PART II | Minimum wages and collective bargaining

Part II of this first *Global Wage Report* highlights the effects on wages of minimum wages policies and collective bargaining. Both minimum wages and collective bargaining are part of a broader set of labour market institutions, defined broadly as comprising "rules, practices and policies – whether formal or informal, written or unwritten – all of which affect how the labour market works".[55] While wages are linked to labour productivity and general economic conditions (as we have seen in Part I), they are also mediated by a set of institutions, including trade unions and minimum wage policies.[56] In practice, the relative influence of these institutions varies across countries and over time, but in most countries they form part of the societal and labour market governance structures in which employees and employers interact and determine wages.[57] All around the world, governments rely on wage policies to correct the failure of the market to produce outcomes that are socially desirable, morally acceptable or in line with local perceptions of social justice.

In section 4, we first present some global trends for both the levels of minimum wages and the numbers of workers covered by collective bargaining agreements. We find that while there is a revival of minimum wages, trends in collective bargaining are more contrasted. In section 5, we present some evidence as to how collective bargaining and minimum wages affect wage outcomes. This evidence shows that the effects of these two wage policies are quite different. Whereas collective bargaining affects both the level of wages and wage distribution, the effect of minimum wages is limited to the wage distribution in the lower half of the labour market. Section 6 thus emphasizes the importance of using minimum wages as an instrument of social protection, to provide a decent wage floor, and not – as is too often the case – as a permanent substitute for bargaining among social partners. Section 6 also provides some simple but relevant recommendations for a coherent articulation between minimum wages and collective bargaining.

[55] Berg and Kucera (2008), p. 11.

[56] Normative standards of fairness also play a role; see for example Dickens et al. (2007). Economic decisions and actions such as wage negotiations are also "embedded" in social networks, culture, politics and religion. See Granovetter (2005) or Gibbons (2005).

[57] This assertion is from Hirsch (2006).

4. Recent trends

4.1. The revival of minimum wages

The ILO defines a minimum wage as a wage which provides a floor to the wage structure in order to protect workers at the bottom of the wage distribution.[58] Minimum wages are a nearly universal policy instrument – they are applied in more than 90 per cent of ILO member States.[59] However, the level at which minimum wages are set varies greatly between countries, as do the rate and frequency at which they are updated. To document worldwide trends in the levels of minimum wages, new data were collected to update the ILO's database on minimum wages. These new data focus mainly on the period 2000–07. Overall, our expanded database now includes information on levels of minimum wages in more than 100 countries, whose populations represent about 90 per cent of the world's total population. We have estimated the annual increase in minimum wages in real terms (i.e. adjusted for inflation) for all these countries. This provides an indication of the purchasing power of those who earn the minimum wage. We have also calculated two additional country-level indicators. The first is the ratio of the minimum wage to the average wage – a measure of the extent to which countries try to reduce wage inequality through minimum wage policies. The second is the ratio of the minimum wage to GDP per capita, which provides an indication of how changes in the rates of minimum wages relate to changes in the overall levels of labour productivity.[60]

Some of the conceptual difficulties in computing indicators for minimum wages should be highlighted here. Although changes in nominal and real minimum wages may appear to be very easy to compute, this is not always the case. The main reason is that most countries do not just have one minimum wage rate. As this report will discuss in more detail, countries often have several rates for minimum wages, which can vary by region, age of worker, economic activity or professional occupation. This can make it difficult to estimate one minimum wage level per country, which in turn makes it difficult to compare minimum wages with other economic indicators, such as GDP per capita or economy-wide average wages. As a general rule, and with some exceptions, we have chosen what we consider the most relevant minimum wages (usually the rate applicable to the largest number of workers). In the case of large countries with large regional disparities, we have used an average of the most relevant regional minimum wage rates.

[58] From a legal perspective, a minimum wage must have the force of law and be enforceable under threat of penal or other sanctions.

[59] Significant exceptions are some Gulf countries, such as Bahrain, Saudi Arabia and the United Arab Emirates, which are host to a large number of still poorly protected migrant workers.

[60] Of course, here again, the ratio of minimum wages to GDP per capita is a very imperfect indicator, mainly because GDP per capita is an imperfect indicator of labour productivity, but it is more frequently available than average wages (especially in developing countries). Also, *change* in the GDP per capita is commonly accepted for estimating *change* in labour productivity over time. The ratio of the minimum wage to GDP per capita should, however, be interpreted with care in cross-country comparisons, particularly because countries differ in the proportion of the population that is employed. See, for example, Saget (2008) for a more detailed discussion on appropriate minimum wage indicators.

Our trends reveal that in recent years, minimum wages have enjoyed something of a revival. Globally, over the period 2001–07, more than 70 per cent of the countries included in our sample increased their minimum wages in real terms. On average, the minimum wages in all countries increased by 5.7 per cent in real terms. This represents a substantial gain in the purchasing power of those earning minimum wages compared with the beginning of the century, and is in contrast with some previous periods, when the real value of minimum wages declined. Real gains for those earning minimum wages were substantial in both developed economies (+3.8 per cent) and developing countries (+6.5 per cent).

