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Article
Minimum Wages Across Countries

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INTRODUCTION

Minimum wages are widespread nowadays. Their general aim is to ensure that workers are not paid below their marginal productivity (Eurofound 2018), which may happen if workers have little bargaining power. Hence, it is not surprising that some countries with strong social security and trade unions do not have a minimum wage, since unionisation strengthens the workers’ bargaining power. They have other options than to accept a low-paid job and are thus less dependent on an institutionalised minimum wage level. However, if minimum wages exceed the productivity of the least productive workers, firms may not employ these workers. Hence, a minimum wage that is set on a relatively high level, can decrease the feasibility of employing workers who are not productive. This, in turn, leads to a reduction in the employment of these workers, and potentially to a decrease in competitiveness of the producers in the respective geographical area (Neumark and Wascher 2006).

Across the world, scholars try to estimate the effects of minimum wages in real world settings, which is important in terms of evaluating the effects of the minimum wage policy. The most commonly encountered benchmark is the effects on employment: it is generally found that employment decreases after introducing a minimum wage (Neumark and Wascher 2006). Several studies find increases in productivity, offsetting negative effects on competitiveness (International Labour Organization 2018). Moreover, Picl and Richter (2014), among others, have found that an increase in minimum wages above the subsistence level can motivate people to enter the labour force. Bossler and Greiner (2016) have analysed the recent introduction of the minimum wage in Germany in 2015, and find small negative effects (-1.9%) on employment and a moderate increase in average wage (+4.8%) for jobs that were paid below the newly-introduced minimum. However, the number of affected workers was less than 10%. The consensus seems to be that introducing a minimum wage at a moderate level is socially beneficial due to the reduced risk of poverty and increased labour supply, but a higher level is harmful due to its negative effects on employment and productivity. Eurofound (2018) gives a more complete overview of the effects of the minimum wage on wages, productivity, employment and other factors.

Since there is no uniform official definition of the minimum wage, we define the statutory minimum wage throughout this article as the minimum amount of financial reward that a worker receives for working a specified period of time, determined by the (central) government and applicable to the entire geographical jurisdiction and a vast majority of workers. In the absence of a general definition and regulation of the minimum wage, minimum wages should be enshrined in the labour law of each country. Some countries have a de facto minimum level of wages per sector, but this is not ‘statutory’ as it arises from collective bargaining agreements and is not set by the central government.

In the following sections, we will provide a descriptive overview of minimum wages across the world, focusing on Europe and selected other countries. We begin by elaborating on the history of (statutory) minimum wages, their prevalence, the (relative) level of minimum wages and the short-term trends in the level for the countries concerned. Secondly, we consider the numerous exceptions to minimum wages and how countries determine minimum wages. Furthermore, we discuss the extent to which the minimum wage actually affects labour markets across countries and over time. Ultimately, we will cover some of the recent debates regarding minimum wages by taking a closer look at China, South-Africa and Sweden.

HISTORY

The first country introducing a law to set a legal minimum wage was New Zealand, by adopting the Industrial Conciliation and Arbitration Act in 1894 (wageindicator.org 2018). In Australia, the second country introducing such a law, the Victorian Factories and Shops Act in 1896 set the first minimum wage rates. Section 16 of the Act states: “No person whosoever unless in receipt of a weekly wage of at least two shillings and six pence shall...
tries, Denmark, Finland, Italy, Cyprus and Sweden are the exceptions.

MINIMUM WAGE LEVELS

Table 1 shows the main characteristics of minimum wages for a set of selected industrialised countries, as well as some BRIC countries for which data were available. The table lists the minimum wage in the local currency (LCU), the time unit of account (monthly, weekly, daily), the monthly average value in 2018, the PPP equivalent in euro in average EU-28 standards, the level of the minimum wage expressed as a percentage of the country’s median wage, and the date of last change to the system.

