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Article
Minimum Wages Across Countries

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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...
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 first introduced statutory minimum wages nationally in 1938 (Minimum-Wage.org 2018). Members of the European Union started to introduce minimum wages in the second half of the 20th century. Of all the member states that have set a minimum wage, Germany was the last to introduce one in 2015 (Eurostat 2018). In South Africa, the National Minimum Wage Bill was approved in 2017, but has not been enforced yet (The South African Government 2018). A timeline for the introduction of minimum wages of selected countries is shown in Figure 1. Figure 2 shows that most countries have a statutory minimum wage. There are two types of countries without a statutory minimum wage: progressive countries with high levels of GDP and strong trade unions and sectoral minimum wages, which are determined in collective bargaining agreements per industry; and developing countries. Some of the latter countries only have a minimum wage for public workers, which may even be higher than the average wage in the country, as in Afghanistan, for example (United States 2017). These countries do not effectively have a statutory minimum wage, as the market sectors are not restricted by a minimum wage level. In North Korea, few market forces are at play and trustworthy information about wages is not available (United States 2017). Furthermore, several countries have different minimum wages depending on the industry in which a worker is employed, or sometimes a uniform minimum wage, which only applies to specific industries. In the European Union, 22 countries currently have a statutory minimum wage. Austria, 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, hourly), the monthly and annual 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 2069 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 2,117 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 other 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 workers.
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, Slovakia, Slovenia, and Spain there are no exceptions (Eurofound 2018).

The age exceptions are mostly set out 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-old workers receive 47.3%, 17-year-olds 57.8%, 18-year-olds 68.3%, 19-year-olds 82.5% and 20-year-olds receive 97.7% in 2018 (myway.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 Ireland, the minimum wage is adjusted for young workers that are still in the educational system. In the first trimester, the minimum wage is 75% of statutory wage, in the second trimester 80%, and in the final trimester 90% (one trimester must be at least one month and no longer than one year). In Luxembourg and Malta, the rate of the minimum wage increases if the employees are more qualified and experienced (Eurofound 2018).

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 programmes, which are programmes for unemployed people or permanent job seekers (Belgiumi miniszterium 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 young workers (United States 2018). In Japan, there are exceptions for workers who perform simple jobs (United States 2018).

TRENDS

To further explore minimum wages, it is interesting to consider the changes in recent years. Figure 1 shows the change in real terms of the minimum wage for the countries mentioned in Table 1 that already had a minimum wage in 2012.1 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 30%). 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.

1 For India, data were not available for 2012.
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 setting of the minimum wage rate 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 (wageindicator.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 committee: In some countries, for instance in Australia, Brazil, France, Germany, or Italy, 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 2018). 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 social security contribution, unemployment rate and the level of development (wageindicator.org 2018).

In the light of the absence of minimum wage levels in several countries, and the fact that not all countries have different minimum wage levels in various countries. The cross-country statistics are partly harmonised and only count workers above 21 to prevent various exceptions to affect these numbers. In 2014, it ranged from 0% in Belgium (despite having a relatively low level of medium level of minimum wage) up to 43% in Turkey (which has a relatively high minimum wage). High figures can indicate that there are distortions effects (the minimum wage is strictly enforced) compared to the non-regulated scenario: many workers only get paid the minimum wage, whereas they might have had a lower wage in the non-regulated case. Nine countries had a share of 5% or less, implying that the minimum wage probably has very small distorting effects in those countries. All of the latter countries also set their minimum wage at levels below their median wage. Eurofound (2018) attempted to list the percentage of working people receiving the minimum wage from various national sources. In European countries, this percentage ranges between roughly 3% and 40%. What is remarkable is that the share of workers earning close to the medium wage in some Eastern European countries (including Romania, Bulgaria, Estonia) rose quickly in recent years. One possible explanation could be the sharp increase (see Figure 2) in the minimum wage. However, GDP also increased at a fast pace, which may have taken place at the same time as changes in income distribution (due to the full adoption of Romania and Bulgaria into the EU single market for free capital and labour in 2014), not pushing up wages for manual labour very much, but increasing them more in other sectors.

DEBATES OVER MINIMUM WAGE IN CHINA, SOUTH AFRICA AND SWEDEN

In recent years the minimum wage has been widely discussed. In the following, three countries are selected to be reviewed in further detail: one is China, where there is a minimum wage, the second is South Africa – where the National Minimum Wage Bill has been approved.
However, there is a fear that on provinces making sure that the minimum wage acts wipe out poverty by 2020 and is now putting pressure high (Cai 2017). Therefore, it is suggested that attract workers from rural areas, keeping the labour is Sweden, which does not have a minimum wage.

In Sweden, the minimum wage is not regulated by collective agreements. Sectoral minimum wages mainly employers and trade unions and is one part of the collective law. Instead, it is subject to bargaining between labour market (Roelf 2018).

The proposed minimum wage will destroy jobs for the to afford higher wages. Thousands of union members remain unsure, if the minimum wage bill will increase wage inequality (Roelf 2018). However, opponents are afraid that China will lose its comparative advan-

The original reason for introducing the minimum wage was to positively intervene in addressing the poor. The minimum wage bill is considered as a 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 protected by the bill, saying the bill is improper. 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 (Thorwaldsson 2018; Skedinger 2008). Additionally, Sweden is a country where 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, Thorwaldsson (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 unemploy-

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 appropri-

REFERENCES


