



The international experience of the relationship between inequality, poverty and minimum wages

Jana Mudronova
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Abstract

Discussion over the possible implementation of a national minimum wage in South Africa has been framed with reference to reducing inequality and poverty. This paper presents and analyses the existing international evidence regarding the effect of minimum wage policies in alleviating poverty and inequality in developed and developing countries. Single country case studies and cross-country analyses find that minimum wages reduce inequality through raising wages of workers at the bottom end of the formal-sector wage distribution and increasing wages of those in the informal sector. Given extremely high levels of inequality, low wages, and the high incidence of poverty among low-wage earners in South Africa, a minimum wage regime with wide coverage, can have significant poverty- and inequality-reducing effects.

Project information

This paper forms part of the National Minimum Wage Research Initiative (NMW-RI) undertaken by CSID in the School of Economics and Business Science at the University of the Witwatersrand. The NMW-RI presents theoretical and case-study evidence, statistical modelling and policy analysis relevant to the potential implementation of a national minimum wage in South Africa. For more information visit www.nationalminimumwage.co.za.

Authors and Acknowledgements

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Executive summary

Income inequality has been on the rise across both developed and developing countries. Leading economists, together with the World Bank and the International Monetary Fund, agree that rising inequality has deleterious effects on economic growth. In post-apartheid South Africa, inequality has been estimated at a Gini coefficient of 0.66, among the world's highest. Research shows that much of this inequality is driven by wage-income inequality. Despite increases in average real wages in South Africa, wage-income inequality remains high, with a Gini coefficient of 0.55 in 2012. This trend is driven by rapid increases of wages at the top end of the income distribution compared to those at the bottom. High inequality is combined with high levels of working poverty: half of all households with at least one wage earner live in poverty.

Critical, therefore, to the debate over the possible implementation of a national minimum wage in South Africa is its potential role in reducing inequality and poverty. This paper focuses on these relationships in the international and South African contexts. Evidence presented in this paper scrutinises the experience of two developed and over twenty developing countries, concluding that minimum wages are an important tool for tackling inequality and poverty.

First, there is a broad consensus derived from the experience of developed countries that minimum wages help to reduce wage inequality, and can improve the wellbeing of low-paid workers. Erosion of the federal minimum wage in the United States led to an increase in inequality while the introduction of the national minimum wage in the United Kingdom resulted in reduced wage inequality.

Second, a wealth of evidence from Latin America found that the rise in real minimum wages between 2002 and 2010 drove the decline in income inequality in the region. The equalising effect of minimum wages has been confirmed, even prior to the large minimum wage increases of the 2000s, by a study of 19 Latin American and Caribbean countries between 1997 and 2001 – where minimum wages affected the wage distribution in the formal sector of 10 out of 19 countries – as well as in a host of more recent country case studies. The same effect was found in Russia, Indonesia and India. On the other hand, in Mexico a declining real minimum wage has been shown to increase inequality.

Third, minimum wages are shown to positively affect wages in the informal sector. This 'lighthouse effect' suggests that minimum wages can serve as an indicator of a fair wage in the informal sector as well as a tool for increasing the bargaining power of formal sector workers. In a study of 19 Latin American and Caribbean countries, the lighthouse effect was found to occur in 14 countries. In some cases the effect of minimum wages on the distribution of wages in the informal sector was found to be stronger than in the formal sector. This positive effect on the informal sector was confirmed in the case of South Africa.

Fourth, wage inequality and poverty are closely related: studies show that on average 39% of poverty reduction in Latin America was due to a decline in

inequality. Outside Latin America, poverty-alleviating effects of minimum wages were found in India, Thailand, and the Philippines. This is due to the fact that in many developing countries, a large proportion of low wage earners live in poor or ultra-poor households.

It is broadly accepted that a national minimum wage (as opposed to sectoral or regional minima) offers wider coverage and leads to higher compliance. Given the developing country evidence, the introduction of a national minimum wage can have great potential to reduce inequality in South Africa.

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1 Introduction

Income inequality has been on the rise across both developed and developing countries. In the 1980s the top 10% of the population in OECD countries earned 7 times more than the bottom 10%, by 2014 the gap between the two had increased to 9.6 times (OECD 2015). Between 2006 and 2010, in two thirds of developed countries where such inequality increased, the increase was attributable to shifts in the labour market, including increasing wage inequality. Despite impressive reductions in overall income inequality in developing countries – where average real wage growth rates exceeded those in the developed world – wage and income inequality remain high (ILO 2015).¹

In addition to stagnating wages, labour shares – the relative share of income going to wages opposed to profits – have fallen globally over the past three decades reflecting factors which have weakened the position of workers in society (OECD 2012). Between the early 1990s and the late 2000s the median OECD labour share dropped from 66.1% to 61.7% while income inequality increased (OECD 2012b). Between 1990 and 2006 the labour share in a group of 16 developing countries declined from 62% of GDP to 58% (ILO 2013). Falling labour shares were found to be associated with higher levels of inequality (see Strauss and Isaacs 2016).

Whereas inequality in developed countries has almost uniformly increased, the trends in developing countries are mixed. In developing countries where income inequality has fallen, such as Brazil, Uruguay, Peru, and Ecuador, the trend was driven by increases in real wages at the bottom of the distribution. In 2012 in Chile, Brazil, and Russia, real wages of the bottom 10% grew faster than real wages of the top 10%. This is despite the fact that the contribution of wage earnings to household income tends to be lower in developing countries than in developed ones (ILO 2015).

Recently, the deleterious effects of rising inequality have been recognised by the World Bank and the IMF (Terrell and Almeida 2008, Ostry *et al.* 2014, IMF 2015). The OECD estimates that across OECD countries the rise of income inequality between 1985 and 2005 “knocked 4.7 percentage points off cumulative growth between 1990 and 2010 on average” (OECD 2015: 15). This, together with the global financial crisis, has opened the space for a discussion of inequality, with many economists acknowledging that rising inequality is neither inevitable nor desirable (Stiglitz 2012, Deaton 2014). The latest IMF report on Sub-Saharan Africa admits detrimental effects of inequality on growth, arguing that in low-income countries a fall in the Gini coefficient² is associated with an increase in growth: a 1% reduction in the initial Gini coefficient is associated with a 0.15 percentage point cumulative increase in growth over a five year period (IMF 2015).

¹ Average real wage growth in developing countries has been driven by increases in wages in large economies, such as Brazil and China (ILO 2015).