Perhaps most symbolic of the revival of minimum wages in developed countries is the case of the United Kingdom, which, after having dismantled its system of industry-level minimum wages in the 1980s, adopted a new national minimum wage in 1999. Since then, the national minimum wage has been increased by 3.5 per cent per year in real terms. In addition to the UK example, Spain has increased its minimum wage relatively rapidly, and Ireland introduced a national minimum wage for the first time in the year 2000. Among the newer members of the EU, minimum wages were generally raised substantially, with a view to progressively catching up with the levels in older Member States.

Developing countries are also increasingly uprating their minimum wages to provide social protection to vulnerable and unorganized categories of workers. Regional powers such as Brazil, China and South Africa are among the main drivers of this upward trend. In China, for example, new regulations on minimum wages were issued in 2004 in the face of growing concerns about increasing wage inequality. In Argentina and Brazil, minimum wage policies were revitalized to help reverse the decline in the wages of low-paid workers. And in South Africa, wage floors were introduced in 2002 to support the wages of millions of low-paid workers in different economic sectors.

Individual country experiences sometimes diverge from this upward trend. In the Netherlands, the value of the minimum wage stagnated – this also led to stagnation in social security benefits, which are coupled to the minimum wage. In the United States, the federal minimum wage lost about 17 per cent of its real value between 2001 and 2007 – at the end of 2007 it was increased for the first time in ten years. This loss in value will now be compensated for by a series of increases planned for 2008 and 2009. The minimum wage has also lost value in Georgia, where it declined by more than 6 per cent per year in real terms during 2001–07, and in a sizeable number of African countries. Overall, however, these examples remain a minority within the overall upward trend in minimum wage rates worldwide.

When we compare minimum wages with average wages and GDP per capita, the picture is slightly more complicated (see table 2). We find that minimum wages globally have increased slightly relative to average wages (from 37 per cent in 2000–02 to 39 per cent in 2004–07), mainly due to the upward trend in developing countries. Compared with GDP per capita, however, minimum wages have remained stable in developed countries and have declined globally (from 68 per cent to 60 per cent). This mainly reflects the strong growth in average labour productivity in developing countries, which did not fully translate into corresponding increases in minimum wages at the lower end of the labour market.

Table 2 Trends in minimum wages

	Real growth in minimum wages (%)	Minimum wages/ average wages (%)		Minimum wages/ GDP per capita (%)	
	2001–07	2000–02	2004–07	2000–02	2004–07
Developed countries	+ 3.8	39	39	38	37
Developing countries	+ 6.5	36	40	76	68
Total	+ 5.7	37	39	68	60

Source: ILO Wage Database

Significant differences also remain in the levels of minimum wages across countries. Among developed economies, Spain and the United Kingdom have set relatively low minimum wages, at about 35 per cent of average wages, while in France the SMIC[61] was raised to about 50 per cent of average wages – the highest level among any developed economy. In former and current transition countries, minimum wages have increased rapidly but remain relatively low. In Estonia, for example, where the real value of the minimum wage increased rapidly between 2001 and 2007, its level is now around 32 per cent of average wages. In other countries, such as in Georgia and Russia, the rate is even lower, at 10 per cent or less of average wages in 2007. In general, the levels of minimum wages remain highest in Latin America, with a regional average above 50 per cent of average wages.

4.2. Contrasting developments in collective bargaining coverage

We now consider the global trends in the numbers of workers who benefit from collective bargaining. In theory, this can be measured by the so-called "coverage" of collective bargaining, which is defined as the proportion of wage workers under a collective agreement. Unfortunately, comparative statistical information on such coverage is still relatively scarce. There are at least two reasons for this. The first has to do with the different measures that are used. One measure – the *unadjusted* rate of collective bargaining coverage – is the number of employees covered by a collective agreement as a proportion of the total number of employees (i.e. as a proportion of the total number of wage earners). This indicator shows the extent to which the employment of wage earners is regulated by collective agreements. Another measure is the *adjusted* rate of collective bargaining coverage – which excludes from the denominator all employees who are not eligible to bargain collectively, such as certain groups of public employees (for example, the police or the armed forces) or workers in the informal economy. If different measures have been used, the resulting data can not be used for meaningful international comparisons.

The second, more problematic, reason for the lack of data has to do with the difficulty of estimation. In most countries it is impossible to know the exact number of

[61] *Salaire minimum interprofessionnel de croissance.*

workers covered by collective bargaining agreements simply because there are no registration processes and no monitoring of agreements. It is only in those countries where collective bargaining is the most developed (and where the coverage rate is probably also the highest) that collective agreements are well monitored. There are a few exceptions in developing countries, such as the Philippines. Other methods of estimation include extrapolation from household or labour force surveys. However, in developing countries, a question asking whether the respondent's job is covered by a collective agreement is rarely included.

