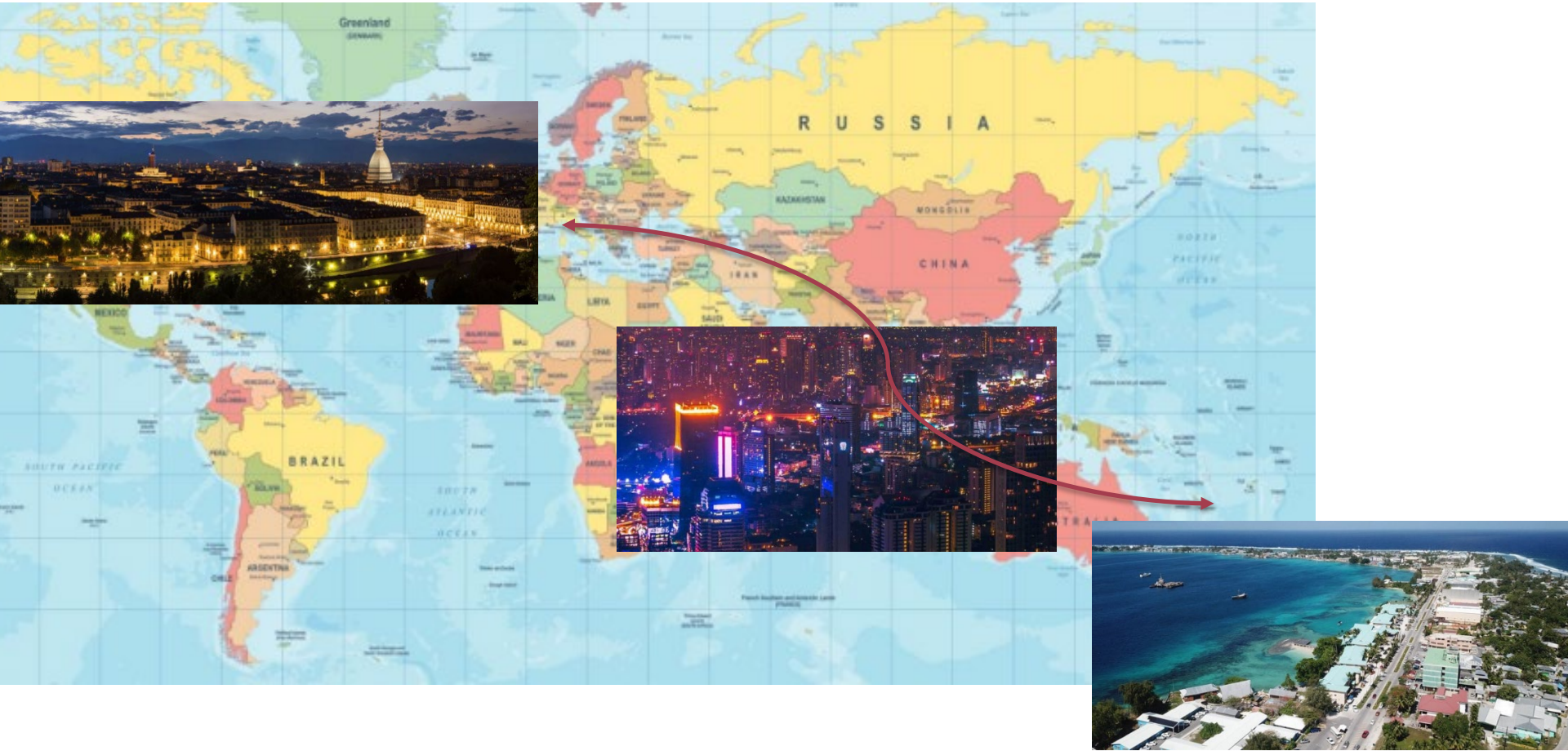




Introduction to Minimum Wage policy

- **From Turin to Pacific islands through Bangkok**



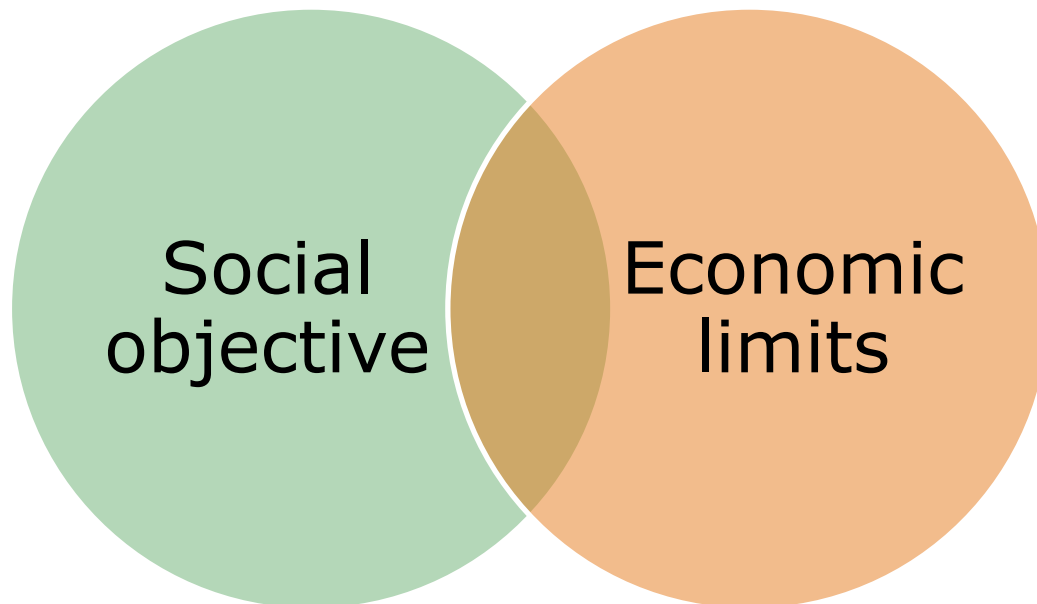
Presentation Outline

- 1 – Introduction and ILO Conventions and Recommendations on Minimum Wage
- 2- Minimum wage: possible side effects
- 3 - Indicators and economic variables to adjust minimum wage

- PART 1 – Introduction and ILO Conventions and Recommendation on Minimum Wage

Why a minimum wage?

- Objective: The purpose of minimum wages is to protect workers against unduly low pay



The ILO and minimum wages

- In 1970, the ILO adopted the Minimum Wage Fixing Convention No.131
- Ratifying Member States commit to establish a system of minimum wages which “covers all groups of wage earners” against “unduly low wages”. If some groups are not covered, the Member State must explain the reasons for not covering them.
