

# “Minimum Wages in Developed and Developing Countries “

## Project description

Minimum wages were firstly introduced in the early 19<sup>th</sup> century. Currently about 90 per cent of all countries have statutory minimum wages. However, minimum wages can be set in different ways and can have fundamentally different roles in different countries. They can be set on hourly or monthly basis for all employees. But, minimum wages can also be differentiated according to industry, profession, age, region etc. Minimum wages can be set by governments and through the collective bargaining process if the negotiated wages are declared binding for all firms in an industry. They can be set autonomously by the government with or without consultation with trade unions and employers' associations or automatically following a certain rule. While they may have only a symbolic meaning if they are unrealistically low, they also can be effective and important for a substantial number of employees. Last but not least unions may be in favour of minimum wages or against their introduction. In short: minimum wages must be judged as part of general labour market institutions which reflect country's specific developments and constellations.

Over the last decades minimum wages gained importance. This reflects in many cases the weakness of unions which were not able to prevent in some segments of the labour market very low wages compared to the national average wage. To a certain extent minimum wages became a substitute for efficient wage bargaining between trade unions and employers' associations. Germany is a good example for the need to implement minimum wages in some German industries in regions where union density is too low and employers' associations represent so few firms that wage bargaining is insufficient to create a general level for wages. Some social democratic parties which rule in countries with weak unions and very flexible labour markets have been using minimum wages to include a social dimension in their otherwise rather neoliberal policies. Great Britain under Tony Blair is a good example for this case as well as Bill Clinton in the 1990s in the United States. However, there are also countries with a more or less only symbolic meaning of minimum wages because statutory wages are too low to affect a relevant number of employees. For this case Spain is a good example.

Minimum wages are a theoretical and political topic in developing and developed countries. In both groups of countries statutory minimum wages cover the formal sector of the economy; that means the sector in which statutory provisions are at least more or less followed. In both groups of countries an informal sector exists which is beyond the direct reach of statutory provisions. Typically in developing

countries the informal sector is much bigger than the formal sector and minimum wages may also indirectly influence wages in the former.

The project Minimum Wages in Developed and Developing Countries exists since 2008 and includes researchers from India, Iran, South Africa, Brazil, Germany, Russia, China, Namibia, Nigeria, Ghana, Turkey, Cambodia and Malaysia. As a part of this project one working paper was published: Herr/Kazandziska/Mahnkopf-Praprotnik (2009): The Theoretical Debate about Minimum Wages, and one is in the process of printing: Herr/Kazandziska (2010): Principles of Minimum Wage Policy: Economics, Institutions and Recommendations. The project Minimum Wages in Developed and Developing Countries puts a focus on explaining:

- Socio-economic trends and industrial relations,
- Characteristics of minimum wage setting (minimum wage design and institutional setup, the size of the minimum wage,
- Relationship to subsistence wages, average wages and social security,
- Relationship between minimum wages and collective bargaining,
- Signalling effect on wages in the formal and informal economy,
- Minimum wage beneficiaries,
- Monitoring, implementation and enforcement of the minimum wage law ,
- Selecting best practices and drawing recommendations for minimum wage policies.