In the light of these difficulties, data on coverage are often estimated by the bargaining parties themselves. For the purpose of the present report, we have used a similar methodology. We first compiled existing statistics from secondary sources and then supplemented these data using a special survey carried out with workers' representatives. This survey was implemented during the International Labour Conference (ILC) in June 2008. Because of the difficulties in obtaining precise estimates with such methods, we have distinguished only four broad categories of countries. Those with coverage below 15 per cent, those with coverage between 15 and 50 per cent, those with coverage between 51 and 70 per cent, and those with a coverage rate above 70 per cent. The results are shown in table 3.

The first striking result is that, with the exception of European countries, the coverage rate of collective bargaining is typically low. In Asian countries, it is usually below 15 per cent, and often in fact below 5 per cent. In Europe, collective bargaining coverage is relatively high, with 70 per cent or more of employees being covered by collective agreements in the majority of EU countries. Because of compulsory extension mechanisms, Austria in fact has a coverage rate of almost 100 per cent. But not all European countries follow the high-coverage model. In Hungary, Poland and the United Kingdom, fewer than half of employees are covered, and in Latvia and Lithuania this rate is less than 15 per cent.

In some countries, the already low coverage rate has been declining further. The coverage has fallen dramatically since 1995 in several countries of Central and Eastern Europe, such as in the Czech Republic and Slovakia, as well as in some Western European countries, such as Germany, the Netherlands and the United Kingdom. In Latin America, it is generally considered that the reduced use of social dialogue mechanisms in the 1990s, along with the implementation of liberal reforms, also led to a fall in collective bargaining coverage and in trade unionization. In Peru, for example, collective bargaining has reached a historically low level, with less than 8 per cent coverage and a decrease in the number of collective agreements from 2,000 in the early 1980s to 300 in 2007. In Tanzania, as in a number of other African countries, coverage declined when a centralized wage policy was replaced by wage bargaining at enterprise level.[62]

Important factors that can help to explain this reduction in coverage include the erosion of union membership[63] and the decentralization of social dialogue institutions. More centralized systems – where collective agreements are signed at national or secto-

[62] Kahyarara (2008).

[63] See Visser (2006).

Table 3 Collective bargaining coverage, 2007 or latest year

	Less than 15%	15–50%	51–70%	Higher than 70%
European Union	Latvia, Lithuania	Hungary, Poland, Slovakia, United Kingdom	Czech Republic, Germany, Luxembourg	Austria, Belgium, Denmark, Finland, France, Greece, Italy, Netherlands, Portugal, Romania, Slovenia, Spain, Sweden
Non-EU	Serbia, Turkey	Switzerland		Norway
CIS countries				Belarus, Russia, Ukraine
North America	United States	Canada		
Other developed economies	New Zealand	Australia, Japan		
East Asia	Republic of Korea		China	
Pacific islands	Kiribati			
South Asia	Nepal	India		
South-East Asia	Indonesia, Malaysia, Philippines, Singapore, Thailand			
Central America	El Salvador, Mexico, Nicaragua			
South America	Brazil, Chile, Colombia, Peru	Venezuela		Argentina, Bolivia, Uruguay
Middle East	United Arab Emirates			
North Africa	Morocco			Sudan
Sub-Saharan Africa	Burundi, Comoros, Malawi, Mauritania	South Africa, Ghana, Kenya, Swaziland, Tanzania, Togo	Guinea, Lesotho	Ethiopia, Niger, Senegal

Sources: ILO special surveys (conducted during the International Labour Conference of 2008); ILO's internal database on union membership and collective bargaining coverage: OECD; other regional and national sources.

Notes:

(1) The rate of collective bargaining coverage is an indicator of the extent to which the terms of employment are regulated by collective agreements. It is defined as the number of employees covered by a collective agreement as a proportion of the total number of employees (i.e. wage and salary earners). This rate is an "unadjusted" one in the sense that it does not take into account the number of employees excluded from the right to bargain. Data on these excluded employees are difficult to estimate and reliable data are not readily available.

(2) The rate of collective bargaining coverage is not necessarily the same as the union density (i.e. the ratio of the number of union members to the total number of paid employees. The main difference comes from the fact that the former reflects the presence of extension mechanisms which allow collective agreements to be applied to non-union members. Extension mechanisms have been relatively common in European countries, but are sometimes found in other regions such as Africa (e.g. South Africa) and Latin America (e.g. Argentina).

ral level – typically lead to a higher coverage of collective bargaining. This may explain part of the difference in coverage rates between Europe and many African and Asian countries, where bargaining often takes place at the enterprise level. The trend towards decentralization and enterprise-level bargaining has also been well documented for Australia, the United Kingdom, the United States and New Zealand, as well as for a number of economies of Central and Eastern Europe.