- Total ratifications: 51 out of 181 Member States

**Would you suggest to exclude certain groups from minimum wage?
Which ones?**



Why a minimum wage?

1. Minimum wage fixing should constitute one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families
2. Give wage earners necessary social protection as regards minimum permissible levels of wages.

ILO Recommendation 135

At which level should minimum wage be set?

Take into account

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

ILO Convention 131 and Recommendation 135

Dilemma: needs of workers VS business sustainability

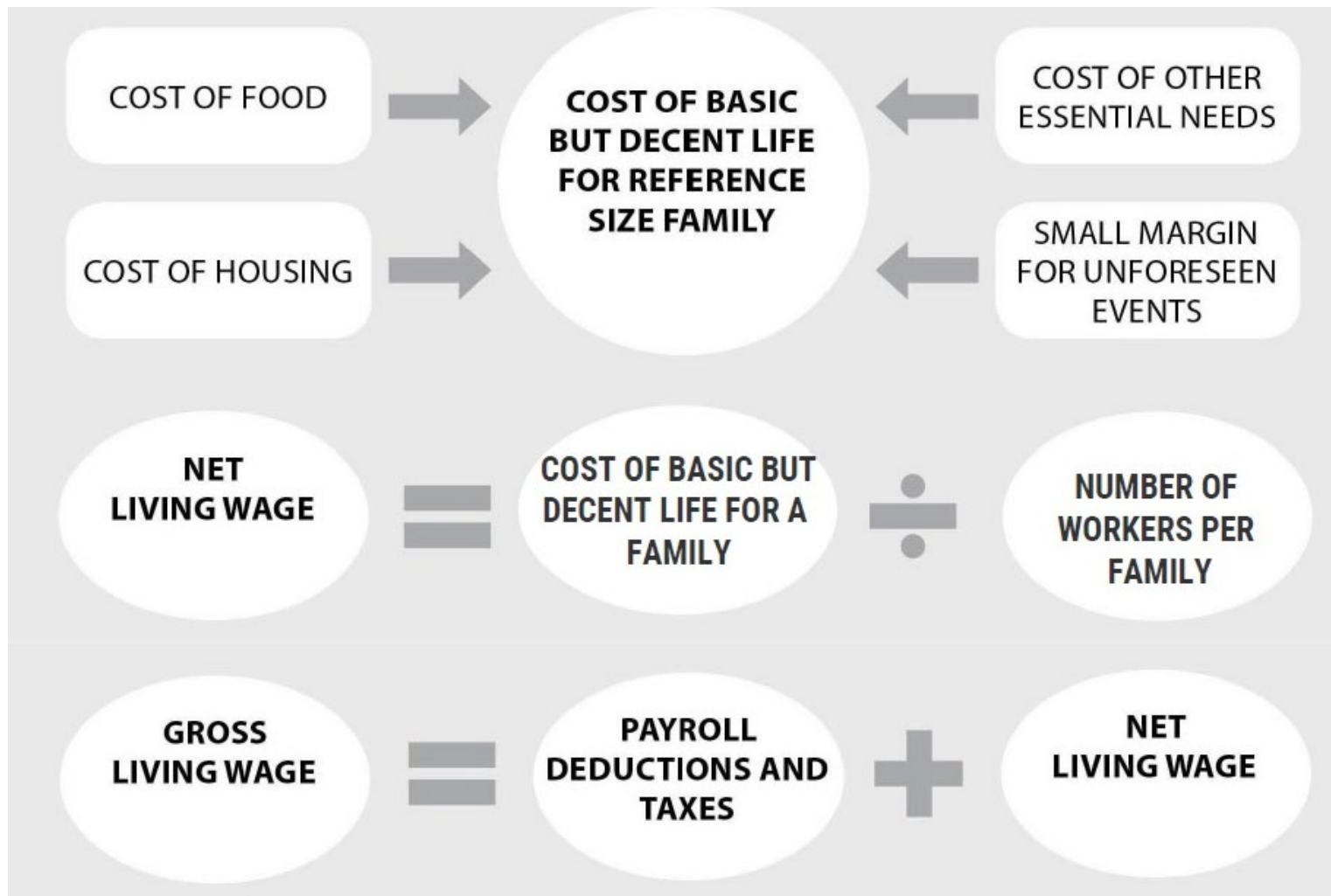
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In some countries the needs of workers and their families, can be higher than employers' capacities to pay