² The Gini coefficient is a measure of income distribution, where zero represents perfect equality and one represents perfect inequality.

Consequently a range of policies, including labour-market policies of which a minimum wage is one, have been recognised as suitable tools for addressing inequality. This forms part of a more general shift in the literature on minimum wages. Previously, mainstream economists emphasised the employment effects of implementing or increasing minimum wages, while the current focus has turned to their redistributive potential. Questioning the standard ‘competitive market’ model³ allowed researchers to turn their focus to distributional issues, enquire about the effect of minimum wages on uncovered sectors, and analyse spillover effects of minimum wages across the wage distribution. It is the redistributive effect of minimum wages that occupies the centre of our attention here.

In post-apartheid South African inequality remains stubbornly high with a Gini coefficient – for which 0 is perfect equality and 1 perfect inequality – of 0.66 in 2012, one of the world’s highest (Finn 2015). In 2014, the average income of the top 10% of full-time workers in South Africa was 82 times higher than the average income for the bottom 10%; full-time workers at the 90th percentile (the point below which 90% of workers earn) earn 19 time more than those at the 10th percentile (the point below which 10% of workers earn) (Isaacs 2016). Drivers of inequality in South Africa have been widely debated. Leibbrandt et al. (2010, 2012) find that wage disparities between income earners account for 62% of inequality, while the presence of ‘zero earners’ (unemployment) is responsible for the remaining 38%. When disaggregating between income sources (wage income, remittances, capital income and social grants) it is wage income that drives income inequality (Finn 2015).

Like overall income inequality, wage-income inequality has remained high, hovering around 0.55 between 2003 and 2012. Despite increases in average real wages during the period, median wages remained very low, both in absolute terms and as a percentage of the average wage, indicative of the high levels of wage inequality. This is also the case in sectoral wage differentiation – for instance, increases in real mean wage in the agricultural and construction sectors were accompanied by increased inequality within these sectors – implying that an increase in wages in these two sectors did not benefit everyone equally (Finn 2015).⁴

In addition to rising wage inequality, the wage share has fallen in the post-apartheid period. Between 1950 and 1990, compensation for employees averaged 55% of gross value added compared with an average of 51% since 1994;⁵ South Africa’s wage share is estimated to be approximately 5% below its

³ Neoclassical economics foregrounds the role of prices in the economy and conceives of labour markets as akin to any other commodity market, subject to the same universal principles of analysis: when prices go up, demand goes down. Within the competitive market paradigm the minimum wage has no beneficial role to play in the labour market.

⁴ In agriculture, where mean wages increased by 114% in real terms, inequality rose dramatically from a Gini coefficient of 0.38 to 0.53 in the same period (Finn 2015).

⁵ In 2007 and 2008 the wage share reached a low of close to 48% after which it rose, probably driven by a squeeze on profitability in the wake of the crisis and perhaps rising real wages in a few sectors such as mining (Strauss and Isaacs 2016).

emerging market peers (Strauss and Isaacs 2016). Strauss and Isaacs (2016) argue this exacerbates inequality in South Africa.

Wages also play a critical role in poverty dynamics. The very poorest households derive the majority of their income from government grants or remittances, and in 2012 the incidence of poverty among households with no wage earners was 88%. However, the presence of wage-earners by no means guarantees a household will not live in poverty; a full 50% of households with at least one wage earner still live in poverty. In addition, 54% of *full-time* wage-earners, or 5.5 million workers, are considered to be ‘working poor’, meaning that they and their dependents live below the poverty line (Finn 2015).⁶ Access to the labour market, and wages, therefore remains crucial to poverty alleviation.

Building on the recent debates about inequality worldwide and in South Africa, this paper focuses on minimum wages as one labour-market policy advanced by the International Labour Organization as an important lever for redistribution (ILO 2015). Minimum wages currently exist in 90% of ILO member states with approximately half of those countries having *national* minimum wages (ILO, 2015). Minimum wage regimes have increasingly come to be seen not only as a means to provide a level of income needed to meet basic needs, but also as tools for redistribution and reducing inequality. The administration and coverage of, and compliance with, these regimes vary across regions and countries. Single national minimum wages were adopted by Brazil, Argentina, Uruguay, and Colombia, for example, while China, Costa Rica, India, Indonesia, and Mexico, amongst others, have multiple minimum wages covering different sectors, regions and/or types of employment (Cunningham 2007, Rani *et al.* 2013, World Bank 2015). Inequality is a key motivating factor behind the introduction of a national minimum wage in South Africa. The negotiations between the social partners in the National Economic Development and Labour Council (Nedlac) over the potential implementation of a national minimum wage have been framed with reference to fighting poverty and inequality (Nedlac 2014).

This paper therefore contributes to these debates by reviewing the international experience regarding the relationship between minimum wages and inequality, focusing predominantly on developing countries, although experiences from the United States and the United Kingdom will be briefly reviewed in Section 2. In the case of developing countries, reviewed in Section 3, the paper will explore the various complexities related to the effects of minimum wages on employment, average wages, income distribution, the informal sector, and poverty; some of these are dealt with in more depth in other working papers (see for example Takala-Greenish and Sipula forthcoming). Finally, the paper will explore in more detail how the national minimum wage in Brazil and multi-level minimum wages in Indonesia each played a critical role in reducing inequality. Section 4 concludes.

⁶ These calculations use the cost-of-basic needs poverty line calculated in Budlender, Leibbrandt and Woolard (2015), see also Finn (2015).

2 Developed countries: minimum wages and inequality

The experience of developed countries has led to a broad consensus that minimum wages help to reduce wage inequality and can improve the wellbeing of low-paid workers (Garnero *et al.* 2014). A large share of the literature regarding developed countries focuses on the United States and the United Kingdom, which provide two contrasting and illuminating examples. In the United States the erosion of the real value of the federal minimum wage led to increased inequality, whereas in the United Kingdom the implementation of a national minimum wage reduced inequality. These are discussed in turn.

A large proportion of the literature, now considered to be seminal on the topic of minimum wages, originated in the United States. This is because minimum wage legislation has been a contested and highly debated policy measure there. The slow pace of adjustment of the federal minimum wage has had a great effect on the evolution of income inequality at the bottom of the wage distribution. According to Di Nardo *et al.* (1996), the erosion of the real value of the minimum wage accounted for 25% of the rise in inequality between 1979 and 1988. Lee (1999) argued that the increase in inequality in the 1980s was entirely caused by the erosion of the federal minimum wage. The most recent estimates in the work of Autor *et al.* (2016) found a more modest contribution, estimating that the fall in the real value of the minimum wage can explain up to half of the growth of lower-tail inequality⁷ in the 1980s. For the full sample period, 1979-2012, the authors calculated that the declining minimum wage contributed more to female lower-tail inequality than overall or male lower-tail inequality.