Another factor contributing to lower coverage is the increase in the number of workers employed in smaller firms or under atypical forms of contract – such as fixed-term, temporary/agency or part-time – who are in practice often excluded from collective bargaining.[64] The Republic of Korea, for instance, has experienced a massive increase in the use of fixed-term contracts as a response to the financial crisis – and this phenomenon has also been observed in other countries.[65] Declining coverage often has important gender dimensions as the incidence of non-standard forms of employment is higher among women than men, and coverage in female-dominated industries (including some service sectors) is less complete than in male-dominated industries.[66]

It must be kept in mind that some developing countries have high coverage in a small formal sector, but none in their large informal economy. In Ghana, for example, although unions are relatively strong in the formal sector, it is estimated that informal employment represents about 88 per cent of total employment. Hence, although real collective bargaining does exist in Ghana and trade unions try to reach out to the informal economy, the challenge remains huge. Unions in Ghana estimate, for example, that only about 8 per cent of workers in the agricultural sector find themselves in the formal economy, mainly in commercial farms.[67] When they are not self-employed, the conditions and terms of employment of workers in the informal economy are usually determined either through an informal bargaining between the employer and the employee or exclusively by the employer.

At the same time, it should be emphasized that there is no clear-cut negative trend towards the weakening of collective wage bargaining, as there are also some important counteracting developments. First, collective bargaining coverage remains high – and is sometimes increasing – in Europe. This is the case, for example, in Denmark, Finland, Portugal, Spain and Sweden. In addition, the coverage has also been increasing in some developing countries in Africa and Latin America. In South Africa, for example, the number of formally employed workers covered through bargaining council agreements doubled in the ten years following the ending of apartheid. This was mainly thanks to the rise of the bargaining council system within the public sector, but it also occurred in the private sector, such as in the textile industry.[68]

The attempt to revive or introduce collective bargaining has also been strong in former and current transition countries, where the concept of wage bargaining has yet to take root. In Eastern European countries, such as Latvia and Lithuania, the coverage rate

[64] See, for example, Cazes and Nesporova (2007).

[65] Lee and Eyraud (2008). See also Alvarado (2008); Eyraud and Vaughan-Whitehead (2007); Kahyarara (2008).

[66] Rubery et al. (2005).

[67] Ackah (2008).

[68] Bhorat and Goga (2008).

is low but efforts have intensified to bring wages into the realm of collective bargaining. Slovenia, for example, has introduced a strong extension mechanism, to the effect that the coverage rate now reaches almost 100 per cent. This extension is possible because companies are obliged to be members of all-encompassing "chambers" of commerce and industry, which also act as employers' associations in collective bargaining. The recent developments in China are also significant (see box 2), although there are remaining problems regarding the freedom of association.

Box 2 China: Trends in collective bargaining

Collective bargaining was virtually unknown in China until the mid-1990s (except for a few cases on an experimental basis) as labour relations were adjusted through administrative interventions under the centrally planned economy. Things began to change slowly after the Labour Law came into effect in January 1995, as the law introduced the concept of collective bargaining (the Chinese term is *jitixieshang*, literally meaning "collective consultation").

After a slow start, the development of collective bargaining gained some momentum in the early 2000s, when the Chinese Government began its policy shift towards more balanced social and economic development under the overarching goal of "building a harmonious society". When the Government, the All-China Federation of Trade Unions (ACFTU) and the China Enterprise Confederation (CEC) started to set up tripartite consultation mechanisms at various levels in 2001, the promotion of collective bargaining became a priority across China. Official statistics indicate that the number of workers covered by collective agreements increased from 66 million in 2000 to 102 million in 2005.

It is well known, however, that until recently many collective agreements in China were little more than a replication of legal minimum conditions, and that the agreements were not genuinely negotiated between workers' representatives and employers. For instance, the wage level was not included in most collective agreements until the early 2000s. While this is still true for a significant number of enterprises even today, there is an indication that the quality of collective agreements and of the process of collective bargaining is gradually improving. According to the official statistics, the number of workers covered by wage agreements has risen from 27 million in 2000 to 37 million in 2005. The number of workers covered by wage agreements appears to be a more reliable measure of the influence of collective bargaining in China than the number of workers covered by general collective agreements.

Another significant change in recent years is the growing number of collective agreements at regional or sectoral level. While most collective bargaining took place at the enterprise level until the 2000s, trade unions under the ACFTU structure have been successful in developing a new practice of collective bargaining at regional or sectoral level. It is reported that some regional/sectoral agreements include negotiated minimum wages that are higher than the mandatory minimum wage set by some local governments.

It is possible that the Labour Contract Law, which came into effect from January 2008, will accelerate the spread of collective bargaining at various levels. There are flaws in the emerging industrial relations system in China, but there is scope for a gradual but steady move towards a system based upon more genuine collective bargaining in the future.

Source: Contribution from Chang-Hee Lee (ILO, Beijing).

5. The effects of institutions on wage outcomes

The trends we described in the previous section have important implications because collective bargaining and minimum wages have profound effects on wages. In this section we present some statistical analysis that shows that collective bargaining is associated with both higher average wages and lower overall wage inequality, while minimum wages are associated with reduced wage inequality in the lower half of the labour market.

5.1. Collective bargaining, productivity and wages

We first look at the effect of collective bargaining on average wages. In the light of the apparently weakening correspondence between wages and economic growth discussed earlier in this report, we examine the impact of collective bargaining on wage elasticity (i.e. the responsiveness of wages to changes in GDP per capita). To do so we separated our sample of countries into two groups: a "high coverage" group and a "low coverage" group. High coverage is defined as a coverage rate above 30 per cent, while low coverage is defined as coverage of 30 per cent or below. This threshold divides the countries in our sample into two groups of roughly equal size.

