

Minimum Wages, Compliance and its effect on wage distribution

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Addressing Inequality

Minimum wage institutions as one of the strategies

- With rising wage inequality, the introduction of a legal minimum wage has become an important policy issue in many countries
- In countries with an expanding low wage sector, a minimum wage prevents 'unfair' competition
- Earnings of people working full-time should be sufficient to cover at least the basic minimum. For this, a minimum wage is a means to prevent the emergence of the so-called 'working poor'.
- Minimum wage in some countries are not only for setting wages at the bottom of the wage pyramid, but also for higher paid workers whose wages are set at multiples of the minimum (for example, Peru)
- Minimum wages could contribute to the reduction of poverty and inequality by increasing their incomes

Equality enhancing role of minimum wages or shaping the wage distribution

- MW reducing wage inequality in the lower tail of the earnings distribution (Dolton et al., 2010 for UK) or strongly compressing the wage distribution in both formal and informal sector in Brazil (Lemos, 2007)
- Erosion of minimum wages resulting in a rise in inequality in the lower tail / bottom end of the distribution (Autor, Manning and Smith, 2010 for US; Bosch and Manacorda, 2010 for Mexico)
- Others have observed it only improved the earnings of middle and upper part of the distribution (Arango and Pachon, 2004 – Colombia)

Research questions

- What are the gaps in minimum wage coverage and compliance across a diverse group of developing countries?
- Despite imperfect compliance, what are the effects of minimum wages on wage distribution?

Data sources, countries and time period

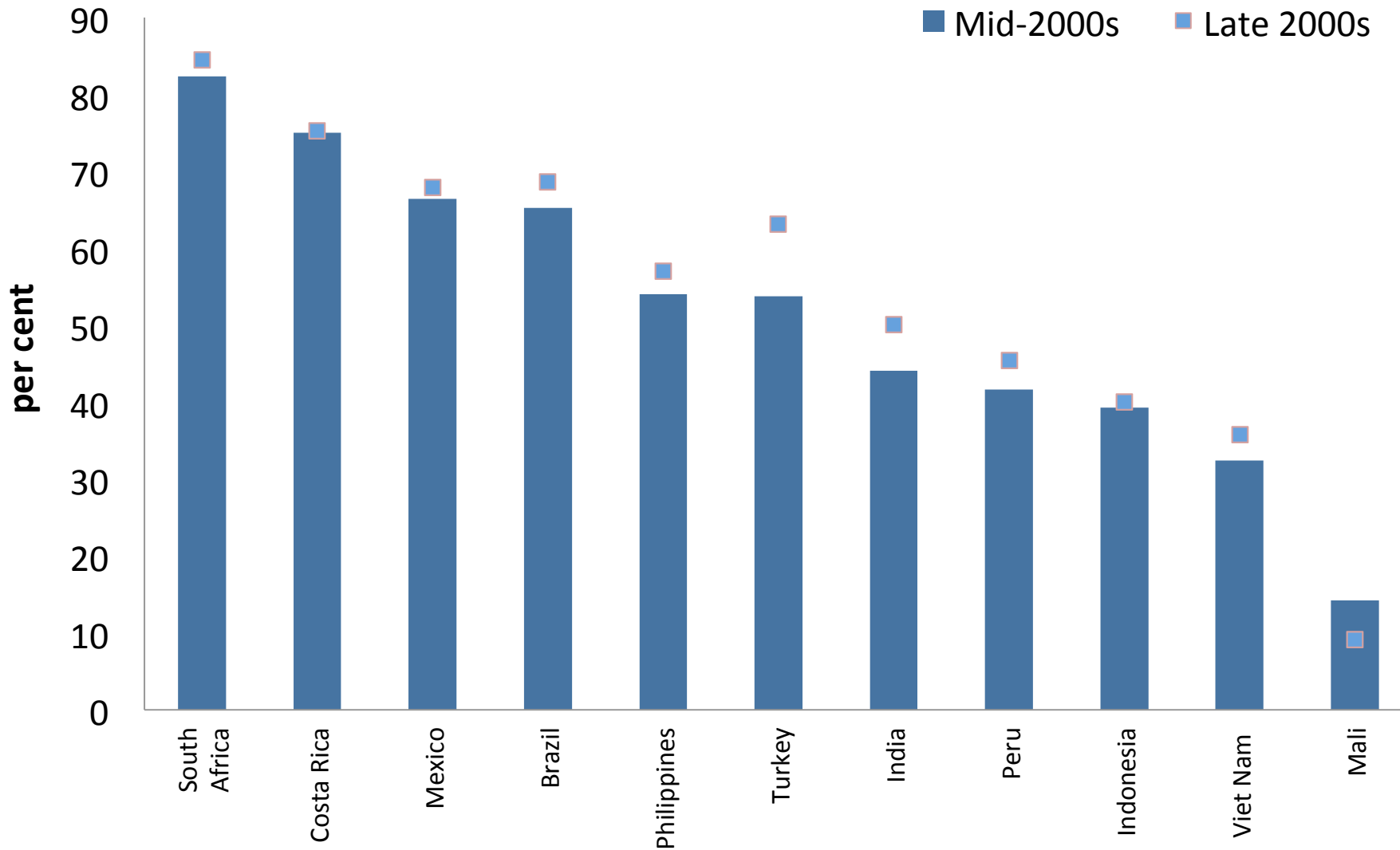
Country	Data source	Years
Brazil	Pesquisa Nacional por Amostra de Domicílios (PNAD), IBGE	2005 and 2009
Costa Rica	Encuesta de Hogares de Propósitos Múltiples, INEC for 2005; Encuesta Nacional de Hogares (ENAHOG), INEC for 2010	2005 and 2011
India	Employment–Unemployment Survey, NSSO, Government of India	2004–05 and 2009–10
Indonesia	National Labour Force Survey (Survei Angkatan Kerja Nasional) (SAKERNAS), BPS-Statistics	2005 and 2009
Mali	Enquête Permanente Emploi Auprès des Ménages (EPAM)	2004 and 2010
Mexico	Encuesta Nacional de Ocupación Y Empleo (ENOE), INEGI	2005 and 2010
Peru	Encuesta Nacional de Hogares, INEI	2005 and 2010
Philippines	Labour Force Survey, National Statistics Office	2003 and 2009
South Africa	Labour Force Survey, Statistics South Africa for 2007, Labour Market Dynamics (LMD) Survey for 2011	2007 and 2011
Turkey	Household Labour Force Survey, Turkish Statistical Institute	2005 and 2011
Viet Nam	Labour and Employment Survey, General Statistics Office, Ministry of Planning and Investment	2007 and 2011