The effect of minimum wages on employment and earnings is important to consider when trying to understand whether minimum wages reduce inequality. In contrast to earlier research critical of state-legislated minimum wages, recent studies building on the influential work of Card and Krueger (1995) conclusively show that minimum wages either have very small (often statistically insignificant) or no disemployment effects (Schmitt 2013). The most rigorous meta-analyses covering studies of developed countries (research that combines dozens of individual studies in order to present aggregated findings) find that a 10% increase in minimum wages leads to a decrease in employment of between 0% and 0.7%, (see Doucouliagos and Stanley 2008, Boockmann 2010, Belman and Wolfson 2014, Nataraj *et al.* 2014, Broecke *et al.* 2015, Chletsos and Giotis 2015, and Isaacs 2016 for a review).

In the United Kingdom a national minimum wage was introduced in 1999. The research finds that there was little or no effect on employment (see the meta-analysis by Leonard *et al.* 2014) and that the introduction of a national minimum wage has had a significant positive effect on wage inequality (Dickens *et al.*

⁷ The 'lower tail' or 'lower half' of the wage distribution refers to difference between middle and bottom earners – the 5th and 1st deciles or the 50th and 10th percentile. The erosion of minimum wages account for increasing inequality in this subsection of the wage distribution because the lowest earners moved further away from the median (middle) earners. Huge increases in salaries at the top of the distribution would be very significant when measuring inequality between the top and bottom of the distribution.

2012). Between 1998 and 2010, the national minimum wage explained 50% of the reduction of wage inequality at the bottom half of the wage distribution (Dickens *et al.* 2012). In this period, the largest increases in wages, a 50% growth in real wages, occurred at the bottom of the wage distribution.⁸ In contrast, workers earning at the median experienced only an 18% wage increase. These findings contradict studies that, prior to the introduction of the national minimum wage, estimated that a relatively high minimum wage would fail to target the poorest households, but would benefit middle-income women and the youth (Freeman 1996).

In addition, more than a decade after its introduction it was concluded that the national minimum wage had greater effects on those earning above the minimum wage than originally predicted. While Dickens and Manning (2004) argued that the minimum wage would affect up to the 5th percentile in the wage distribution, Dickens *et al.* (2012) found the benefits of the national minimum wage reached up to the 25th percentile, approximately 40% above the minimum wage level. In their later work Dickens and Manning (2012) reported similar findings. This might suggest that spillover effects of minimum wages can take some time to ripple through the wage distribution (*ibid.*)⁹ Moreover, the minimum wage partly ameliorated gender disparities as it benefited 13% of women compare to 6% of men, as well as regional disparities by raising wages in low-wage regions such as Wales (Dickens *et al.* 2012).¹⁰

In relation to effects on employment, in the case of the United Kingdom, a meta-analysis conducted by Leonard *et al.* concluded that “it appears that the minimum wage has virtually no effect, neither positive nor negative, on employment” (Leonard *et al.* 2014: 505).¹¹

These experience lay the foundation for an approach to minimum wages that acknowledges their redistributive potential. As these two most scrutinised country case studies show, the role of minimum wages in improving or exacerbating inequality cannot be neglected. The fall in the real value of the

⁸ Similar findings exist in other developed countries. France, for example, experienced a rapid increase in the minimum wage. Between 1968 and 1983 the purchasing power of the minimum wage increased by more than 130%, while the mean wage rose by only 50%. This was accompanied by a sharp decrease in inequality (Piketty 2014: 206-220).

⁹ ‘Spillover effects’ refer to increases in wages for those who already earn above the minimum wage or who are, in practice, not bound by it. These may occur for a variety of reasons: for example a minimum wage can increase the wages of workers who earn above the minimum wage due to shifts in demand for low-skilled labour, or due to the need to preserve wage differentials, productivity, and incentives. Moreover, a minimum wage can become an indicator of fair wage, signalling this to other sectors including the informal sector.

¹⁰ Additional research on gender wage inequality in Ireland found that the national minimum wage helped to close the gender wage gap. A recent study by Bargain *et al.* (2016) also found small spillover effects for those earning 1.4 times the minimum wage, confirming previous findings from Ukraine.

¹¹ For a multidimensional approach to poverty, studies in the United States measuring poverty through calorie intake found that a decline in the federal minimum wage bore 10% of the responsibility for the increase in Body Mass Index (BMI), indicating increasing obesity as a result of poor diet. In particular a \$1 decrease in the minimum wage resulted in a 0.06 increase in BMI (Meltzer and Chen 2009).

minimum wage, and the stagnation in median wage earnings in the United States, is instructive for South Africa. If South Africa cannot achieve significant real wage growth at the lower- and middle-end of the distribution – at a rate that outstrips wage growth at the upper-end – then inequality will not be reduced. The British example cannot be directly transposed onto South Africa but offers a hopeful backdrop against which to interrogate the impact of minimum wages in developing countries. The overall finding from these case studies is that minimum wages may have no “detectable impact on employment but they do seem to have sizeable impacts on wage inequality that stretch beyond those workers directly affected” (Dickens and Manning 2012: 21).

3 Developing countries: minimum wages, inequality and poverty

It is sometimes argued that the inequality-reducing potential of minimum wages is particularly strong in developed countries because in these countries wages represent the largest source of income, contributing for example 80% of household income in the United States and 75% in both Germany and the United Kingdom (ILO 2015). However, wage income is still an important source of income in developing countries, including for lower-income households (ILO 2015). At the lower half of the income distribution, wages contribute between 45% and 60% of household income in Brazil and between 60% and 80% in China (ILO 2015). In South Africa, Finn (2015) calculates that direct wage income and remittances represent around 20% of income for the poorest households. For the lower half of the income distribution, the share of wage income and remittances increases to 65%.

In many countries wage compression between those who are in work has been most important in reducing inequality. For example, between 2002 and 2012 changes in the wage distribution accounted for 87% and 72% of the reduction in top-bottom inequality in Argentina and Brazil respectively, with employment gains accounting for the remainder (ILO, 2015: 33).¹² Minimum wages in developing countries have been found to be particularly important; in Latin America, the growth of real minimum wages between 2002 and 2010 was an important driver of decreasing income inequality (UNDP 2014; ILO 2015).