The results indicate a positive relationship between collective bargaining and wage elasticity. As figure 19 shows, for the low-coverage countries the wage elasticity stands at about 0.65 – below the world average of 0.75 (as calculated in section 2.2). In other words, in the countries in which collective bargaining is not a significant tool for wage determination, each additional 1 per cent growth in GDP per capita is typically accompanied by a 0.65 per cent increase in average wages. In the case of high-coverage countries, the wage elasticity is much higher. Figure 20 shows that in those countries, an extra 1 per cent growth in GDP per capita is accompanied on average by a 0.87 per cent increase in average wages. Hence, it seems that in the presence of significant collective bargaining coverage, real wages are much more strongly connected to economic growth.[69]

While coverage is an important determinant of wage outcomes, the level at which collective bargaining takes place and the degree of coordination between the different possible levels also affect wage outcomes. Unfortunately, owing to the lack of relevant data we have not been able to capture these effects in our own analysis. Other research studies have confirmed a strong relationship between centralized and/or coordinated bargaining and lower wage disparity, including a narrower gender pay gap.[70] Conversely, decentralization of collective bargaining has been shown to be leading to higher wage disparity in a number of cases, including in Australia and Chile.[71] But some observers have emphasized that the relationship between bargaining systems and labour market

[69] Since high coverage of collective bargaining is associated with a stronger linkage between wages and economic performance, it should also affect the "wage share", i.e. the division of income between workers and employers (see Technical appendix I).

[70] Bertola et al. (2002); Blau and Kahn (1996, 1999); OECD (2004).

[71] See respectively Hall (2007); Riveros (1994).

Figure 19 GDP per capita change and real wage growth in countries with lower coverage of collective bargaining (≤30%)

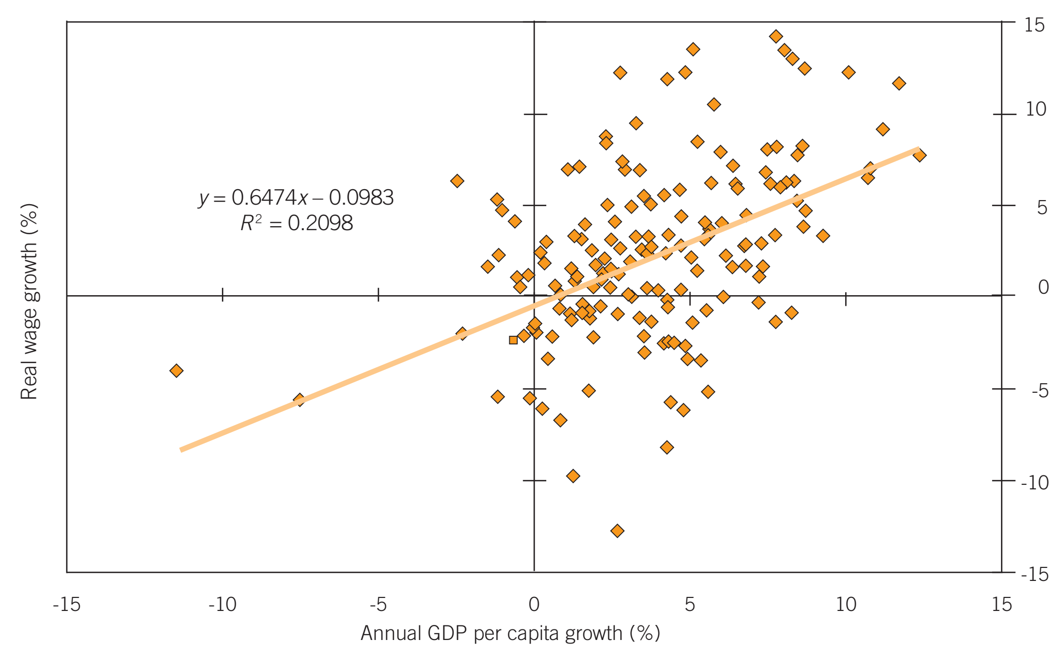
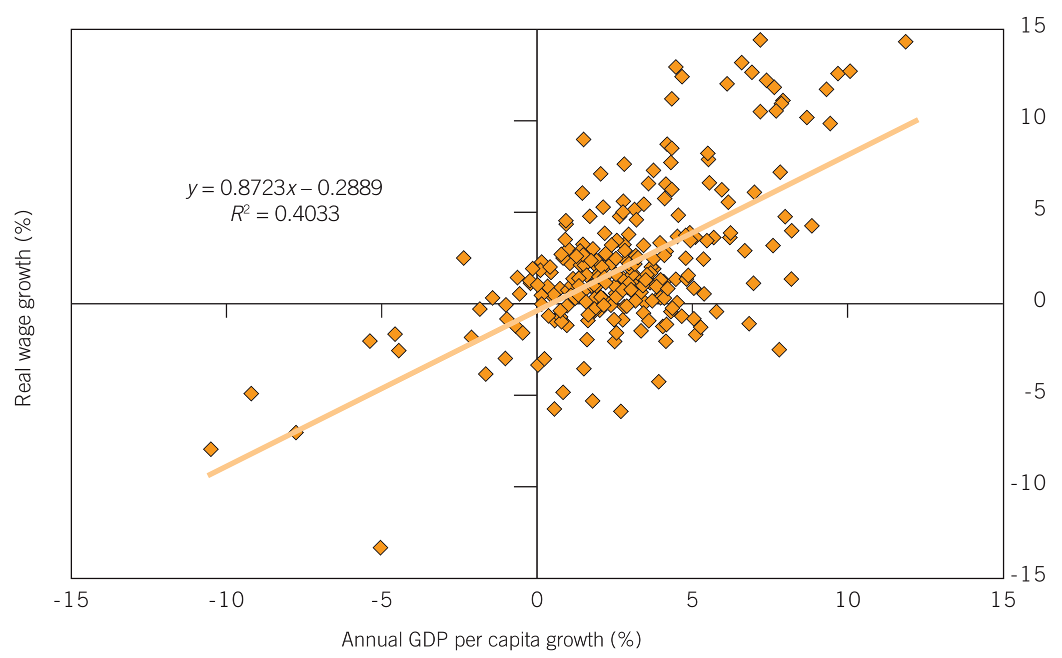