Needs of workers and their families: minimum living wages



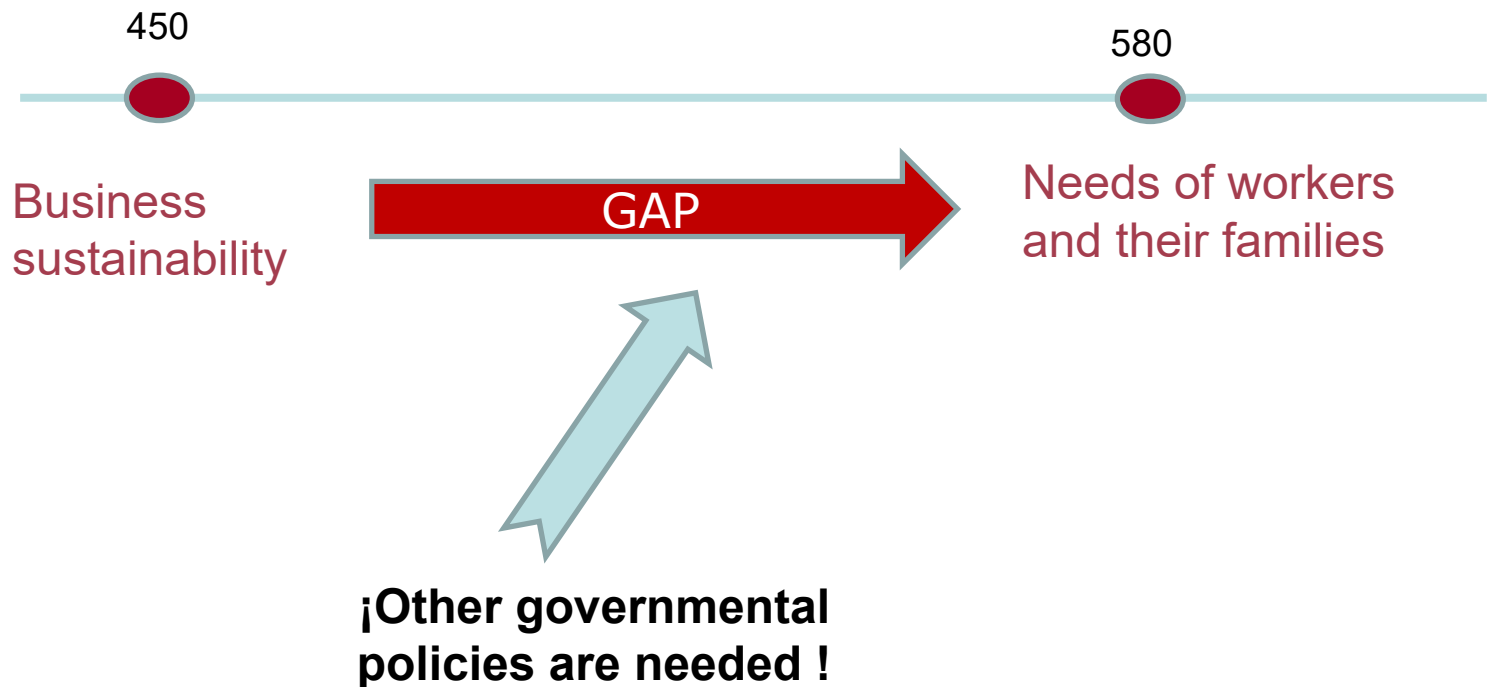
Economic limits: employers' capacity to pay