In fact, due to labour market composition and dynamics, the impact of minimum wages in developing countries is broader than that found in developed ones. For instance, income in the informal sector is often positively affected by the institution of or increases in minimum wages (Maloney and Mendez 2003). This is sometimes referred to as the ‘lighthouse effect’. Moreover, minimum wages are argued to have positive effects in fighting poverty (for example Arango and Pachón 2004, Neumark *et al.* 2006), with the ills of poverty and inequality interacting with one another. Lustig *et al.* (2014) observed that between 2001 and 2010, on average 32% of poverty reduction in Latin America was due to the

¹² Top-bottom inequality, or the 90/10 ratio, is as a ratio between the 90th and to the 10th percentiles of the income distribution.

decline in inequality. The authors estimated that higher hourly income contributed to the 62% reduction of inequality (Lustig *et al.* 2014).

We turn now to examining in more depth the impacts of minimum wages regimes on employment, wage distribution, and poverty. Two detailed analyses of Brazil and Indonesia are also presented as case studies of the redistributive impacts of national and multi-level minimum wage regimes.

3.1 Impacts on employment

If minimum wages are to achieve redistributive objectives then they must be effectively implemented without significant net job losses.¹³ Research relating to the relationship between minimum wages and employment is more plentiful in developed than developing countries. This said, some of the meta-analyses discussed above do include developing countries. This is the case in Chletsos and Giotis (2015) who find “no genuine effect of minimum wages on employment measures” for 18 developed and developing countries. Nataraj *et al.* (2014) find an overall neutral effect in a very small sample of six low-income country studies but a negative effect in the formal sector, and positive effect in the informal sector. Broecke *et al.* (2015), in a more robust series of analyses of ten emerging markets,¹⁴ finds a very small negative impact – a doubling of the minimum wage would cause only a 0.03% fall in employment. Importantly, contrary to Nataraj *et al.*, they find no increase in informality in the emerging market studies.

These meta-analyses do not include all single-country cases, many of which originate within Latin America as minimum wages have become an increasingly important labour-market policy in the region. The findings from this single-country studies are generally similar: small or neutral employment effects but differentiated according to country, population group (age, gender, skill level, wage level etc.), region, sector, time period, and methodology (see Takala-Greenish and Sipula forthcoming). For instance, in the period of the mid-to-late 2000s none of Brazil, Costa Rica or Peru experienced statistically significant effects on employment, despite significant increases in minimum wages. Peru, indeed, experienced significantly positive effects on employment (Belser and Rani 2015) and other countries (for example Argentina and Brazil) saw gains in employment concurrent with rises in minimum wages. Another study of BRICS countries (Brazil, Russia, India, China, and South Africa) found no positive association between minimum wage levels and the unemployment rate over time (Park and Xia 2015). In Indonesia, a rising minimum wage was argued to result in job losses in manufacturing, a crucial sector in the Greater Jakarta

¹³ It is possible, indeed likely, that rising wages will lead to a shift in employment from certain types and sectors of work to others. This may lead to some loss of jobs in precarious and ultra-low wage work and a gain in others. For example, in Germany, which has one of the highest percentages of atypical work in Europe, the introduction of the national minimum wage in 2015 has led to the disappearance of many atypical, precarious, ‘mini-jobs’, and the creation of more stable jobs (Janssen 2015). Similarly in Brazil, and a number of other Latin American countries, the raising of the national minimum wage has been associated with the formalisation of work.

¹⁴ These include Brazil, Chile, China, Colombia, India, Indonesia, Mexico, Russia, South Africa, and Turkey.

region. However, as elaborated in the case study below, employment impacts varied among firms depending mostly on their size.

There is limited research on the effect of minimum wages in South Africa, with six sectoral determinations having been studied. In five of the six sectors – retail, domestic work, forestry, taxi, and private security – the institution of a minimum wage had no statistically significant impact on employment.¹⁵ In agriculture there was a statistically significant decline in employment. Hourly wages rose in five of the six sectors (only forestry shows no statistically significant rise) while hours worked fell marginally in retail and private security. Overall, workers were better off in the majority of sectors and no worse off in any (Bhorat, Kanbur, and Mayet 2013, Bhorat, Kanbur, and Stanwix 2013, see also Hertz 2005, Dinkelman and Ranchhod 2010). On aggregate, net employment in the affected sectors increased by over 650 000 workers between 2001 and 2007, from 3.45 million to 4.1 million, despite lost farm worker jobs (DPRU 2010).

In sum, the research shows that there is no automatic link between the introduction or increase of minimum wages and employment gains or losses. In fact, excessive focus on the effects on employment diverts our attention from the positive effects of minimum wage regimes on income inequality and poverty, which will be evaluated in the following sections.

3.2 The minimum wage legislation as a redistributive tool

Until recently, the redistributive effects of minimum wages were neglected as researchers focused predominantly on the employment effects of minimum wages. However the potential redistributive effect of minimum wages has gained new prominence. For this purpose, it is important to distinguish between minimum wage effects on average wages and effects on the wage distribution. Whereas minimum wages may increase average wages, for inequality-reducing purposes it is crucial that wage increases occur to a greater extent at the bottom end of the wage distribution. This way the minimum wage positively affects earnings of low-paid workers, rather than those of middle or higher paid workers.

Even prior to the large minimum wage increases of the 2000s, the equalising effect of minimum wages was confirmed by a study of 19 Latin American and Caribbean countries between 1997 and 2001. In 10 out of 19 countries, minimum wages affected the wage distribution in the formal sector.¹⁶ In their study, Kristensen and Cunningham (2006) observed that minimum wages increased wages at the bottom end of the wage distribution and lifted earnings for both formal and informal sectors, but that these effects were not uniform

¹⁵ Dinkelman and Ranchhod (2010) likewise show no negative impact on employment or hours worked for domestic workers and strong evidence of an increase in wages; Hertz (2005) finds a small disemployment effect.

¹⁶ The 19 countries are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. The countries where minimum wages affected the formal wage distributions include Brazil, Colombia, Chile, Ecuador, Guyana, Nicaragua, Panama, Paraguay, Peru, and Venezuela.

across low-wage workers. In Brazil and Mexico, minimum wages increased wages of those with no schooling more than those with primary education, while in Paraguay and Ecuador wages of workers with secondary education were more affected than wages of those with primary education; a trend that authors related to the level of minimum wage. The authors did not identify common institutional factors, which would explain why minimum wages are binding in some countries and not in others.