Figure 20 GDP per capita change and real wage growth in countries with higher coverage of collective bargaining (>30%)



performance is not as straightforward as is often assumed and therefore should not be generalized.[72] A more refined analysis is necessary to provide a better understanding of the effects of decentralization on country differences in wage outcomes.

5.2. Institutions and wage inequality

In addition to wage elasticity, we look at how minimum wages and collective bargaining affect wage inequality. Due to data limitations, our analysis mainly covers developed countries, although it also includes countries in Asia and Latin America (the full results are reported in Technical appendix II). We find that, here again, collective bargaining coverage matters considerably. The results show that high-coverage countries have significantly less wage inequality, both overall and in the lower half of the wage distribution.[73] In the case of European countries, figure 21 shows the link between collective bargaining coverage and overall wage inequality through a simple correlation. Although other factors also affect inequality, we nevertheless see that Denmark, Finland, France, the Netherlands and Sweden have both high coverage and low wage inequality, while Hungary, Poland and the United Kingdom have low coverage and high wage inequality.

Our results for minimum wages are less robust. Somewhat surprisingly, higher minimum wages (above 40 per cent of average wages) are associated with higher overall wage inequality.[74] Interpretation of this finding requires further analysis in the future. One hypothesis is that it may be due to some reverse causality, whereby countries with higher overall inequality tend to use minimum wages more vigorously. At the same time, however, higher minimum wages are associated with reduced wage inequality in the bottom half of the wage distribution.[75] This latter result is rather intuitive since minimum wages are precisely intended to protect low-wage earners.[76] Indeed, in both developed and developing regions, minimum wages have been reactivated with a view to reducing the social tensions that result from the growing inequalities in the lower half of the labour market. In Europe, for example, the increase in the number of working poor has placed pressure on governments. In some European countries, minimum wages have also been found to play an important role in securing the wages of low-skilled workers who are in competition with immigrant workers.[77]

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[72] See, for example, Freeman (2007).

[73] As in Part I of the report, overall wage inequality is measured by the ratio of high-wage earners to low-wage earners (D9/D1), while inequality in the lower half of the wage distribution is measured by the ratio of median-wage earners to low-wage earners (D5/D1).

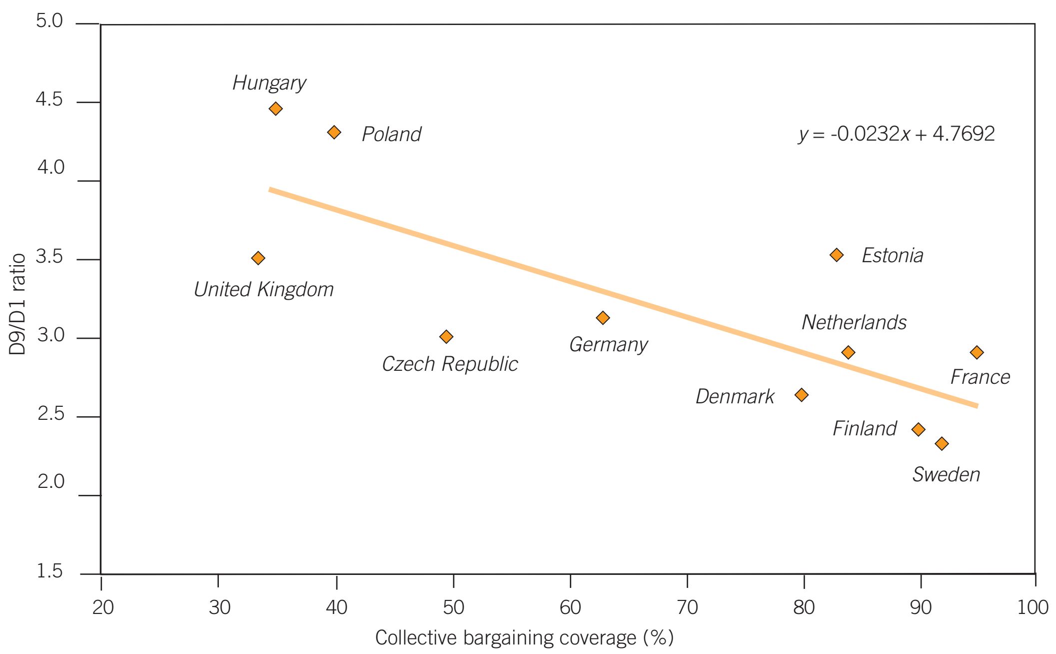
[74] As measured by D9/D1.