- Estimated impact on costs (it depends on «total wage bill» on total business costs):
Example:
- Wage bill= 70% of total business costs
- All the workers are receiving minimum wage 20% increase in Minimum wage
- Total production costs increase $0.20 * 0.7 = 14\%$

With this increase it is probable that the business is not sustainable anymore

Dilemma: needs of workers VS business sustainability

There might be a gap...Who should cover it?



Minimum wage or minimum wages?

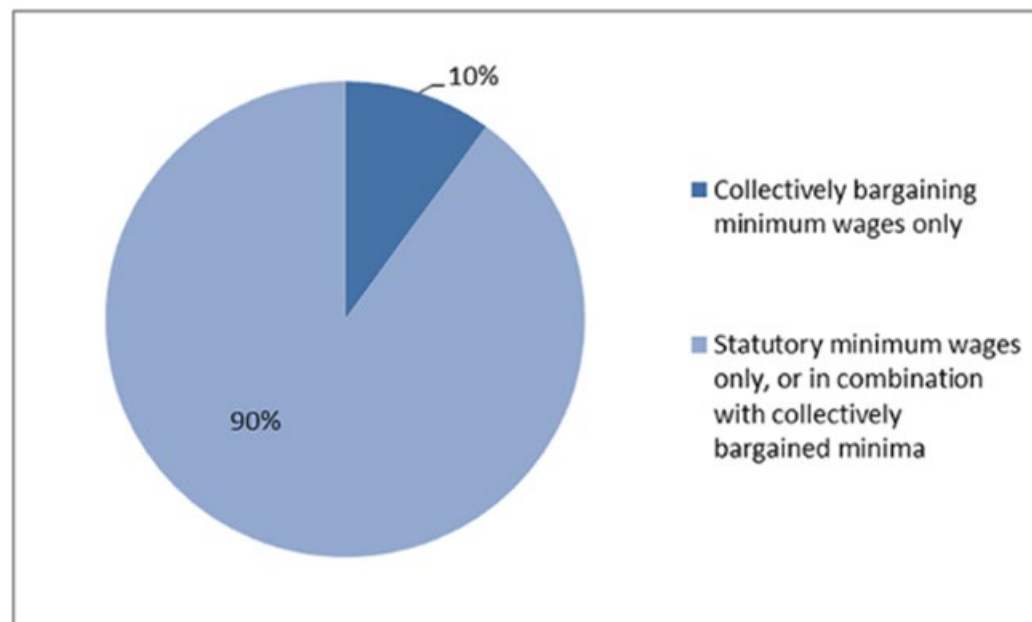


Minimum wage or minimum wages?

- National or regional
- Sectoral / occupations
- Companies size
- Sub minimum wage for certain groups?

Who should set minimum wages?

- Minimum wages can be fixed in different ways
- Collective bargaining versus statutory minimum wage(s)
- Most governments have adopted statutory minimum wages in addition to those set through collective agreements



Source: ILO estimate

Who set the minimum wage(s) in your country?

How is representing business in Minimum wage negotiations? How are you internally organized?