Methodology

- Scoping: Recent labour legislations, labour codes, wage decrees, sectoral wage determinations, etc.
 - Broad national wage systems (with possible exceptions)
 - Complex (and partial) system for certain selected industries, occupations or sectors
- To identify workers who are covered:
 - the categories of workers covered by minimum wage legislation are matched with employment data from labour force or household surveys
 - Ex.: If minimum wages applies to all workers except domestic workers, then
 - Coverage = Ratio of non-domestic to total employment
(using LF or HH Surveys)

Relevance of minimum wages

Proportion of paid employment in developing countries



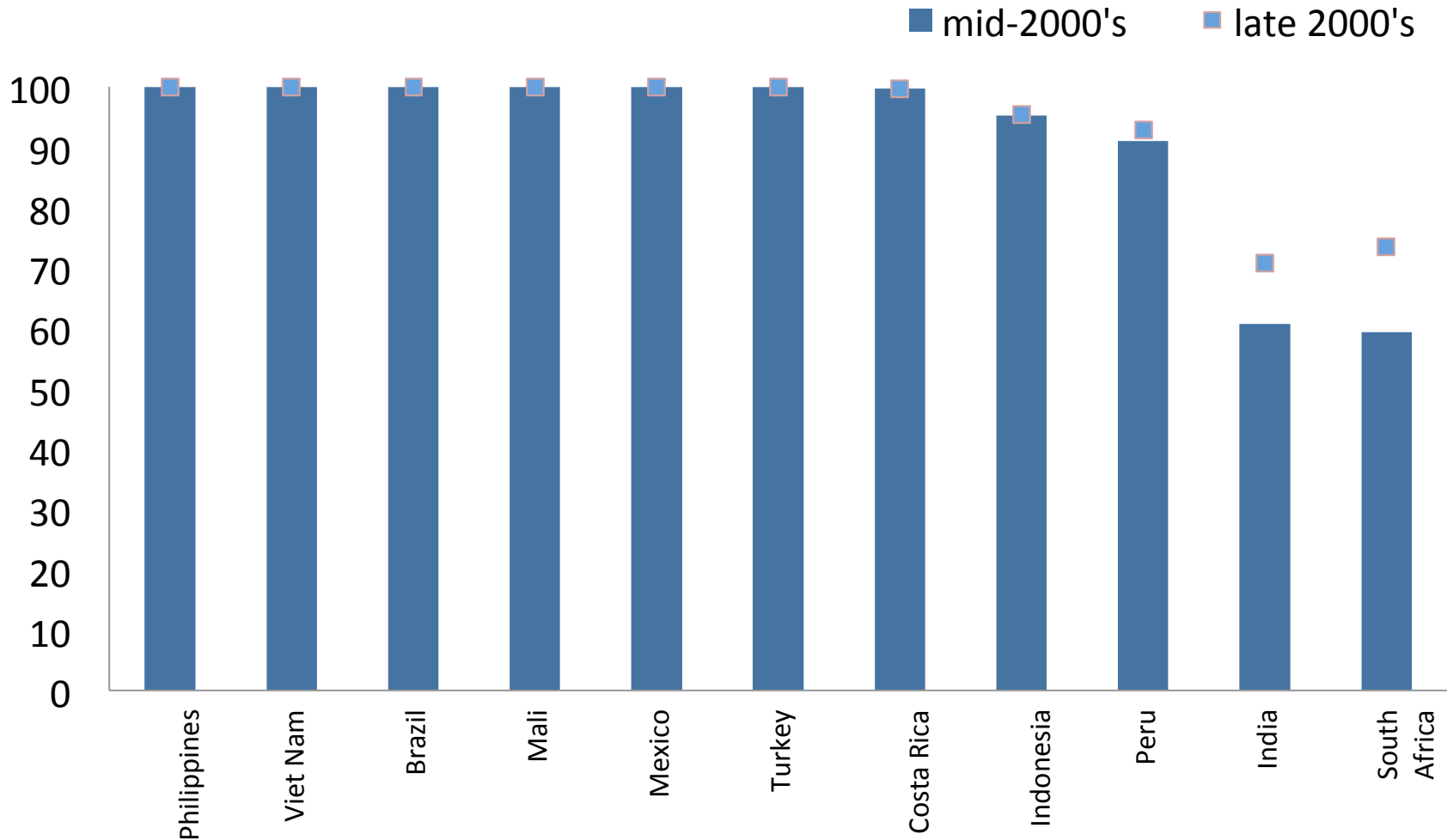
Rani, U.; Belser, P.; Oelz, M.; Ranjbar, S. (2013) "Minimum wage coverage and compliance in developing countries" *International Labour review*, Vol. 152, Nos.3-4.

Minimum wage systems across these countries

- Legal coverage varies across countries and depends on
 - Simple national minimum wages (Brazil, Mali, Turkey, Viet Nam)
 - Complex and partial system of minima that apply only to selected industries or occupations (India, South Africa)
 - Universal with exceptions (Indonesia, The Philippines)
 - Hybrid systems - Universal minimum wages with complex structures (Costa Rica, Mexico, Peru- DW excluded)

Empirical Findings

Legal coverage of minimum wage legislation in developing countries



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Level at which the minimum wages is set

- If the minimum wage is set at too low a level, it may be ineffective in ensuring a minimum living income to workers and their families
 - If the minimum wage is set too high or raised unexpectedly, then it can trigger price inflation, hurt employment and/or lead to widespread non-compliance
- **Challenge:** set a minimum wage which offers real benefits to low-paid workers, while avoiding unnecessary risks to enterprises and jobs

