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

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# Summary

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

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

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

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

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

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

# 2.1 The logic behind different minimum wage systems

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

# National and regional rates

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

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

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

## Sectoral and occupational differences

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

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

## Other differences

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

Learn more about minimum wage rates by enterprise size:

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

This could also provide an incentive for larger enterprises to create smaller satellite enterprises in order to benefit from lower minimum wages. To accommodate the potentially lower capacity of small and medium enterprises to pay and to mitigate the effect that a separate minimum wage rate might engender, some countries have instituted a gradual approach. This approach introduces a lower minimum wage initially, but gradually increases over time until it equals the general, or national, minimum wage in place.

#### Box 1.

# The rationale underlying each type of minimum wage system

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

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

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

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

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

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

# 2.2 Keeping it simple

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

# Learn more about simple systems.

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

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

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

National minimum wages however only provide a clear reference for the lowest level of the wage scale. Complementary wage mechanisms, in particular collective bargaining, are in principle needed to determine the structure of wages of workers above the lowest level of pay. In countries with weak labour market institutions (i.e. low unionization rates and limited coverage of collective bargaining), simple minimum wage systems are sometimes perceived as insufficient to generate a fair distribution of wages.

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

#### ► Learn more about complex systems.

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

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

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

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

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

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

<sup>&</sup>lt;sup>1</sup> ILO Working Conditions Laws Report 2012, p.61

One review of minimum wages in developing countries concludes for example that "it is better to design a simple system that is well understood by all, rather than trying to fully address the heterogeneous needs of the labour force".<sup>2</sup>

Differences between complex and simple systems:

# Simple systems

# Setting and adjusting the level:

- Only one (or few) level(s) to set, ignoring the heterogeneity of different sectors, regions, etc.
- ➤ Nationally representative data can inform social dialogue on the level.

#### Who sets it?

One tripartite board could consider national data for one national minimum wage.

# Who gets it?

A general or national minimum wage in principle provides a floor for all employees.

#### How is it enforced and monitored?

- Easier for employers and employees to know the level.
- > Easier to communicate the level.
- Easy to monitor using household survey data.
- > Easier for labour inspectors to know the level.

# How does it interact with collective bargaining?

Minimum wages provide a wage floor for the lowest paid, and collective bargaining determines wages for those above the minimum.

# Complex systems

# Setting and adjusting the level:

- Multiple levels to set, tailored to the individual circumstances of each sector, occupation, etc.
- Requires data of sufficient sample size to be informative at the level of sectors and/or occupations.

#### Who sets it?

If there is one tripartite board, its members need to understand the characteristics of all the sectors, occupations, regions, etc. Alternatively, multiple boards with this knowledge are required alongside a national coordinating structure.

## Who gets it?

In spite of multiple rates, some employees in sectors or occupations that are not in the list may not be entitled to a minimum wage.

## How is it enforced and monitored?

- ➤ More difficult to inform the public
- Employers, employees, and labour inspectors need to know all of the minimum wage rates and understand when and how they apply.

# How does it interact with collective bargaining?

Sectoral rates can complement or stimulate collective bargaining, when they are set in parts of the economy where social partners are weak. However, if the system is too complex it may interfere with collective bargaining.

# 2.3 Reforming minimum wage systems

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

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

<sup>&</sup>lt;sup>2</sup> Cunningham, W. 2007. Minimum wages and social policy: Lessons from developing countries (Washington, DC, World Bank)

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

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

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

# Examples:

# Brazil – from regional, to national, to a combination of national and regional rates

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

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

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

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

#### Costa Rica – from 520 to 23 rates

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

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

The core of the system now consists of minimum wages established for unskilled, semi-skilled, skilled and specialized workers, plus five additional rates depending on educational level. The minimum wage which applies to unskilled workers not covered by any other specific rate is known as the salario minimo minimorum and serves

as the wage floor, below which no wage can be set with the exception of domestic work which has a separate, and lower, occupational minimum wage.

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

Costa Rica: for the historical reference, see Rojas and Murillo (1997) "Minimum wage fixing in Costa Rica", labour law and labour relations briefing note no 10, ILO, Geneva. For the present system, see Trejos (2014) "Costa Rica: un esfuerzo para mejorar la aplicación de los salaries mínimos", in Marinakis (2014) Incumplimiento con el salario mínimo en América Latina, ILO, Santiago

## Ireland – combining sectoral and national rates

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

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

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

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

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

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

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

# 2.4 Equal remuneration for work of equal value

Some countries set lower minimum wage rates for some groups of workers, such as young workers or persons with disabilities. Different minimum wages by sector or occupation can also result, indirectly, in lower minimum wages for workers with different characteristics, for example when rates are lower in occupation or sectors where women or migrant workers predominate.

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

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

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

## Equal pay for work of equal value

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

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

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

Minimum wages in sectors or occupations where women predominate are often lower than those of men. This can partly be explained by their lack of representation in bargaining processes, but also by societal norms and the tendency to undervalue women's work.3

# 2.5 Sub-minimum wages for young people and apprentices

#### Young people

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

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

<sup>&</sup>lt;sup>3</sup> ILO General Survey on minimum wage systems (2014)

This may explain why a significant number of countries have recently removed, or restricted in scope, provisions fixing lower minimum wages for young workers. In Slovenia, for example, this reform was adopted under the legislation on equality of treatment and the protection against discrimination.<sup>4</sup>

## Probationary periods and apprentices or trainees

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

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

In practice, the use of differentiated rates for apprentices or trainees varies from country to country. In some, apprentices are entitled to the full minimum wage. In others, apprentices have the right to earn the full minimum wage after a certain period. In many countries however, national legislation provides for apprentices to be paid a specific remuneration or indemnity. This is often expressed as a percentage of the applicable minimum wage, for instance, 90 per cent in Bulgaria, 60 per cent in Paraguay and 75 per cent in the Philippines.<sup>5</sup>

# 2.6 Sub-minimum wages for migrant workers

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

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

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

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

<sup>&</sup>lt;sup>4</sup> ILO General Survey on minimum wage systems (2014)

<sup>&</sup>lt;sup>5</sup> For more information, see the General Survey on minimum wage systems (2014), chapter 4, section 5.3.

<sup>&</sup>lt;sup>6</sup> ILO General Survey on minimum wage systems (2014), pp. 95–96

# 2.7 Sub-minimum wages for workers with disabilities

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

# Equal remuneration for work of equal value

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

Furthermore, the <u>2006 United Nations Convention on the Rights of Persons with Disabilities</u> provides in Article 27 that States parties shall safeguard and promote the realization of the right of persons with disabilities to work. They shall take steps to protect the right of persons with disabilities to enjoy, on an equal basis with others, just and favourable conditions of work, including equal opportunities and equal remuneration for work of equal value.<sup>7</sup>

# Minimum wages, employment quotas and wage subsidies

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

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

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

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

- In the U.K., for example, workers with disabilities have the right to the same national minimum wage.
- In France, lower wages for a same or similar position are sanctioned as a form of discrimination, and workers with disabilities are entitled to the national minimum wage. Workers with a disability can, however, register the extent of their reduced productivity, giving the employer the right to obtain a wage subsidy from the State. Enterprises with more than 20 workers in France are obliged to have at least 6 per cent of workers with disabilities among their staff.

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<sup>&</sup>lt;sup>7</sup> Section adapted from the ILO <u>General Survey on minimum wage systems (2014)</u>, pp. 97–98

Find out more on "Disability and work" at the ILO
Data on labour force status of persons with disabilities