Your experiences



Database of Conditions of Work and Employment Laws

<https://ilostat.ilo.org/topics/wages/>



The Wage Indicator Foundation

<https://wageindicator.org/salary/minimum-wage>

Wageindicator.org



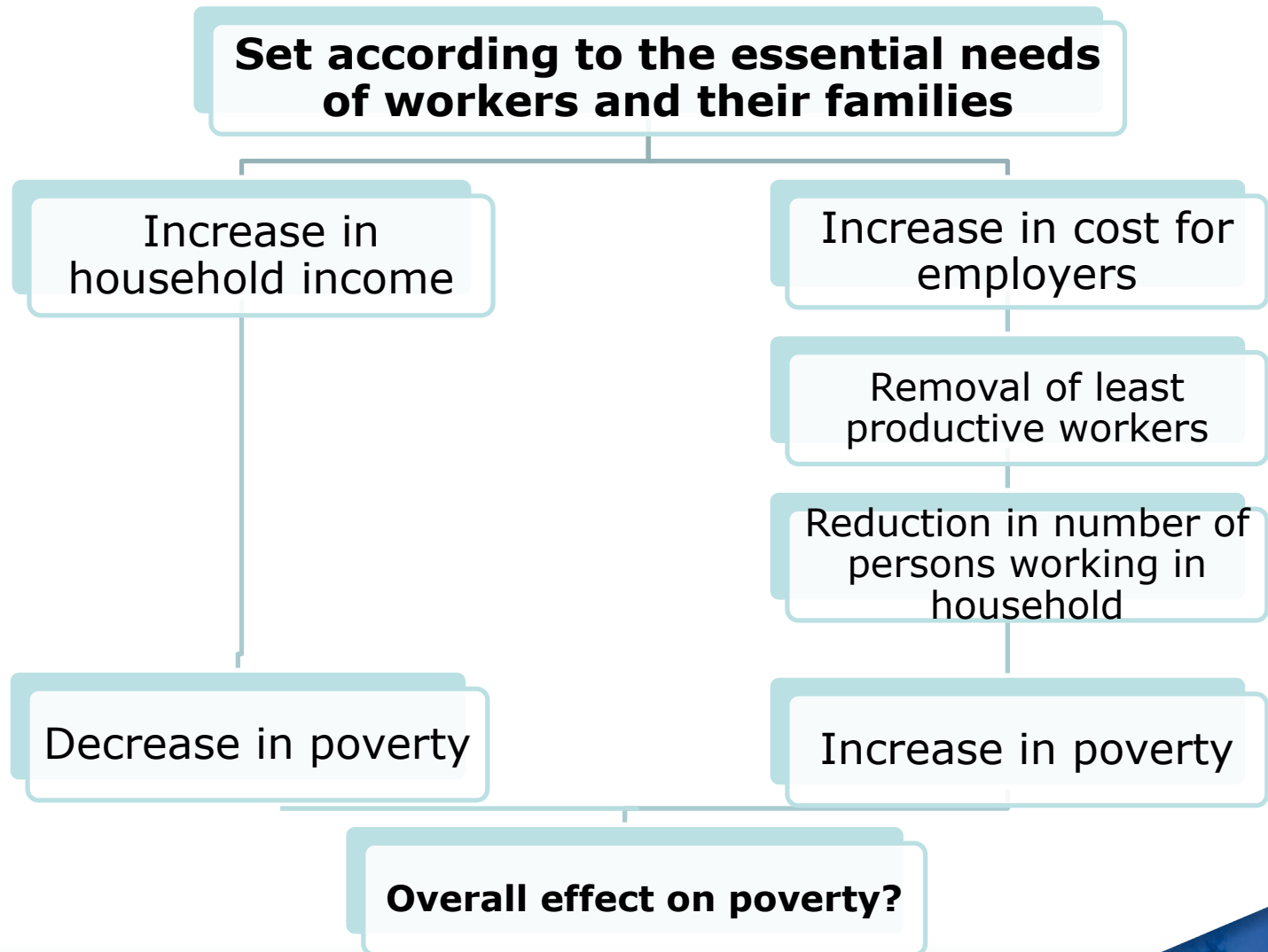
- PART II Minimum wage: possible side effects

Why in many cases minimum wage fail in its objectives?

- Weak enforcement
- Weak or imperfect coverage
- **Wrong level:** Minimum Wage set too low (irrelevant), too high (side effects)
- Effective in the formal but not in the informal economy

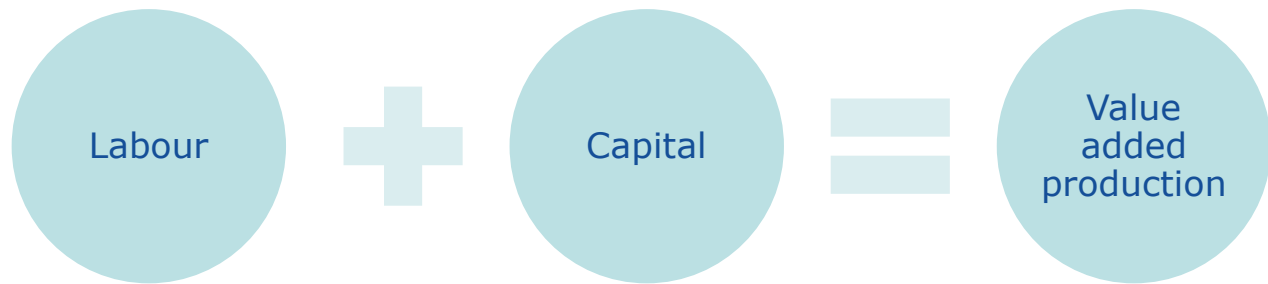
Poverty indicators:

Is the minimum wage a good method for fighting poverty?