Empirical Findings

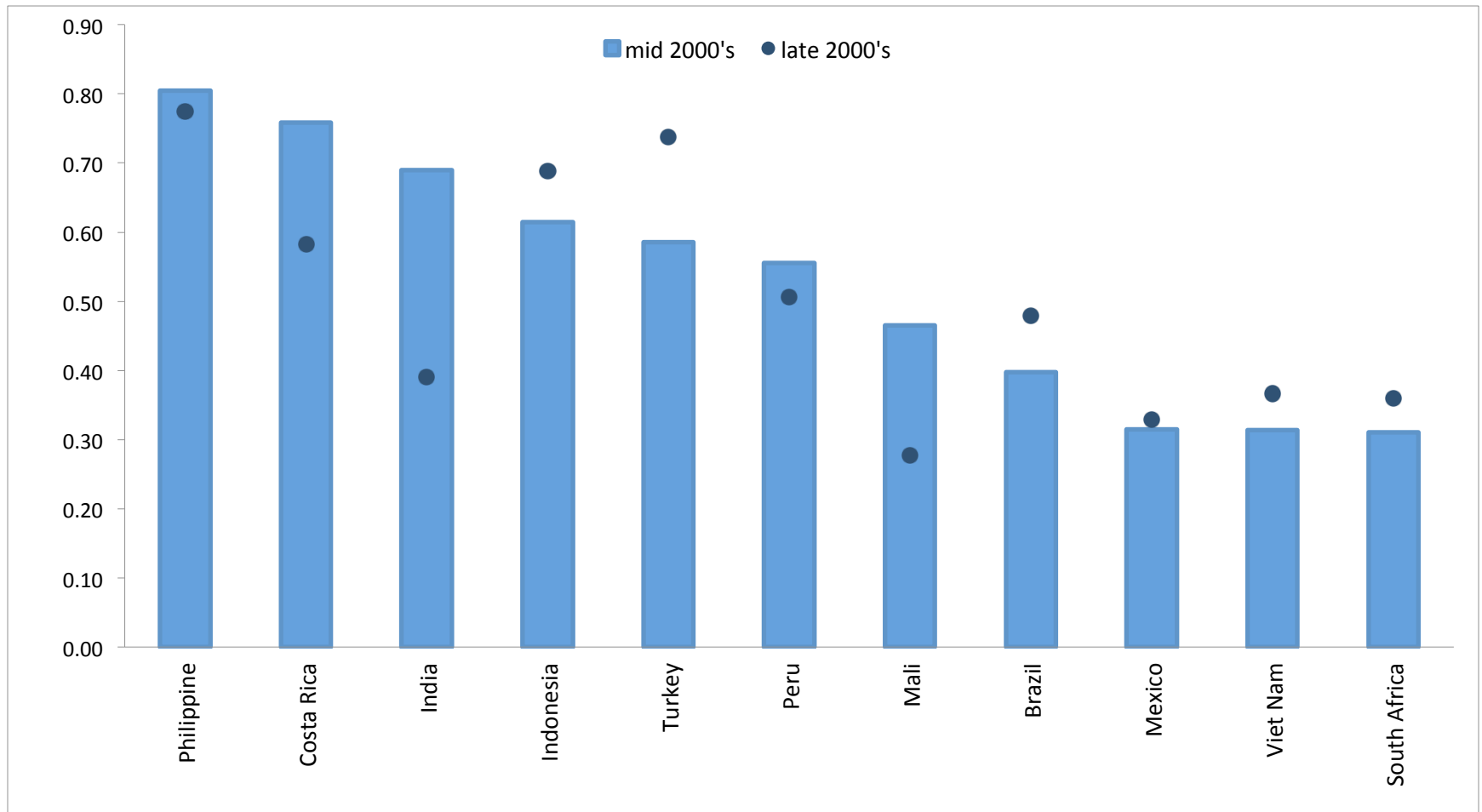
Ratio of minimum to median wages



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Empirical