



Minimum wage setting in Europe and beyond – the ILO perspective

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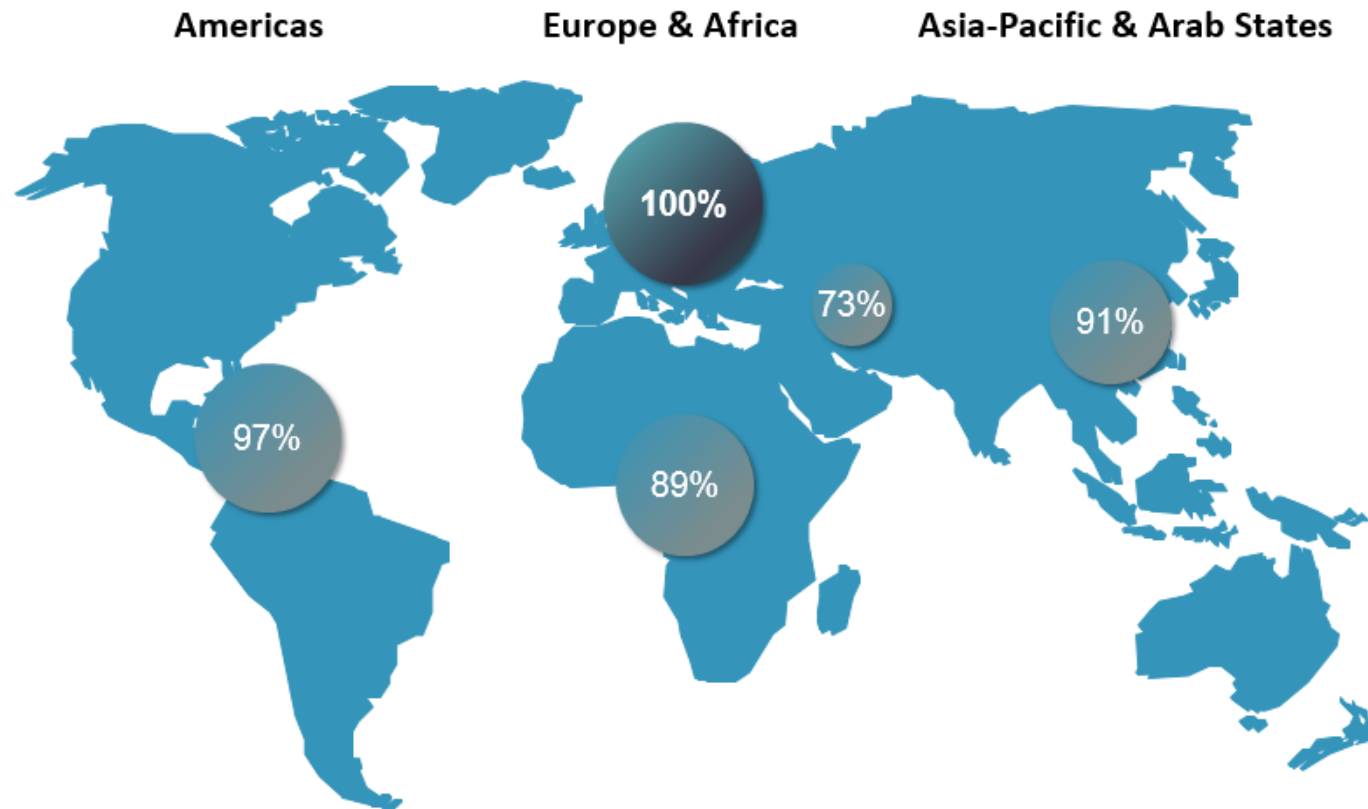
What is a minimum wage ?

The minimum amount of remuneration
that an employer is required to pay wage earners
for the work performed during a given period,
which cannot be reduced by collective agreement
or an individual contract



MINIMUM WAGES HAVE THE FORCE OF LAW

Minimum wages exist in about 90% of ILO member States



Minimum wages have a long tradition

- UK and New Zealand first introduced one in 1909
- US adopted one in 1938 through the Fair Labor Standards Act towards the end of the Great Depression
- During these early years minimum wages covered relatively few categories of workers and were made to protect especially vulnerable workers.
- Also these were considered as temporary measures, to be phased out once wage bargaining between social partners would be established.
- After WWII the idea moved towards permanent national minimum wage with broad coverage
- Last EU member to introduce a statutory minimum wage was Germany in 2015

Why did so many countries introduce or strengthen their minimum wages ?