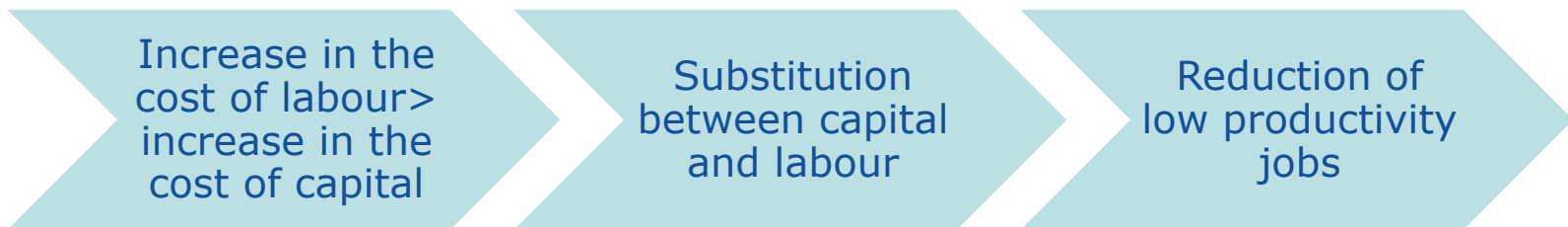


Minimum wage and unemployment level

The combination of factors depends on the technology used



❖ The choice of technology will depend on the relative cost of capital with respect to labour



The role of the minimum wage in the informal economy

Displacement effect

Too high minimum wage can increase “informalization”

Informal sector wages are linked to the minimum wage because

Lighthouse effect

The minimum wage is taken as a reference in the informal economy

- PART III Indicators and economic variables to adjust minimum wage

Adjusting minimum wages

Which economic variables should be taken into account?

Which indicators are important?

For minimum wage adjustment

- Consumer Price Index
- Labour productivity and/or Economic growth

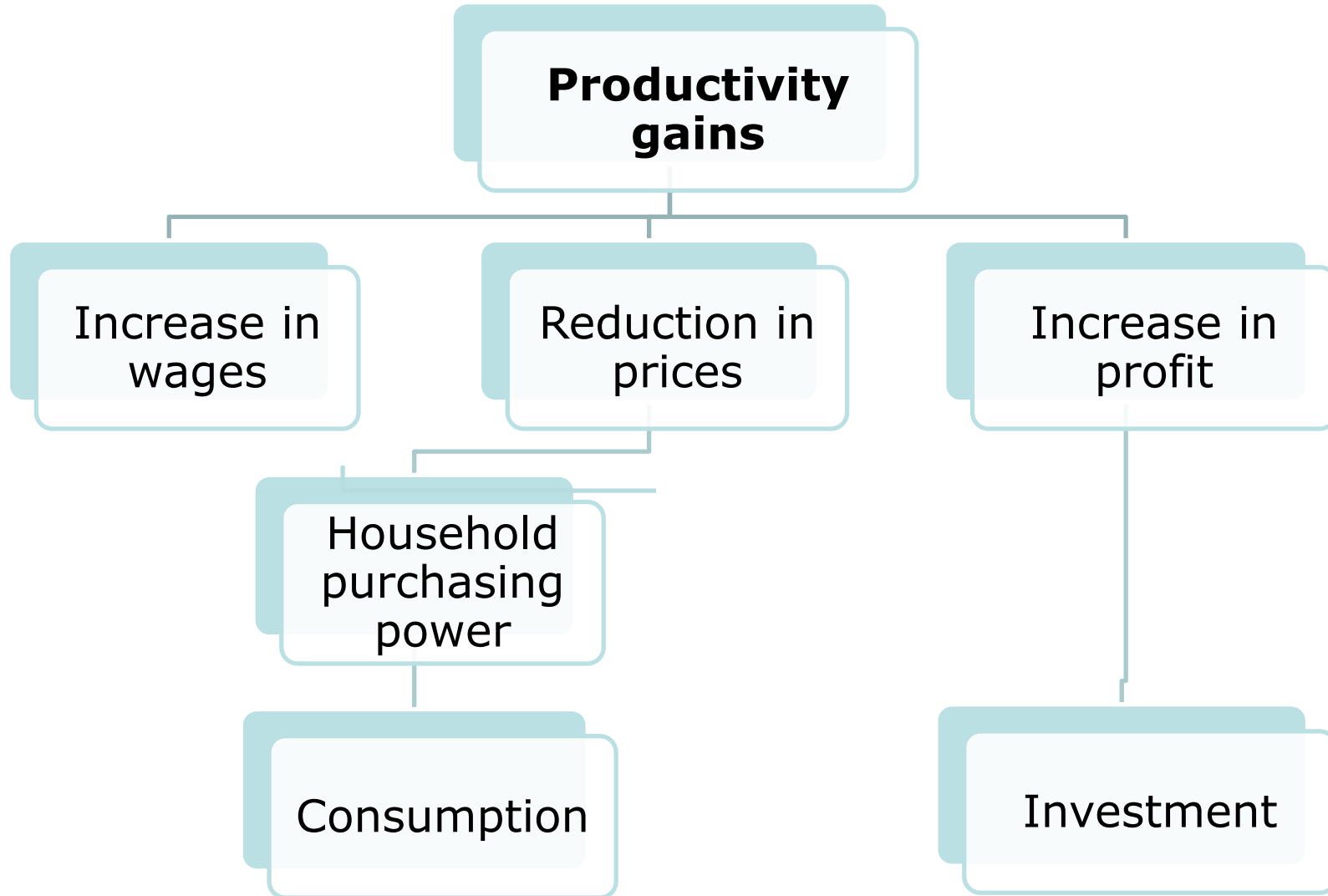
And as a reference to check effectiveness and possible side effects