Findings

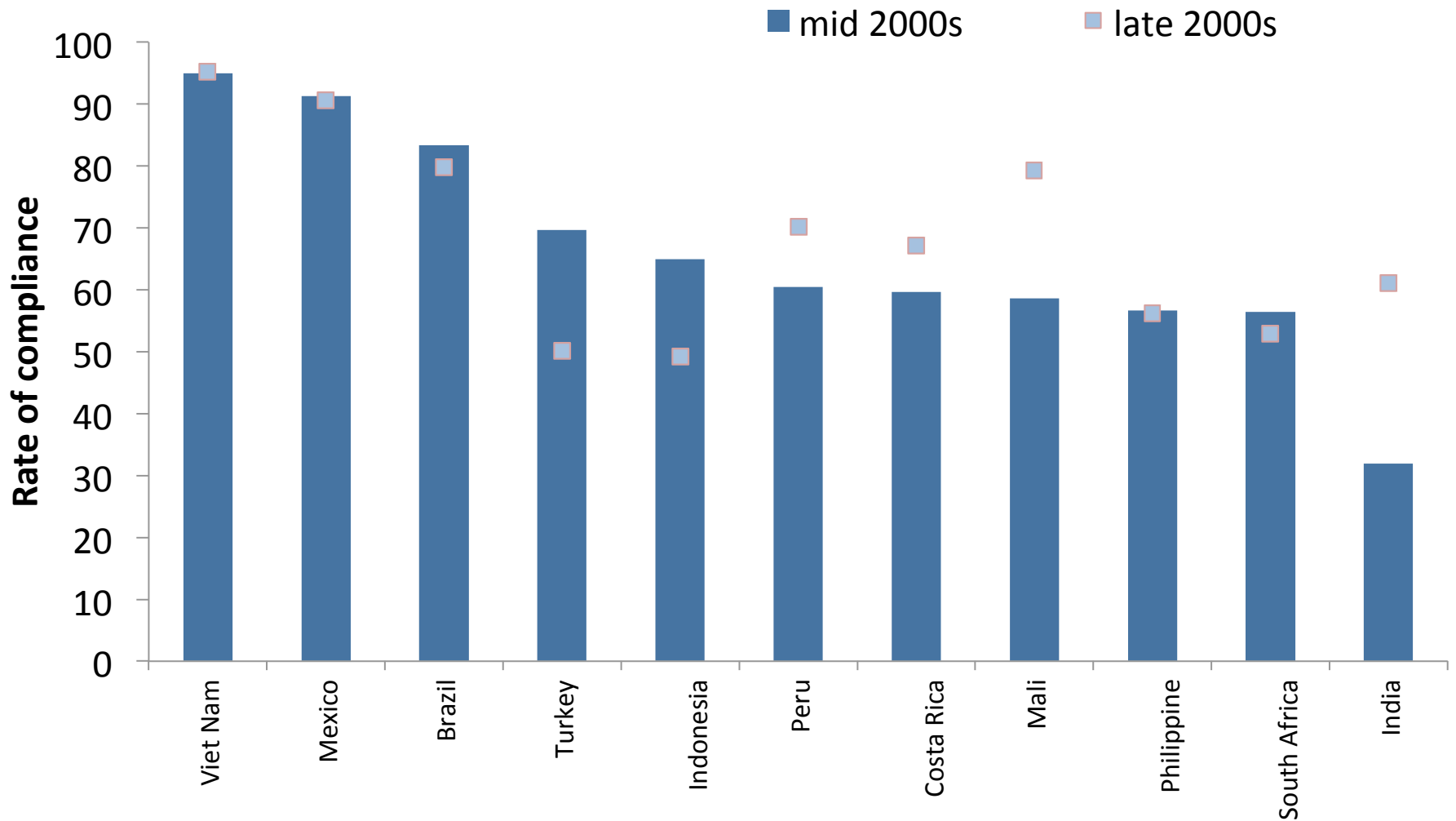
Ratio of minimum to mean wages



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