions.

While these indicators may seem simple enough, there are inevitably some practical complications. First, it is recommended to repeat the calculation with the most recent Labour Force Survey (LFS) *and* the most recent establishment survey. Analyses using both types of sources will be more robust since they will produce different estimates due to the difference in coverage and accuracy between the two sources. For example, establishment surveys are generally acknowledged to have smaller measurement error in the measure of earnings because the data are obtained directly from the establishments. In contrast, while the earnings variable in a LFS has more measurement error (people do not like to report their earnings or report them inaccurately), the employee coverage is generally acknowledged to be larger; this is particularly the case for countries which have a large informal sector not captured in establishment surveys, or which carry out establishment surveys which are limited to certain firm sizes (only firms with ten or more employees, for example).

Another complication in computing wage distributions arises from the fact that hours worked can vary considerably. One solution to this problem is to calculate a *derived* hourly and monthly wage on the basis of data for all employees, including both part-time and full-time employees. Initially, the *derived hourly wage* of each employee can be calculated for each individual in the microdata by dividing earnings by the number of hours worked. The derived full-time equivalent monthly wage can then be calculated by multiplying the derived hourly wage by the normal monthly hours of work limit fixed in the country's legislation (usually between 40 and 48 hours per week multiplied by 52 weeks and divided by 12 months).

It is from these derived monthly wage distributions that the median wage and the mean wage should be calculated (which might be called the *derived* mean and *derived* median wage). Otherwise, the monthly mean and median will be biased downwards by those who work less than full time.

This means that in practice some individuals will in effect be earning more than the derived monthly wage because they work more than normal hours, while other will earn less because they work part time. Hence actual mean and median wages could be either higher or lower than the derived figures. However, any monthly minimum wage should be payable for normal hours of work. Overtime should be paid on top of the minimum wage, while part-time workers should be entitled only to a fraction of the monthly minimum.

Impact on the total wage bill and on prices

In principle, a judicious minimum wage, which protects workers against unduly low pay but does not disrupt the economy, would be placed somewhere on the left-hand side of the peak of the distribution – as illustrated in the panel on Indonesia in figure 2. Any minimum wage on the right-hand side of the distribution's peak (i.e. the most frequent wage) is likely to affect a large number of workers and could have unexpectedly large impacts on average labour costs and the total wage bill to be paid out by employers. This, in turn, could trigger price inflation and/or reduce the level of employment. Since compliance is largely a function of the level of the minimum wage, there is also a high probability that employers and workers would collude to evade minimum wage legislation. 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 exceeded the wages of 9 per cent of all the country's wage earners. In France, it is estimated that around 17 per cent of employees are clustered around the minimum wage (SMIC). In Indonesia, the share of workers at or below the minimum wage was estimated at about one quarter of wage earners.

How will a minimum wage affect a country's total wage bill and the level of prices? 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 was introduced to benefit 15 to 20 per cent of employees, this would increase the total wage bill by about 2.0 per cent. Hence, as long as a minimum wage is set below the peak of the wage distribution, its overall impact on the total wage bill remains limited. This is due to the fact that 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 is the inflationary pressure from a 2.0 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 the so-called input-output tables or, if not available, from data from establishment surveys. Just to illustrate: if labour costs in restaurants represent half of total production costs, it will follow that – even in the unrealistic case that minimum wages are perfectly enforced – a 2.0 per cent increase in labour costs will increase total production costs by no more than 1.0 per cent. If, at the same time, labour productivity also goes up by 1.0 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 1.0 per cent. This may provide a useful indication to those who fear that minimum wages might trigger hyperinflation.

In practice, the overall effects of a 2.0 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 assume that the so-called “fraction of workers affected” includes all wage earners whose hourly wages are comprised 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. 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.

Conclusion

This paper has reviewed some fundamental elements of minimum wage setting and proposed a discussion on some of the indicators which can be used to set a first-time minimum wage or to evaluate whether an existing legal floor is set at the “right” level. The use of such indicators is a practical way to choose a minimum wage rate that brings real benefits to low-paid workers, while at the same time remaining consistent with the objectives of a competitive economy.

Once these indicators are calculated, it is of course up to the governments, and the social partners, to define their respective positions with a view to convincing a majority of those who hold the final decision-making power. But by using these indicators, decision-makers at least have some basic information to develop their bargaining positions. They know what minimum wage is necessary for an average household to remain above the poverty line, they have an estimate of the extent to which enterprises will be able to cope with the minimum wage, and they will have an idea of the possible impact on the level of prices. What the government and social partners ultimately decide is up to them, of course. This will also depend on the overall social

objectives the government may have in mind in light of the overall policy framework in place. But the empirical analysis should hopefully have helped to prevent consensus on either an irrelevantly low or an excessively high minimum wage.

Before closing it is worth emphasizing as a caveat that the use of indicators discussed in the present paper represents a relatively low-tech guidance for governments and social partners. In particular, these indicators do not take into account all possible general equilibrium effects. They also ignore the possible positive effects of higher wages on productivity as well as the possible restoration of pay differentials for workers above the minimum wage (i.e. the so-called “ripple effect”). Finally, they fail to provide a detailed picture of the effects of minimum wages on labour costs and prices in different industries or firms or for different occupations. For these and other reasons it is recommended to complement this basic analysis with more detailed country-specific analyses. At the same time, however, the use of such indicators would serve as a useful starting point and, in many countries, would already represent an improvement over existing methods towards minimum wage setting.

Rooting decision-making in empirical analysis is of paramount importance because the potential for mismanagement of minimum wage policies is extremely high. Minimum wages that are set at unrealistically high levels can trigger inflation, unemployment, and/or widespread non-compliance. On the other hand, wage floors that are too low are ineffective and leave many workers and their families in a life of misery and poverty. Also, decisions about minimum wage levels affect a large number of people. Across the world, millions of wage earners are direct beneficiaries. Minimum wages that are set at a judicious level can help many of these workers and their families increase their level of consumption, attain decent living standards, and – for those from low-income households – escape poverty.

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