- Un/Employment level (formal employment)
- Population below poverty line
- *Percentage of Low paid workers*
- Inequality indicator (Gini Index, proportion between richest 10% in a country and poorest 10% in a country)
- Evolution of wages and Median wage
- Kaitz index

Productivity: Why worrying about labour productivity?

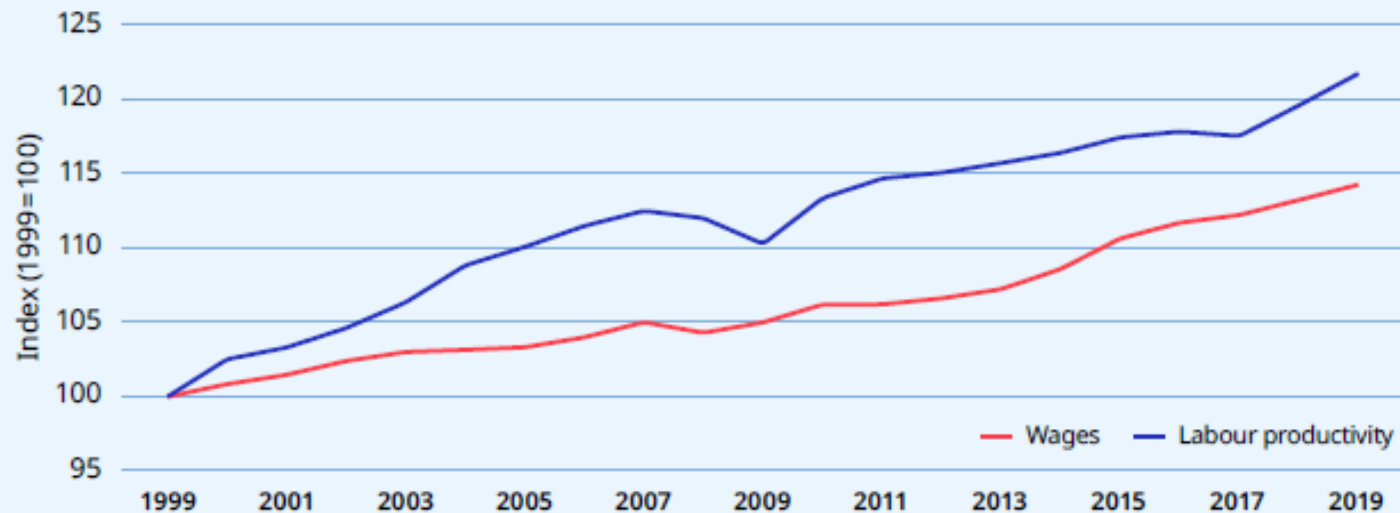
- Link between wages and labour productivity has important implications for social and economic outcomes .
- Common reference point for minimum wage setting .
- Accepted by both Workers and Employers as a reference point in collective bargaining

Productivity gains



Labour productivity and wages

► Figure 3.5 Trends in average real wages and labour productivity in 52 high-income countries, 1999–2019



Source: ILO estimates.