The most recent comparative analysis, between 2003 and 2012, of four Latin American countries – Argentina, Brazil, Chile, and Uruguay – by Maurizio and Vazquez (Maurizio and Vazquez forthcoming in Maurizio 2016) found positive effects of minimum wages on full-time salaried workers in all of the countries. The biggest effects were found in Brazil and Argentina, where minimum wages explain 85% and 32% of the decline in the Gini coefficient respectively. Over this period, Maurizio and Vazquez calculated that minimum wages in these two countries rose by 130% and 200% respectively. On the other hand, in Chile the minimum wage rose by 40% and the effect on inequality at the bottom end of the distribution was positive but much weaker (Maurizio and Vazquez, 2015; Maurizio, 2016).

Inversely, declining real minimum wages have also been shown to increase inequality. In Mexico, the real minimum wage declined by about 50% relative to median earnings between 1989 and 2001, and this accounted for most of the rise in inequality at the bottom end of the distribution (Bosch and Manacorda, 2010; Keifman and Maurizio, 2012; Rani and Ranjbar, 2015).

Evidence of the effect of minimum wages on inequality has also emerged from developing countries outside of Latin America. In Russia the increase in the real minimum wage between 2005 and 2009 contributed to 50% of the compression of the lower half of the wage distribution, thereby reducing inequality between the lowest 50% of earners. This effect was higher for female lower-tail inequality, where 75% of the decline in inequality was attributable to increases in the real minimum wage, compared to 30% in male lower-tail inequality (Lukiyanova 2011).¹⁷ In India, greater compliance with minimum wage legislation gradually increased the marginal effect of the minimum wage. The rate of compliance in India rose from about 32% in 2004/05 to 61% in 2009/10. In 2004/5 the effect of the minimum wage on low and high earners was similar, with a 1% increase in the effective minimum wage leading to a 0.33% increase in wages at the 20th percentile and a 0.35% increase at the 80th percentile. However, by 2009/10 (with higher compliance) the same increase in the minimum wage resulted in a 0.47% and 0.41% increase for the 20th and 80th percentile respectively, indicative of an inequality-reducing impact (Rani and Ranjbar 2015: 16).

In China, minimum wages were introduced in 1993 and reinforced nine years later (differentiated regionally but binding on all employed workers) (Lu 2015). Several studies illustrated the strong inequality-reducing effects of the minimum

¹⁷ To measure lower-tail inequality the author uses log-wage differential between the 50th and 10th percentile.

wage regime. These findings were particularly significant between 2004 and 2007, when a 10% increase in the minimum wage raised the wage at the 10th percentile by up to 6% (*ibid.*). In addition, the increase also reduced gender wage gaps at the bottom of the wage distribution by almost 10%. However, the positive impacts were accompanied by a small overall disemployment effect, but as pointed out by the author this might be due to the use of aggregate data (Lu 2015).

Some authors writing on China tried to overcome the limitations associated with aggregate data by conducting analysis at provincial or city levels. For example, cross-sectional data comparison at provincial level found a positive effect of the minimum wage on the employment and income distribution of rural migrants in the 2004-2006 period (Wen 2007 in Lin and Yun 2016). Similar equalising impacts on the rural-urban divide were also found in Chongqing City between 1997 and 2010 (Chen 2012 in Lin and Yun 2016). Moreover, the most recent study by Lin and Yun (2016) using city-level minimum wage panel data from 16 provinces also confirmed the inequality-reducing effect of minimum wages.

Finally, the research demonstrates that the effect of the minimum wage on inequality is greater in developing countries than in advanced countries (Maloney and Mendez 2003, Rani and Ranjbar 2015). For example, in Colombia the change in the real minimum wage affects real wages up to four times the value of the minimum wage. This means that the rise in the real minimum wage translates into higher wages not only for the workers whose earnings are concentrated near the minimum wage level, but also for those earning four times the minimum wage. In comparison, in the United States this effect dies off faster, at between two and three times the minimum wage (Maloney and Mendez 2003).

Case study: minimum wages in Indonesia

Indonesia has a complex system of minimum wages, which are set at the provincial level based on a consumption bundle of goods in each province. In addition to provincial minimum wages, separate minimum wages at district and sectoral levels have been adopted. The provincial minimum wages apply to all workers, including piece-rate and freelance workers, apart from workers in domestic services (Rani and Ranjbar 2015).

In 1989 the national government started a process of increasing minimum wage levels in two phases. At the end of the first phase in 1994, the average real minimum wage was 2.4 times higher than in 1989. The two biggest spikes in real minimum wages occurred in 1990 and 1994 when the average level of real minimum wages rose by 50% and 30% respectively (Suryahadi *et al.* 2003). In the second phase, between 2000 and 2002, real minimum wages rose faster than both real average wages and real GDP. While the real average wage rose by around 13% and real GDP per capita rose by 3.5% in 2000, the weighted average of real regional minimum wages increased more than 17% (*ibid.*). The rise of minimum wages in the second phase is also crucial from a policy perspective as the increase happened after the Asian financial crisis, when the country faced the severe consequences of the crisis and stagnation. In 1999 the country's growth dropped to nearly 0%, only to rise to 5% in

2000 and 3.5% in 2001 (Suryahadi *et al.* 2003).

Using the Indonesian Family Life Survey, Chun and Khor (2010) showed that the minimum wage legislation played a crucial role in reducing wage inequality. Between 1993 and 2000, real average wages at the 10th percentile rose at a higher rate than at the 90th percentile for formal workers. Overall a 1% increase in the minimum wage led to a 0.99% increase in real wages for the bottom quantiles compared to a 0.51% increase around the 80th percentile. This corresponded to a decrease in wage inequality (measured through the Gini coefficient) from 0.46 in 1993 to 0.40 in 2000, only to increase slightly to 0.41 later in 2007 (*ibid.*: 11). In addition they observed that between 1993 and 2007 the wage-inequality ratio between the 90th and 10th percentiles declined from 9.72 to 7.21 (*ibid.*: 9). The authors also found positive distributional effects of increases in minimum wages for those earning less than 90% of the minimum wage levels, with their real wages increasing by 14% as a consequence of a 10% rise in minimum wages. Of those earning below 90% of the minimum wage levels, formal-sector workers benefited from the increase more, as their wage rose by almost 20%. Even though there was no significant rise in unemployment, the increase in minimum wages was accompanied by 5% increase in hours worked (Chun and Khor 2010).