- Protect workers against unduly low pay
- Concerns about the lack of inclusive growth and the negative effects of high inequality
- Recent experiences show that minimum wages, if set at an adequate level, can be an effective instrument to promote decent work
- Keynesian idea of demand side policies

The principle of an adequate minimum wages is at the heart of the ILO mandate

- The preamble of the 1919 ILO Constitution calls for “the provision of an adequate living wage” and “recognition of the principle of equal remuneration for work of equal value”
- The *Declaration of Philadelphia*, 1944, and the ILO *Declaration of Social Justice for a Fair Globalization*, 2008, call for wage policies “to ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection”
- The *Declaration for the Future of Work*, 2019, states that “all workers should enjoy adequate protection in accordance with the Decent Work Agenda, taking into account [...] an adequate minimum wage, statutory or negotiated”

International labour standards on minimum wage fixing

- ILO Convention No.26 (the *Minimum Wage-Fixing Machinery Convention*) was adopted in 1928 and has 105 ratifications
- ILO Convention No.131 (the *Minimum Wage Fixing Convention*) was adopted in 1970 and has 54 ratifications
- A “General Survey” of Convention No. 131 was carried out in 2014 by the CEACR

Key elements of C.131 – the main ILO tool for MW setting

1. Scope of application
2. Consultation with social partners
3. The level of the minimum wage
4. The need to adjust and monitor the minimum wage
5. Implementation measures

Key elements of C.131: 1) a broad scope of application

- Members should “undertake to establish a system of minimum wages which covers all groups of wage earners whose terms of employment are such that coverage would be appropriate” (Article 1)
- Exclusions are possible but should be kept to a minimum (Recommendation No. 135)

Exclusions should be kept to a minimum (...) particularly in relation to vulnerable categories of workers

Example:

- Domestic workers
- Workers in agriculture
- Home-based workers
- Workers in the informal economy
- Migrant workers

How many rates should there be?

- No answer in ILO standards on the number of rates, it depends on country preferences for national, sectoral or geographical rates
- The principles of non-discrimination and equal remuneration for work of equal value should be respected. Wage differences should be based on “objective valid criteria”, such as skills, education, or work experience.

Key elements:

2) consultation with social partners

- ILO C.131 calls for “full consultation with representative organisations of employers or workers”, or where they do not exist with “representatives of employers and workers” (Article 4)
- Where appropriate, C.131 recommends the participation of social partners on a basis of equality as well as of experts, representing the general interest of the country

Most countries undertake these consultations through national commission

- There is a wide variety of national commissions, ranging from general national tripartite bodies to more specific tripartite or bipartite(+) minimum wage commissions
- National commissions are not only a means of undertaking consultations, but also serve as an instrument of policy coordination and of continuity over time (monitoring)

Key elements:

3) The level of the minimum wage

Should be evidence-based

Minimum wage levels should take into account :



Needs of workers and their families

- Taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups



Economic factors

- Including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment

Key elements:

4) the need to adjust the minimum wage

- “Minimum wage rates should be adjusted from time to time to take account of changes in the cost of living and other economic conditions” (Recommendation No. 135)
- If the “aspirational” minimum wage exceeds the economy’s immediate capacity, a medium term strategy can be adopted

Some challenges

- In many countries there is little regularity or predictability in minimum wage adjustments (although EU better than rest of the world)
- What criteria are used to adjust minimum wages? Criteria include changes in the CPI, the evolution of labour productivity or economic growth, and general economic and employment circumstances

Importance of monitoring the effects of minimum wages

- Effects on wages and incomes of workers and their families
- Effects on employment, the sustainability of enterprises, and other economic indicators
- Effects on government finances (public sector wage bill)

Who benefits from minimum wages?

1. Workers who previously earned less than the minimum wage
2. Some workers who previously earned more than the minimum wage may experience “spillover” effects

Do minimum wages help to reduce the gender pay gap?

Women are often over-represented among the low-paid workers



Examples:

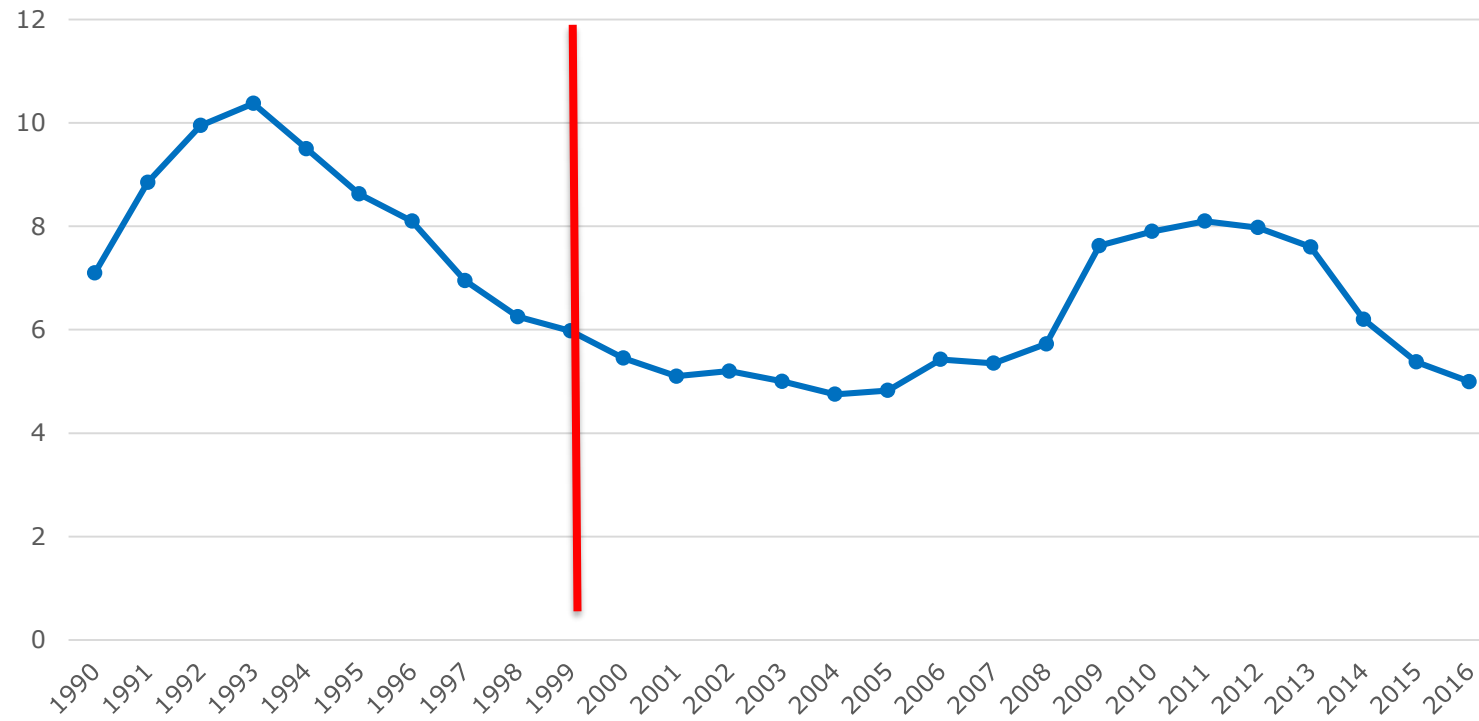
In France, women represent 44% of all employees, but 57% of minimum wage earners

In Germany, women represented 62% of workers paid less than Euro 8.50 before the introduction of the new minimum wage



Do minimum wages hurt jobs?

Example:
the unemployment rate in the U.K.

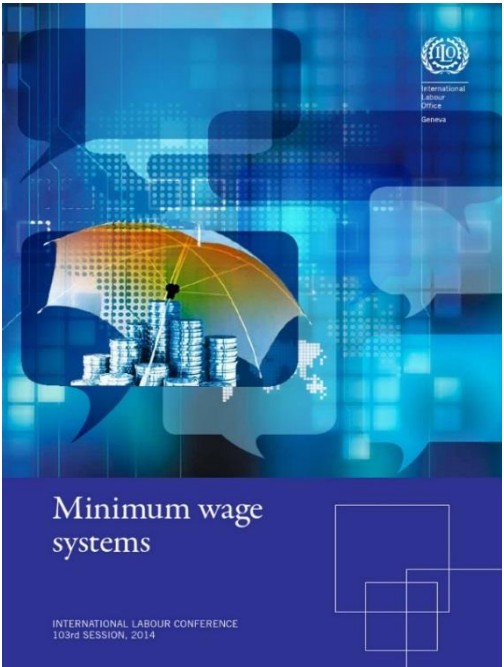


Key elements:

5) implementation measures

- ILO C.131 calls for the implementation of appropriate measures to ensure the effective application of all provisions relating to minimum wages => requires clear definition
- Measures may include labour inspections, adequate sanctions, information campaigns, training activities, training activities, measures to formalize the informal economy, as well as wage protection systems

For further information ...



Minimum wages >

- Definition >
- Number of rates >
- The setting machinery >
- Beneficiaries >
- The level >
- Enforcement >
- Monitoring effects >
- Domestic workers >

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Minimum wages



Welcome to the ILO Minimum Wage Policy Guide!

In recent years, many countries have established or strengthened minimum wages to eliminate unduly low pay and promote decent work.

In this context, governments from all parts of the world, as well as employers' and workers' organizations, have asked the ILO for information on a wide range of practical issues.

Based on existing ILO standards and the diversity of international practice, this website provides information on key questions of good practice and highlights different choices that



[**www.ilo.org/minimumwage**](http://www.ilo.org/minimumwage)



THANK YOU!