Key indicators used in formulas for minimum wage adjustments

Annual revision based on the following indicators

- Past inflation – Consumer Price Index

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

- Labour productivity or GDP growth

Example: $\Delta MW_t = \Delta CPI_{t-1} + \Delta GDP_{t-1}$

$$\Delta MW_t = 3\% + 2\%$$

Meinhold formula

Exceptional Circumstances (in formulas or to be considered during negotiations)

- the unemployment rate is greater than 10 (or 15 depending on national circumstances) per cent
- negative economic growth for four successive quarters
- there is more than a 15 per cent change (positive or negative) in the exchange rate between minimum wage adjustments
- Inflation rate is above 8% (ref. imported inflation)

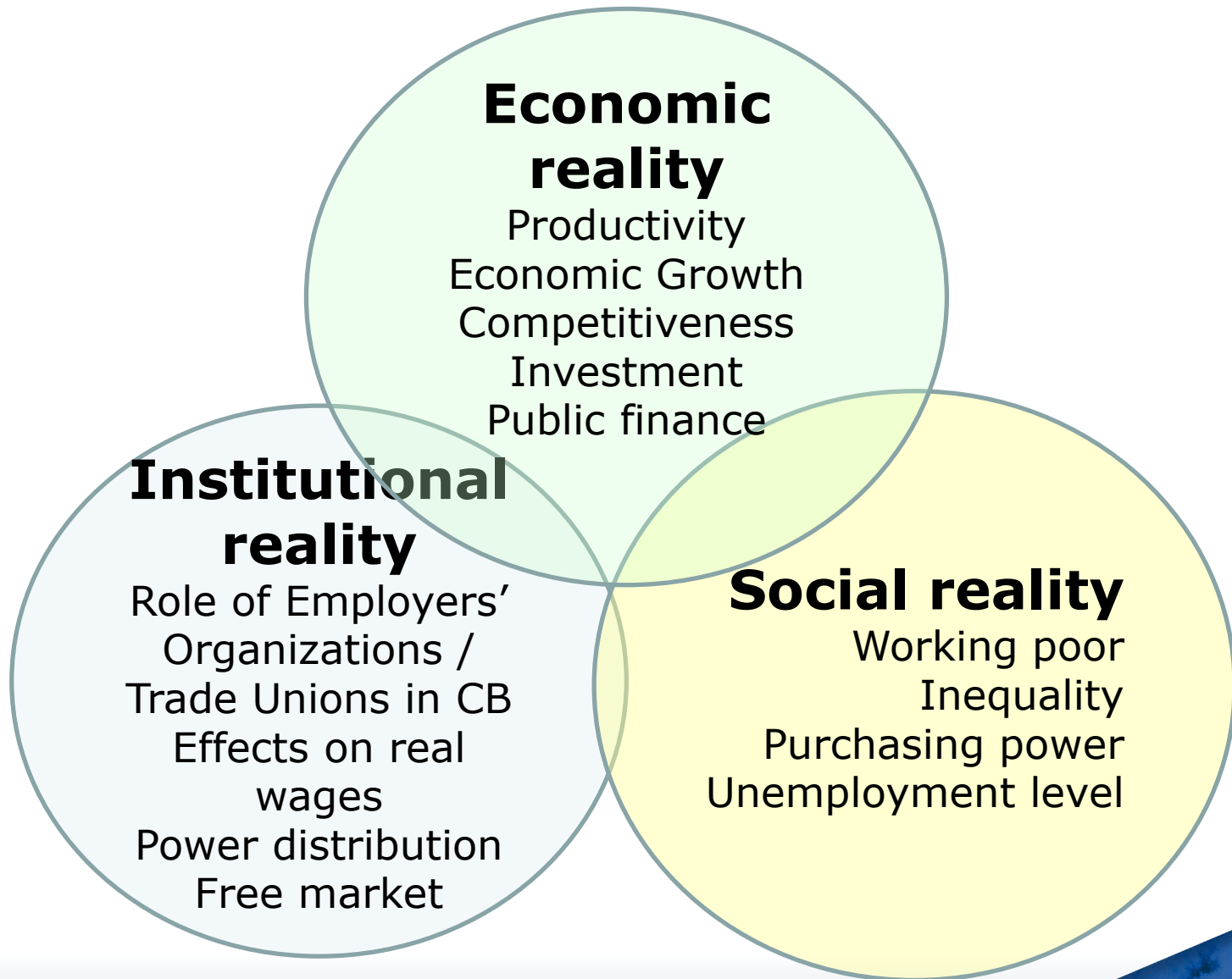
An alternative way used in some countries

- Minimum wages is fixed to median wages

From 40% to 55% of median wage

Regular adjustments

Summing up



- P.salvai@itcilo.org