Empirical Findings

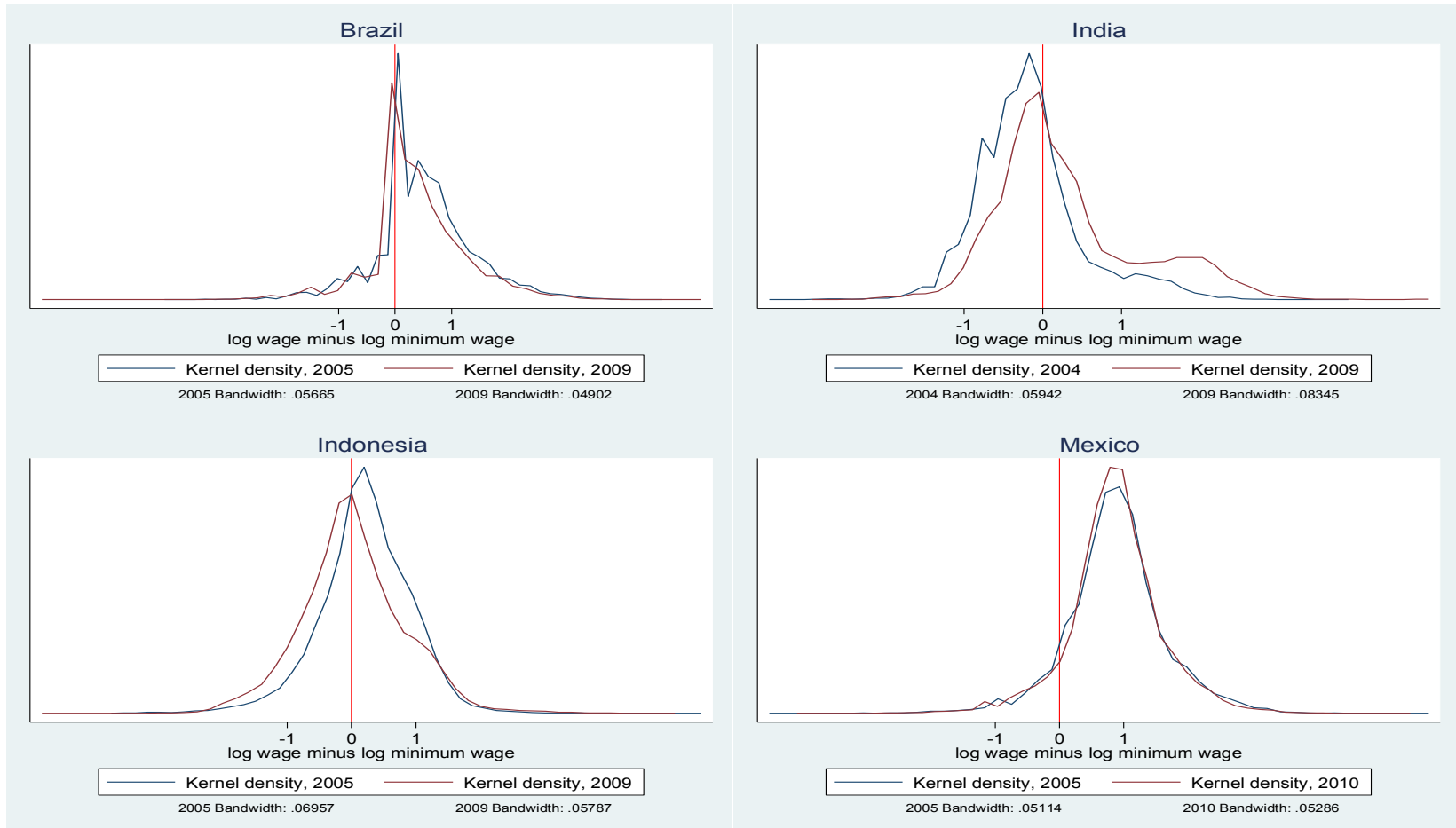
Estimated rate of compliance with minimum wage legislation