[75] In other words, minimum wages are linked with a lower D5/D1 ratio but are not significant in explaining cross-country differences in D9/D1.

[76] At the same time, it must be pointed out that our statistical results are sensitive to model specification and estimation methods, which means that it is difficult to draw any strong conclusions from this analysis. This reflects the fact that differences in minimum wages across countries cannot be captured easily in a single variable. The complex system of minimum wages and the resulting diversity in operation and impacts are discussed later in this report.

[77] Dustmann et al. (2007a).

Figure 21 Wage differentials (D9/D1) and collective bargaining rate (2005), EU countries



Source: ILO Wage Database.

5.3. Findings from the literature

The above-documented effects of institutions on wage outcomes are increasingly well understood and appreciated around the world – even though much of the earlier research had focused on their employment effects. The contribution of trade unions to the reduction in wage inequality is a well-established empirical finding.[78] Recent economic studies have increasingly recognized that collective bargaining has a positive effect on wages without much negative impact on the overall employment or economic performances.[79] A comprehensive review of the literature published by the World Bank concluded that comparative studies "reveal little systematic difference in economic performance" between countries that effectively guarantee freedom of association and collective bargaining and countries that do not.[80] Similarly, the most recent body of research has also dispelled some simple stereotypes about minimum wages, showing that – if set at a reasonable level – they can increase the number of workers with access to decent wages and reduce the gender pay gap with little or no adverse

78 See Machin (2008) for a review.

79 Cahuc and Zylberberg (2004); Manning (2003); Tzannatos (2008).

80 Aidt and Tzannatos (2002), p. 4.

impact on employment levels.[81] At the same time, while a growing body of research has dismissed widely held beliefs about the detrimental impact of minimum wages or collective bargaining on a number of socio-economic variables, policy-makers should not ignore the fact that poorly designed policies can have adverse effects on employment or economic indicators.

It is difficult to quantify in general terms the effects of institutions on wages. Regarding collective bargaining, much of the existing research has focused on how union membership (rather than coverage) affects wages. In countries such as the United Kingdom and the United States, by comparing similar unionized and non-unionized jobs it has generally been estimated that unionization raises wages by more than 10 per cent. With the presence of strong extension mechanisms, where collective agreements on wages are applied to non-union workers – such as in France, Germany and Sweden – this wage premium almost disappears.[82] It has also been documented that the wage premium has tended to fall in recent years, particularly in the United Kingdom and the United States – where this may reflect the weakening power of trade unions.[83] It is also estimated that one-third of the increase in wage inequality in the United States over the past 20 years can be explained by falls in union density, and a similar finding is reported for Germany.[84] Unfortunately, studies on the effects of trade unions on wages in other parts of the world remain scarce.

Recent studies on minimum wages have also tried to estimate their effect on inequality at the lower end of the wage distribution. One study in the United States found strong evidence that an increase in the minimum wage raised pay rates for workers in the bottom 10 per cent of the wage distribution and hence contributed to partially reversing the trend towards rising wage inequality.[85] The same study estimated that a 10–15 per cent increase in the US minimum wage redistributes a relatively modest 0.2 per cent of total annual earnings. In developing countries, the distributional effects are also increasingly being studied. In Brazil, for example, it has been found that 12.5 per cent of workers earn the minimum wage, and that the minimum wage strongly compresses the wage distribution.[86] The literature also highlights that minimum wages can help to curb gender wage differentials at the bottom of the wage distribution. Women are over-represented among low-paid workers and their mobility into higher paid jobs is much lower than men's. Women are therefore concentrated in jobs and sectors where collective bargaining is more limited. By establishing comparable wages across dissimilar and often sex-segregated workplaces, minimum wages can help address gender biases in wage fixing.

In general, the determinants of wage inequality are very complex, implying that a wide range of factors work together in different ways and with different weights to

81 See in particular the comprehensive research commissioned by the UK's Low Pay Commission.

82 See Blanchflower and Bryson (2002).

83 See Hirsch (2008).

84 For the United States, see Lemieux (2007) and for Germany, see Dustmann et al. (2007b).

85 Card and Krueger (1995).

86 See Lemos (2007) and Dedecca (2008).

create different results. One factor that has attracted much attention in this regard is skill-biased technological changes, which can favour skilled workers and lead to polarization.[87] However, it is beyond the scope of this report to offer a global picture concerning the extent to which technological change is related to changes in wage inequality. In our own statistical analysis, changes in economic variables such as GDP per capita, trade ratio and FDI inflows do not appear to have any statistically significant importance in explaining the difference in wage inequality across countries (see Technical appendix II).