Regarding employment effects, the literature offers mixed findings. Studies using annual surveys of manufacturing firms between 1990 and 2006 found negative employment effects for small domestic firms (Cameron and Alatas 2003, Del Carpio *et al.* 2012). Other research found that the effects of the increases varied across sectors and population groups. As argued by Rama (2001: 878) while the effect of increases in the minimum wage on aggregate employment is “barely noticeable”, there is some evidence of large disparities across firms. The author estimated that disemployment effects were larger for small firms, while large companies might have experienced employment gains. Similarly, Suryahadi *et al.* (2003) found that a 10% increase in minimum wages between 1988 and 2000 resulted a fall of 1% in formal urban employment. White-collars workers were the only subgroup which experienced an increase in employment. Contrary to this, recent estimates by Hohberg and Lay (2015) found positive employment effects of increases in minimum wages in the formal sector. In particular a 10% increase in minimum wages between 1997 and 2007 increased the probability of a given worker having a formal sector job by 0.60 percentage points (Hohberg and Lay 2015:17).

Similar variegated effects were observed in wage increases. For example, a 10% increase in the minimum wage had a greater effect on wages of formal workers in large companies, while its effect on wages for workers in smaller companies (those with less than five employees) remained statistically insignificant (Chun and Khor 2010). On the other hand, Rani and Ranjbar (2015) show that increases in minimum wage levels had a significant positive effect for the rural formal sector as well as female workers. While increases in

minimum wages between 1997 and 2007 increased wages of formal workers, the increases had no effect on wages in informal sector.

A system of multiple minimum wages determined by region, sector and occupation, combined with a “relatively high” average minimum wage that reached up to 70% of mean wages, is argued to result in a high incidence of non-compliance, estimated in the late 2000s at 49.2% (down from 64.9% in the mid-2000s) (Rani *et al.* 2013, Belser and Oelz 2013). On the contrary, the national minimum wage policy in Brazil, presented as a case study below, offers an insight into a regime with universal coverage and high compliance.

Regarding effects of the minimum wage on poverty, a simulation exercise by Bird and Manning (2008) concluded that one in four poor households benefited from the 2003 increase in minimum wages. However, the authors incorporated the price effect into their calculation, a methodology that while somewhat innovative, neglects other adjustment channels available to producers.

To conclude, the Indonesian case illustrates variegated effects of rising minimum wages. Despite mixed employment impacts on different subsections of the labour market, the overall employment effect was small or positive. On the other hand, there is a broad agreement about the equality-enhancing effects of minimum wages. In addition, a large number of studies found increases in formal wages for those earning below minimum wage levels.

3.3 Effects of minimum wage regimes on the informal sector

The traditional dual labour market model argues that the introduction of minimum wages expands employment and reduces wages in the informal sector due to the displacement of workers from the formal sector (Khamis 2008). This is contradicted both by the mixed evidence on employment effects already discussed above, and by research from developing countries that finds positive effects from formal-sector minimum wages on average wages in the informal sector. The reason for this ‘spillover effect’ is close interlinkages between the two sectors. Apart from the supply of labour, the formal and informal sectors are also linked through demand for informal-sector goods and services (Maloney and Mendez 2003). Thus, increasing wages in the formal sector can increase employment and wages in the informal economy and vice versa. Moreover, there is strong evidence of the existence of the so-called ‘lighthouse effect’, through which a minimum wage (implemented and enforced in the formal sector) can serve as an indicator of a fair wage in the informal sector as well as a tool for increasing the bargaining power of workers (Saget 2001, Boeri *et al.* 2010, Belser and Rani 2015, World Bank 2015).

This lighthouse effect was confirmed by a number of Latin American country studies (see Amadeo *et al.* 2000, Fajnzylber 2001, Maloney and Mendez 2003). Kristensen and Cunningham (2006), for example, demonstrated that minimum

wages positively affected the wage distribution in the informal sectors in 14 out of the 19 countries studied.¹⁸ In some cases the effect of minimum wages on the distribution of wages in the informal sector was found to be much stronger than in the formal sector (Maloney and Mendez 2003). A more recent study, with data from between 2003 and 2010, by Keifman and Maurizio (2012) confirmed the presence of the lighthouse effect in all six countries observed, including Mexico and Paraguay, where stagnant real minimum wages had ‘no equalising’ effects on formal wage distribution (Keifman and Maurizio, 2012).¹⁹ An additional study of ten developing countries by Belser and Rani (2015) showed that average wages in the informal sector increased between 0.33% and 18% due to the introduction or increase of minimum wages; South Africa and Mali demonstrated the highest increase.²⁰ In countries such as Brazil, Argentina, and Uruguay this effect was reinforced by combining increases to minimum wages with other labour market measures aimed at formalising the labour market.

Overall, the evidence suggests that the effects of minimum wages are not restricted to those earning below and around minimum wages in formal sectors. Rather, the movement of minimum wages in the formal sector also determines the direction of average earnings in the informal sector. In fact, in some cases the effect on the informal sector can be more significant than on its formal counterpart (Rani and Ranjbar 2015).

Case study: minimum wages and falling income inequality in Brazil

Brazil has achieved impressive results in reducing inequality over the past twenty years. According to estimates by Ferreira et al., between 1995 and 2012, wage and income inequality in Brazil measured by the Gini coefficient declined by 20% and 12% respectively, and the 90/10 ratio for labour earnings dropped by almost 40% (Ferreira et al. 2014). While in the first half of the period, between 1995 and 2003, inequality slightly increased and average wages declined, partly driven by the 1999 financial crisis, the second half of the period, between 2003 and 2012, witnessed an unprecedented decrease in income and wage inequality. During this period, real mean and median earnings increased by 28% and 46% respectively. Meanwhile the decline in household income inequality accelerated, and the Gini coefficient fell from 0.58 in 2003 to 0.52 in 2012. At the same time, wage inequality dropped from 0.47 to 0.40 (Ferreira et al. 2014: 5).