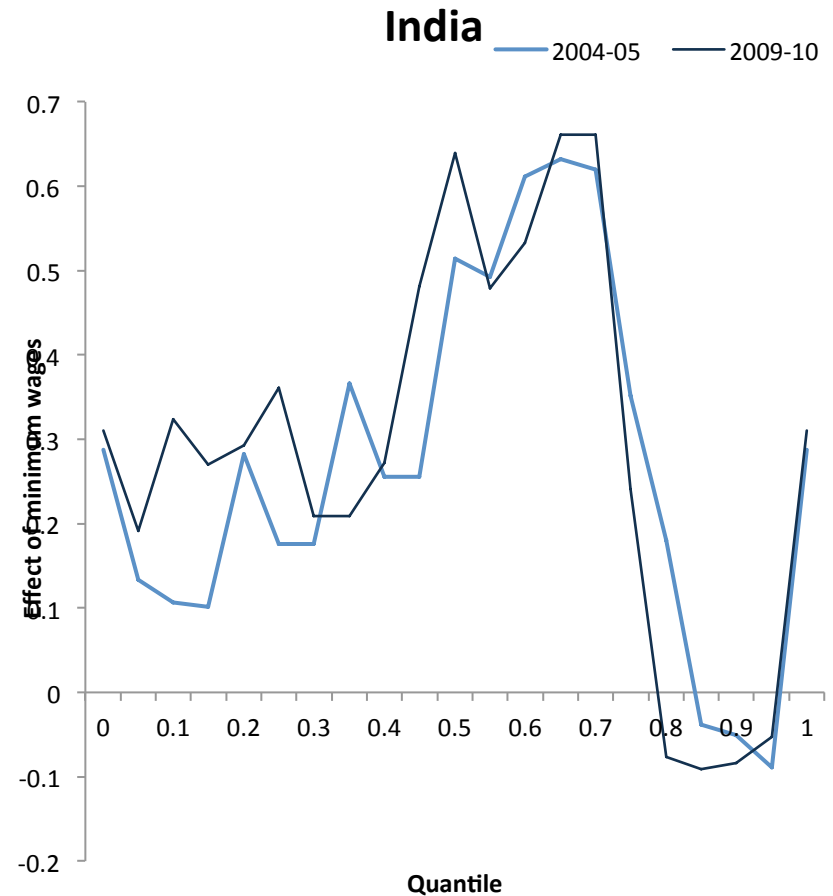
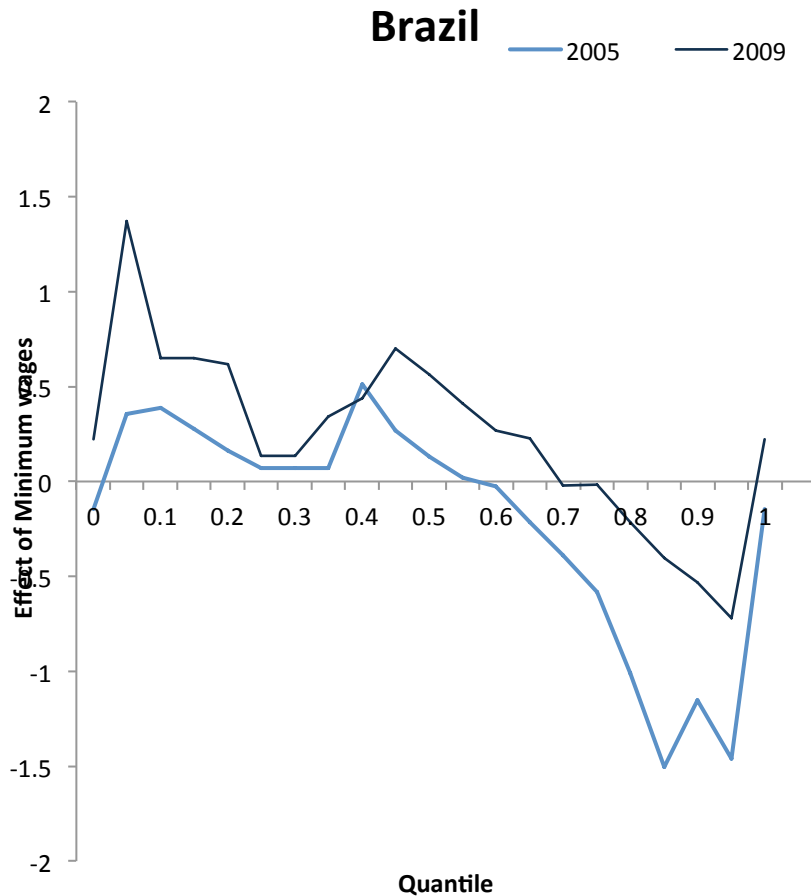
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Empirical Findings