The table shows that most countries embrace a system whereby the time unit of account is either hourly or monthly, except for India (daily) and Malta (weekly). The approximately monthly minimum wage in euro terms varies broadly: from 67 euros in the Indian province of Bihar up to 3069 euros in the Swiss Cantons Neuchâtel and Jura. Correcting for prices at the average EU-28 level, this difference decreases: in Bihar it is 215 euros and in Neuchâtel and Jura it is 2,177 euros. Even in terms of a percentage of median wage the differences are large. However, in this relative measure, other countries stand out at both ends: in the USA, the minimum wage is only 34% of the median wage, while in Turkey it reaches 74%. Most countries have recently updated their minimum wage, except for Greece (in 2012 it decreased in absolute terms as a result of the economic downturn) and the USA (2009, although some states have adjusted their minimum level).

However, the comparison between countries is complicated for several reasons. The amounts mentioned are pre-tax figures: disposable household income with the same minimum wage between two countries can be very different. The different time units of account also complicate a meaningful comparison of the numbers, as working hours, national holidays and paid leave days differ.

Minimum wages stated in bigger time units of account for developing countries might thus look higher than they really are: workers may be expected to work longer hours than workers in developed countries. However, the monthly wage says more about how much a worker could earn in total: a worker in a developed country can usually not be paid for more than 40 hours of work. Hence, we report the figures in monthly terms.

Furthermore, many countries make exceptions for specific sectors, young workers and (un)experienced be employed in any factory or workroom (Australian Government 2016). However, this minimum wage was not a universal minimum wage, but instead set minimum wages for six industries. In New Zealand and Australia, the minimum wage was introduced for a similar reason, namely because of campaigns and strikes against the poor working conditions in sweat shops (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt against the poor working conditions in sweat shops, the minimum wage was introduced for six industries. In New Zealand and Australia, the minimum wage was introduced for a similar reason, namely because of campaigns and strikes against the poor working conditions in sweat shops (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt against the poor working conditions in sweat shops (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt against the poor working conditions in sweat shops (Verrill 1915). In the United States, Franklin D. Roosevelt introduced statutory minimum wages nationally (Verrill 1915). In the United States, Franklin D. Roosevelt against the poor working conditions in sweat shops (Verrill 1915).
As mentioned before, many countries differentiate between the minimum wage level depending on different worker characteristics. Table 2 shows the exceptions to the minimum wage based on age, experience, sectors or other aspects. In Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Poland, Portugal, Romania, Slovenia, Slovakia, Slovenia and Spain there are no exceptions (Eurofound 2018).

The age exceptions are mostly set in such a way that young workers do not earn the full minimum wage, but receive depending on their age - a percentage of the minimum wage. For example, in Australia, workers under 16 years receive 36.8% of the minimum wage, 16-year-olds receive 47.9%, 17-year-olds 57.8%, 18-year-olds 68.3%, 19-year-olds 82.5% and 20-year-olds receive 97.7% in 2018 (mywage.org 2018).

In some countries, there is a special minimum wage rate for workers who are in training or still in apprentice. For example, in Switzerland the minimum wage is adjusted if the employees are more qualified and experienced workers. We will discuss this later in the report.

There are different minimum wage rates in countries depending on the sector. For example, in the USA there are different rates for workers, who receive tax-free tips (United States 2018). In Hungary, workers employed in public work programs, which are programs for unemployed people or permanent job seekers (Belgiumizmertatú 2018), get a wage that is determined separately by the government (Eurofound 2018). In Japan, there are exceptions for workers who perform simple jobs (United States 2018). In New Zealand and Germany, employers may subtract board and lodging cost from the minimum wage, especially for those who have been employed by the same employer for one (two) years and who were paid the minimum wage.

There are also different rates for workers who are in training or still in apprentice. For example, in Belgium, the rate of the minimum wage is increased if the employees are more qualified and experienced workers. We will discuss this later in the report.

TRENDS

To further explore minimum wages, it is interesting to consider the changes in recent years. Figure 3 shows the changes in real terms of the minimum wage for the countries mentioned in Table 1 that already had a minimum wage in 2012. We observe that, in most countries, the minimum wage has increased over the past five years in real terms. In Eastern European countries and countries that show large GDP growth in particular, the increase is between 20% and 80%. In most developed countries, an increase is observed, but it is fairly moderate (less than 20%). Only Greece and the USA saw their minimum wage decline in real terms. In absolute terms, however, the minimum wage in these countries did not change.
In most countries, the government sets the level of the minimum wage. However, normally the government follows consultation from other bodies. In some countries, the determination takes place in a tripartite setting, or expert committees. Outside of the tripartite or expert committee, in some countries trade unions, or employers’ organisations, for example, can play a significant role by consulting the government. Some countries also rely on an indexation mechanism, depending on several components, such as the inflation rate or the consumer price index, which generally automatically update the minimum wage. Table 3 gives an overview of all highlighted countries.