The growth in earnings and decline in inequality were associated with large and rapid increases in the national minimum wage. Overall, between 1995 and 2012, the real national minimum wage rose by 103% (Ferreira et al. 2014). In contrast with the first period, the number of workers earning below the minimum wage between 2003 and 2012 remained stable despite the

¹⁸ These fourteen countries are Bolivia, Brazil, Colombia, Chile, Ecuador, El Salvador, Guatemala, Guyana, Mexico, Nicaragua, Panama, Paraguay, Peru, and Venezuela.

¹⁹ These countries were Argentina, Brazil, Chile, Mexico, Uruguay, and Paraguay.

²⁰ These ten countries are Brazil, Costa Rica, India, Indonesia, Mali, Mexico, Peru, Philippines, South Africa and Vietnam.

significant increases in minimum wages (*ibid.*). In this period, falling *wage* inequality can be entirely explained by increases in the minimum wage (Filho, 2012; Komatsu and Filho, 2015).

Extensive research has analysed the various factors contributing to the fall in *income* inequality. According to an ILO/OECD report (2011), increases in wages accounted for two thirds of the fall in income inequality in Brazil between 2003 and 2009. Ferreira et al. (2014) estimate that changes in the distribution of labour earnings contributed between 40% and 55% to the decline in income inequality. An additional 35% to 50% was attributed to non-labour programmes adopted by the government, most prominently the Bolsa Familia (a scheme by which access to conditional social grants was expanded), with demographic changes accounting for the final 10% (Ferreira et al. 2014). Lustig et al. (2012) find similar results in their account of declining inequality in the 2000s, which was “a consequence of both declining labour and non-labour income inequality, with both having approximately equal weight” (Lustig et al. 2012:10).

Strong positive effects of the increasing real national minimum wages can be found across the entire wage distribution (Neri et al. 2000, Fajnzylber 2001, Ferreira et al. 2014). These effects are larger for workers earning near the national minimum wage and smaller for those at the top of the distribution. Although marginal effects of changes in the national minimum wage altered over time, increases to the national minimum wage consistently squeezed the bottom end of the wage distribution (Rani and Ranjbar 2015). When comparing two sub-periods, 1995-2003 and 2004-2012, it becomes clear that increases in the national minimum wage together with greater formalisation of employment in the latter period resulted in rising real average earnings.

In addition, Neri et al. (2000) showed that the minimum wage affects wages of workers whose wages may be different from, but are contractually tied to, the national minimum wage. This is because the national minimum wage is often used as a unit of account, meaning that some wages are set as a multiple of the national minimum wage. Using the 1996 National Sample Household Survey, Neri et al. (2000) estimated that 6% of the workers in the formal sector, 20% in the informal sector and 5% in the self-employed sector earn an exact multiple of the national minimum wage (Neri et al. 2000 in Maloney and Mendez 2003). Wages of these workers would therefore be directly affected by the changes in the national minimum wage.

In addition to having a positive influence on working poverty, the national minimum wage also affects the income of the unemployed. This is because in Brazil the levels of welfare benefits – for elderly and disabled, as well as unemployment insurance – are legally determined by the level of the national minimum wage (Maloney and Mendez 2003; Cunningham, 2007; Melo, 2015). Thus, increases (or falls) in the national minimum wage would lead to increases (or falls) in wages and certain social provisions. This is called the ‘numeraire effect’.

It is worth noting that increases in the national minimum wage helped to raise workers' purchasing power and did not lead to inflation (Neri *et al.* 2000; Berg 2009). Other positive macroeconomic trends and an expansion in formal sector employment also contributed to falling income inequality (Foguel *et al.* 2001).

The minimum wage in Brazil has also helped to decrease inequality between demographic groups, ensuring rising real wages for the most vulnerable groups in the labour market – 16- to 19-year-olds, female workers, and those with no education or only primary education – who are overrepresented among minimum wage earners (Kristensen and Cunningham 2006, Melo 2015). In addition, the most recent study by Engbon and Moser (2016) found greater inequality-reducing effects of the national minimum wage in low-income regions and low-income sectors (which in the Brazilian case include agriculture, services, and commerce). Furthermore the increase in the national minimum wage in February 2009, which injected R\$21 billion, or 0.7% GDP, into the economy, was used as a tool to increase consumption in a time of crisis (Berg 2009).

In addition to falling income inequality, Brazil experienced a reduction in poverty. While 24.9% of people lived below the poverty line in 2003, this number fell to 14.1% by 2008 and to 7.4% by 2014 (World Bank 2015). This was accompanied by a reduction in working poverty (Berg 2009). A study decomposing effects of the national minimum wage on poverty in metropolitan areas between 1995 and 1999 found that a 10% increase in the level of the national minimum wage would reduce poverty by 4% (Foguel *et al.* 2001). Similarly, Neri *et al.* (2000) concluded that a 43% increase in the national minimum wage would reduce poverty by 6% (Neri *et al.* 2000 in Foguel *et al.* 2001). Both of the studies found that the poverty-reducing effect of the national minimum wage is concentrated in the informal sector. However, it is important to note that neither of the studies incorporated potential negative employment effects into their calculations (Foguel *et al.* 2001).

In a comparative study of 11 developing countries Brazil was singled out as a country with a binding minimum wage and a high rate of compliance. A 'binding minimum wage' refers to a minimum wage regime that affects the wage distribution by reducing the proportion of workers earning at or near a minimum wage (Rani *et al.* 2013). The rate of compliance with the minimum wage legislation in Brazil has remained around 80% throughout the 2000s and is argued to be linked to a relatively 'low' minimum-to-mean-wage ratio of 50% and the institutional environment, including the simplicity of administering a national (opposed to sectoral) minimum wage, unionisation, and enforcement mechanisms adopted by the government (*ibid.*).

In sum, during the 2000s, Brazil experienced a rapid decline of both *wage* and *income* inequality associated with greater formalisation of work and

narrowing gender, spatial, skills, and education differentials. The case of Brazil demonstrates that significantly increasing, and effectively enforcing, a national minimum wage can be used to move away from an economy based on low wages (Lustig *et al.* 2012, Ferreira *et al.* 2014, Melo 2015).

3.4 Poverty-reducing effects of the minimum wage

The ability of the minimum wage to affect the incidence of poverty depends on several key factors. The primary factor is the composition of the labour market. The poverty-alleviating effects of minimum wages are significant in countries where a large proportion of minimum wage earners live in poor or ultra-poor households. Scepticism over the minimum wage as an anti-poverty instrument is influenced by studies of advanced countries where most of the poor (the jobless and pensioners) are not part of the labour market (Rubery 2003). However, in developing countries, a large share of the working poor include formally-employed wage workers. For example, in Madagascar in 2005, more than 80% of waged and salaried workers were considered poor, and in Mozambique, Burundi and Tajikistan over 60% of employees were poor (ILO 2013). As minimum wages and poverty lines are much closer together in developing countries, the effect on poverty reduction can be higher than in the case of advanced economies (Lustig and McLeod 1996).