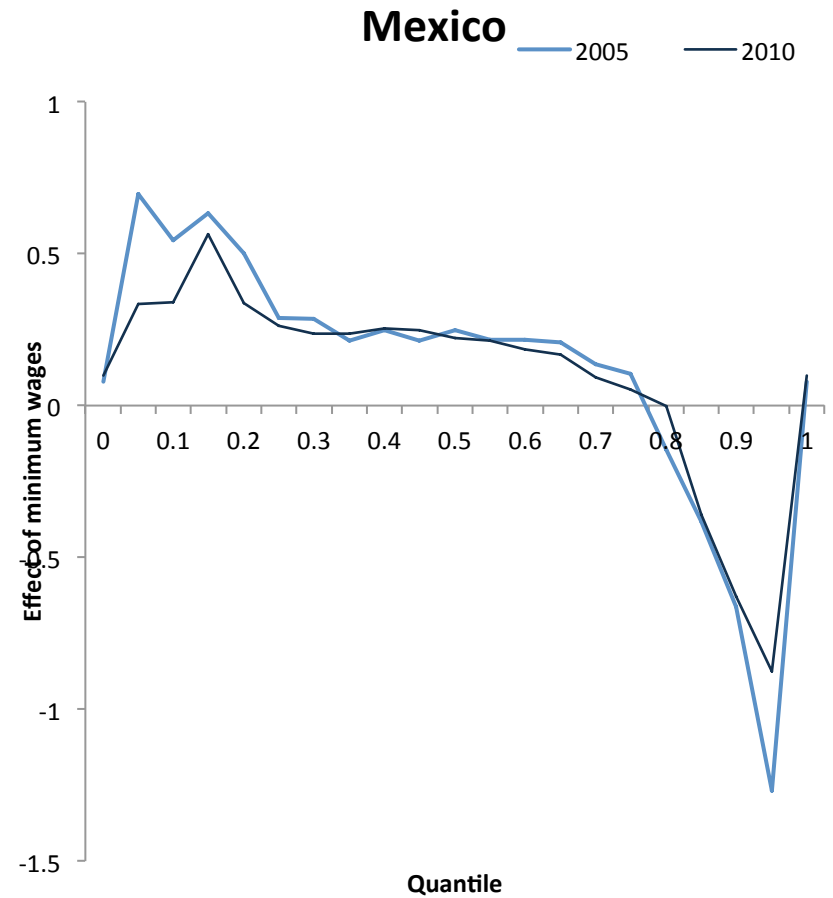
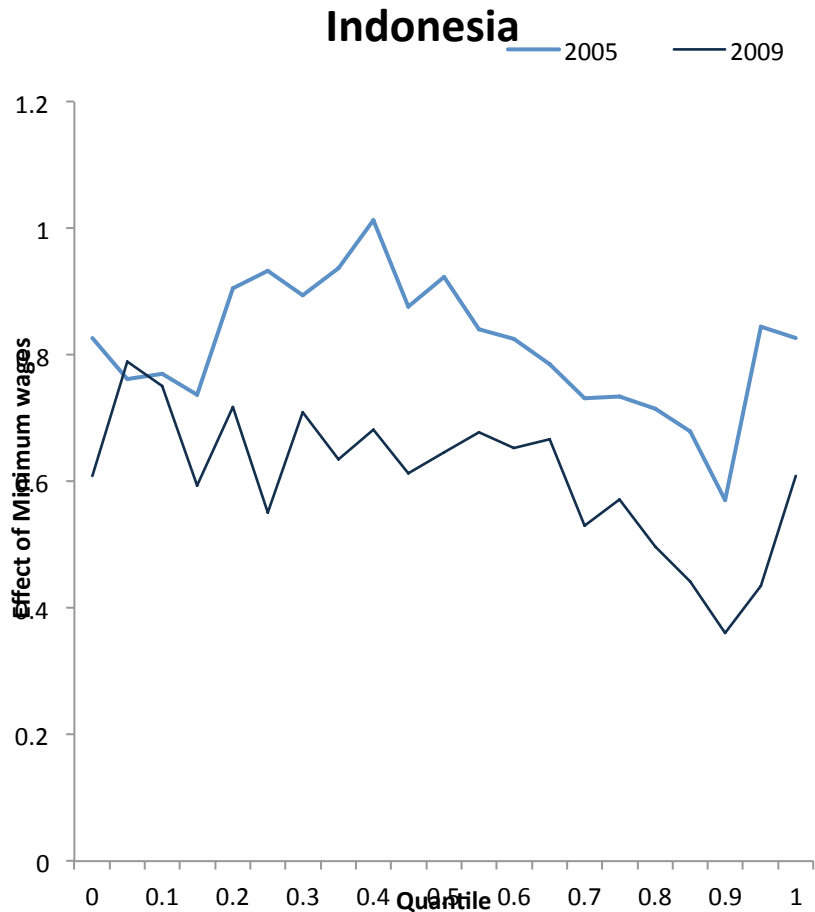
Distribution of wages around minimum wages



Effects of minimum wage on wage distribution: All wage workers covered by minimum wages



Effects of minimum wage on wage distribution: All wage workers covered by minimum wages



Conclusions

- Despite imperfect compliance minimum wages has an impact on lower quantiles of the wage distribution
 - If set at the right level then it helps in reducing inequality by lifting those at lower quantiles and also depressing wages at the higher end (Brazil,2005)
 - If set at low levels minimum wage does not have much impact on minimum wages (Mexico)
 - Better enforcement could also help in increasing the impacts (India, 2009-10)
 - Complexity of the system along with high level of minimum wages might lead to less enforcement, and as such impacts could be small (Indonesia)