Role of the government: As mentioned before, in most countries, the government has the power to set the level of the minimum wage. In 2017, for example, the majority of EU member states decided on the final level of the minimum wage by taking into consideration the recommendations of other players or mechanisms. By contrast, in some EU member states (Czech Republic, Poland, Portugal, Romania, Slovakia and Slovenia) the government consulted other parties, but because they did not reach an agreement, the government decided unilaterally on the level of minimum wage (Eurofound 2018).

Tripartite: in some countries consultation takes place in tripartite bodies. Those tripartite bodies normally consist of the government, unions and employers. In 2017, most EU member states were consulted about the determination of the minimum wage by a tripartite body. Some of the tripartite bodies provided a non-binding recommendation (Eurofound 2018). However, tripartite bodies are not only important in the process of determining the minimum wage in EU member states, but also, for example, in Japan and Turkey (wageindicatort.org 2018). In Turkey, the tripartite body, called the Minimum Wage Determination committee, even sets the minimum wage rate by a tripartite body, which, in turn, only needs to be announced by the government. The body is composed of fifteen members; an equal number of representatives of the government, trade union and employers’ organisation. The decisions are taken under the majority of votes of its members (International Labour Office 2014).

Independent expert committees: in some countries, for instance in Australia, Brazil, France, Germany, or Romania, an independent expert committee is established to consult the government about the level of the minimum wage. In Australia, this committee is called Fair Work Australia’s Minimum Wage Panel. There are five Commissioners from a range of backgrounds, including economics, business, social justice, workplace relations, academia and community service. Each financial year Fair Work Australia’s Minimum Wage Panel conducts an annual review and decides, based on this review, the level of minimum wage. The review considers written submissions from interested organisations and individuals, consultations before the Expert Panel and research commissioned by the Panel. The decision is then incorporated in the minimum wages changes, which are carried out by either the States or the Federal Tribunal (Australian Government 2018c).

Outside of tripartite or expert committee: Trade unions and employers’ organisations can also play a significant role in the determination process of the minimum wage level. In 2017, trade unions and employers’ organisations negotiated the level of the minimum wage, independently of any tripartite or expert committee, for example in Bulgaria, France, Hungary, Latvia and the United Kingdom. However, in Hungary and Bulgaria trade unions and employers’ organisations did not reach a consensus on the level of minimum wage in 2017 (Eurofound 2018).

Indexation mechanism: In Belgium, Brazil, in some states in Canada, China, India, the Netherlands, Malta and Turkey, an indexation mechanism to adjust the minimum wage level is normally used. In China, for instance, this indexation mechanism includes regional economic factors, including average living expenses and minimum wage rates and the level of development (wageindication.org 2018). In Turkey, the tripartite body, called the Minimum Wage Determination committee, even sets the minimum wage by a tripartite body, which, in turn, only needs to be announced by the government. The body is composed of fifteen members; an equal number of representatives of the government, trade union and employers’ organisation. The decisions are taken under the majority of votes of its members (International Labour Office 2014).

In the light of the absence of minimum wage in several countries, and the fact that in a large number of countries have very different minimum wages despite major wealth differences, it may be worth considering how wage indexation can be used to address some of the challenges. In the case of China, for example, an indexation mechanism to adjust the minimum wage level is normally used. In China, for instance, this indexation mechanism includes regional economic factors, including average living expenses and minimum wage rates and the level of development (wageindication.org 2018).

Table 3

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<tr>
<th>Government</th>
<th>Independent Expert Committee</th>
<th>Tripartite (government, unions, employers)</th>
<th>Examples for bodies outside the tripartite or expert committee</th>
<th>Social partners jointly</th>
<th>Trade unions</th>
<th>Employees’ organisations</th>
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but has not yet entered into force and the third country is Sweden, which does not have a minimum wage.