A range of research on developing countries demonstrates that increases in minimum wages are correlated with lower rates of poverty. In their classic work on minimum wages in developing countries, Lustig and McLeod (1996) use cross-national evidence from 22 developing countries to find that in the countries with higher minimum wages, poverty reduction is also higher. In fact, the authors found that real minimum wages remain “an important (and, statistically significant) determinant of poverty” even when controlling for human capital investment or per capita income growth (Lustig and McLeod 1996). They observe that the levels of minimum wages are better predictors of change in the incidence of poverty than average wages, as they tend to affect mainly unskilled wages.

Subsequent country-specific studies have confirmed these findings. In Honduras, simulation exercises found positive effects of increased minimum wages on poverty alleviation (Gindling and Terrell 2010). In India, a simulation by Belser and Rani (2015) showed that if minimum wages were expanded to all low-wage earners, poverty would be reduced by 7 percentage points. Saget (2001) calculated that a 1% increase in minimum wages in Thailand and the Philippines reduced poverty by 0.46%. Research in Nicaragua stressed the importance of intra-household wage distribution in alleviating poverty. The country has a complex system of 12 minimum wages, which are relatively high (Alaniz *et al.* 2011).²¹ Using an individual-panel data set and focusing solely on the private sector covered by the minimum wage legislation, Alaniz *et al.* (2011) showed

²¹ The ratio of the average minimum wage to the mean wage averaged 0.53 and the ratio of the minimum wage to the median wage averaged at 0.8 in the period 1998-2006.

that between 1998 and 2006 the rise in legal minimum wages increased the probability of a poor household moving out of poverty, if the wage increases are aimed at primary earners.

As demonstrated in the previous sections, if set at an appropriate level, minimum wages predominantly raise the wages of low-income earners. However, limited evidence warns that in a small number of cases, minimum wages can benefit earners in the middle- or upper-end of the distribution rather than those at the bottom end of the income distribution (such as in case of Colombia, see Arango and Pachón 2004).²² Also, if set too low, as in the case of Mexico, minimum wages do not change the likelihood of moving out of poverty (Cunningham and Siga 2006 in Gindling 2014). When considering the evidence that the minimum wage increases average wages in both formal and informal sector, we see that the benefits can reach beyond workers in formal employment. As mentioned, in Brazil the poverty-reducing effect of the minimum wage was stronger among workers in the informal sector (Neri et al. 2000, Corseuil et al. 2001).

In South Africa, sectoral minimum wages do not guarantee that the workers are able to move out of poverty. In fact in 2007, according to estimates by DPRU (2010), two thirds of households in which all workers were covered by the sectoral minimum wages were either poor or ultra-poor. At the individual level this accounts for approximately 2.2 million people (DPRU 2010:42) (this study uses a very low poverty line which can underestimate the number of working poor).²³ A simulation exercise from the same study found that in the case of full compliance, the number of individuals living under the poverty line falls to 1.84 million (*ibid.*: 43). Given the extremely low poverty line used, the study indicates that if full compliance is assumed, the 2007 average levels of sectoral minima would have to increase by an average of 6.3% to cover the poverty needs of the affected workers. The largest increases would be required in domestic services and forestry. This does not consider support for dependents nor fully account for the basic needs of workers (see Budlender *et al.* 2015). The ‘working-poor line’ in Finn (2015) – a more comprehensive measure – estimates that 54% of full-time workers, or 5.5 million workers, can be considered ‘working poor’; that is they earn below the working-poor line of R4 125 (in April 2015 rands).

In sum, minimum wages can have a significant impact on poverty. This depends in part on the incidence of poverty among low-wage earners, the employment effect, enforcement and compliance with minimum wage legislation, effects of minimum wages on the informal sector, and the existence of additional safety nets for the poorest.

²² In Colombia increases in minimum wages between 1984 and 2001 had a greater redistributive effect on household incomes of those above the 20th percentile. However, given that 50% of families in Colombia were below the poverty line, these changes in the minimum wage had poverty-reducing impacts (Arango and Pachon 2004).

²³ Using the R322 per month poverty line. When using the R174 per month the number of poor individual declines to 1.4 million.

4 Conclusion

The purpose of this paper was to provide an overview of the effects minimum wages have on inequality and poverty in developed and developing countries. The existing literature for developed countries shows clearly that minimum wages narrow the wage distribution and have a small, negligible, or statistically insignificant negative effect on employment. The research from developing countries shows that there is no automatic and causal relationship between the introduction or increases of minimum wages and disemployment.

Extensive developing country literature points towards the equality-enhancing effects of minimum wages, although the scope of the effects remains debated. The international evidence suggests that the effect of the minimum wage on inequality depends on its effects on employment and earnings of those in the lower half of the wage distribution. As the Latin American region demonstrates, the minimum wage can be a crucial instrument for fighting rising income inequality. Wage increases as a result of minimum wages are higher in the lower half of the wage distribution. Generally, there is a significant positive impact on formal-sector wages for lower-income wage workers, often more far-reaching than in the case of developed countries. In addition, the research confirms that the wage-enhancing effects can be observed in the informal sector, indicating that minimum wages can affect more workers than originally predicted. Minimum wage regimes have therefore contributed significantly to decreasing inequality, demonstrating the redistributive character of the policy.

Finally, the poverty-reducing impacts of the minimum wage stem from the fact that the working poor account for large portions of the population in developing countries. Increasing wages in Latin America were recognised by the World Bank (2015) to be the main driver of poverty reduction between 2003 and 2013. As demonstrated in this paper, in a large number of countries the rising wages were primarily due to increases in minimum wages.

There is no research that directly compares the poverty- and inequality-reducing impact of national (as opposed to sectoral or regional) minimum wages. However, as in the Indian case, there is evidence to suggest that the wider the coverage of the minimum wage, and the higher the level of compliance, the greater the impact on poverty and inequality. National minimum wages are associated with greater coverage and higher compliance. The existing evidence therefore suggests that the institution of a national minimum wage in South Africa could be an important and effective labour-market intervention to tackle poverty and inequality.

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