China, as a developing country, is an interesting example of the conflicts that can be triggered by raising minimum wage levels. In 2018, all 37 provinces and municipalities raised the minimum wage level, whereas in 2017, only nine provinces increased it. General wages, however, have not increased naturally through market mechanisms. Although the demand for workers is high, wages in general are not rising. One reason is that the urban employers have been able to attract workers from rural areas, keeping the labour supply high (Cal 2017). Therefore, it is suggested that the increase in the level of minimum wage is now a policy of Chinese President Xi Jinping, who pledged to wipe out poverty by 2020 and is now putting pressure on provinces making sure that the minimum wage acts as a safety-net (Cal 2017). However, there is a fear that with rising labour costs, many investors are choosing to relocate the manufacturing of low-value and labour-intensive products to provinces of China, or to other low-wage countries like Vietnam (Kotsi 2018). Opponents are afraid that China will lose its comparative advantage given the abundance of low-wage labour outside of China. Furthermore, opponents also argue that raising the minimum wage can decrease opportunities for low-wage workers (Fang and Lin 2013). Overall it must be said that, even with the increase in the minimum wage, China has one of the lowest minimum wage levels in the world (see Table 1).

In South Africa, the minimum wage was approved by the cabinet in November 2017 and meant to be introduced in May 2018 (Winning 2018). However, it has not been enforced yet (The South African 2018). According to the government, its introduction was delayed due to request from interested parties for changes to the Bill. Several important issues were raised in public hearings, which South Africa’s parliament will consider including in the Bill (South African Government 2018).

The original reason for introducing the minimum wage was to positively intervene in addressing the poor. The minimum wage bill is considered as part of an effort by President Cyril Ramaphosa to tackle strikes and wage inequality (Roelf 2018). However, opponents remain unsure, if the minimum wage bill will increase unemployment, since some employers will not be able to afford higher wages. Thousands of union members protested against the bill, saying the bill is an injustice. The proposed minimum wage will destroy jobs for the marginal workers and prevent them from entering the labour market (Roelf 2018).

In Sweden, the minimum wage is not regulated by law. Instead, it is subject to bargaining between employers and trade unions and is one part of the collective agreements. Sectoral minimum wages mainly cover service sectors like hotels, restaurants and retail. By international standards, sectoral minimum wages are relatively high and have been increased concurrently - by almost 60% between 1995 and 2016. One reason is that the labour market relies on powerful social partners and coordinated wage bargaining, which, in turn, gives Swedish workers a strong negotiating position (Thorvaldsson 2018; Skedinger 2008). Additionally, Sweden has the reputation of being the “working poor”. Low income workers can rely on social assistance, which is so high that the income of households with children without a labour income may be higher than the sectoral minimum wage in a service sector (Skedinger 2008). Despite having a high minimum wage, Sweden’s unemployment rate is still low. Therefore, Thorvaldsson (2018), the President of the Swedish Trade Union Confederation, concludes that Sweden is an example that contradicts the argument that higher real wages necessarily lead to more unemployment (Thorvaldsson 2018).

SUMMARY

Government-set minimum wage levels have been around for over 100 years. Nowadays, the statutory minimum wage is considered an important policy instrument to prevent workers from being underpaid without harming employment when set at an appropriate level. Thus, most countries have a statutory minimum wage and in most countries the level has been raised in recent years. However, the absolute level of a minimum wage says little about its relative level. Representing minimum wage as a percentage of median wage or reporting the number of workers earning close to the minimum wage, we shed light on the stringency of the various minimum wage policies. Furthermore, adding the strength to the implementation of the minimum wage in terms of which groups are exempt from the minimum wage and the differences appearing in how and by whom the level is determined has been discussed.

Although the principle of the statutory minimum wage is well-established, it remains a continuous matter of debate: both in countries that have adopted it such as China, but also in countries that have not. The minimum wage is calling for the introduction of a minimum wage, as in South Africa. Ultimately, some countries like Sweden prove that there are other paths to a de facto minimum wage that achieves the same goals.

REFERENCES