6. Designing coherent wage policies

This section focuses on the appropriate articulation and design of minimum wages and collective bargaining policies. As we have seen, in many countries collective bargaining is facing difficult challenges, which may be linked to globalization, new forms of employment or the growth of subcontracting. In other countries, collective bargaining has been presented as a source of rigidity and the common recommendation has been to replace higher level collective bargaining with bargaining at the enterprise level. In many of these cases, to protect the most vulnerable workers in the labour market, governments seem to have turned towards minimum wages policies as a substitute for collective bargaining. In the absence of strong collective bargaining, governments somehow seem compelled to intervene in wage determination through minimum wages. This has sometimes led to very complicated systems of industry, sectoral and occupational minimum wages.

The reliance on overly complex systems of minimum wages rather than collective bargaining is unfortunate for at least two reasons. First, the role of collective bargaining goes much beyond protecting vulnerable workers – it actually benefits a broader spectrum of workers than do minimum wages. Collective bargaining also goes beyond wage negotiations to include other aspects of working conditions, such as hours of work and quality of employment. Second, minimum wages that set wage rates for many categories of workers in different industries can end up discouraging collective bargaining instead of stimulating it. While some negotiations between social partners over minimum wages have contributed to stimulating collective bargaining, in the majority of cases complex minimum wages were found to "crowd out" collective bargaining. This negative experience points towards the importance of careful and coherent policy design. In the following paragraphs we therefore review some good practices related to the design of a complementary and coherent set of minimum wages and collective bargaining policies.

[87] See Machin (2008) for a review, and Autor et al. (2006) on the role of computerization. One obvious limitation with this approach is its difficulty in explaining why changes in wage inequality vary substantially across countries where the extent of technological changes is at least comparable (for example, between Anglo-Saxon and Continental European countries). This also explains why institutional factors have emerged as a more powerful explanatory factor for changes in wage inequality in recent years (see, for example, Lemieux, 2007). In addition, technological changes often fail to explain much of wage dynamics at the industry level (see, for example, Berg, 2004).

6.1. Using the minimum wage as an effective and decent wage floor[88]

In designing minimum wages policies, two key principles should be kept in mind. The first is to use the minimum wage in the manner it was intended, namely to provide a decent wage floor. The second principle is to involve social partners – not only in the design and monitoring of the minimum wage system, but also in the decision-making related to setting the level of the minimum wage.

What is a decent wage floor?

As a general principle, the ILO Convention No. 131 calls on countries to take a balanced approach when determining levels of minimum wages. They should take into account both the needs of workers and their families and economic factors such as productivity and the need to maintain high levels of employment. The actual levels of minimum wages will, of course, vary according to national perceptions of a decent wage floor. The term "decent wage floor" implies that the level of a minimum wage should be set high enough to be considered as decent but low enough to remain a wage floor. Figure 22 shows that the levels of minimum wages relative to average wages vary widely across countries, but that there is a relatively high frequency at around 40 per cent of average wages. This may serve as a useful reference point when considering the ideal level for a minimum wage.

Beyond this very rough reference level, the level of a minimum wage should be determined through much more refined country-specific analysis. Indeed, to maximize the benefits of a minimum wage while minimizing the potential negative impacts, it is essential that the level of the minimum wage is determined through research-based policy decisions and that its application is accompanied by systematic monitoring. It must also be remembered that to reduce the gender pay gap at the bottom end of the wage distribution, the minimum wage should be set at a level above that prevailing in female-dominated occupations or sectors.[89] It is not uncommon that well-intended policy decisions on minimum wages lack solid evidence and analysis and thus defy their goals. Good policies and good social dialogue on minimum wages need good research.[90]

Decisions on minimum wages should always involve social partners. These partners should be involved in the decision-making regarding both the coverage and the rates of minimum wages. In the majority of countries, governments take the final decision

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[88] This section draws and expands on the very comprehensive research undertaken by Eyraud and Saget (2005). It is also based on ILO Conventions related to the minimum wage, namely the Wage-Fixing Machinery Convention No. 26, adopted in 1928, and the Minimum Wage Fixing Convention No. 131 adopted in 1970. Overall, a total of 119 out of the ILO's 181 member States have now ratified at least one of these two Conventions. Countries which have ratified either or both of these Conventions in the new century include – in chronological order of the ratification of Convention No. 131 – the Republic of Moldova (2000), Serbia (2000), the Republic of Korea (2001), Antigua and Barbuda (2002), Albania (2004), Armenia (2005), Ukraine (2006), Montenegro (2006), the Central African Republic (2006) and Kyrgyzstan (2007).

[89] Rodgers and Rubery (2003).

[90] In order to facilitate such research work, the ILO has recently developed some standard terms of reference (available upon request) to serve as guidelines for determining minimum wages.

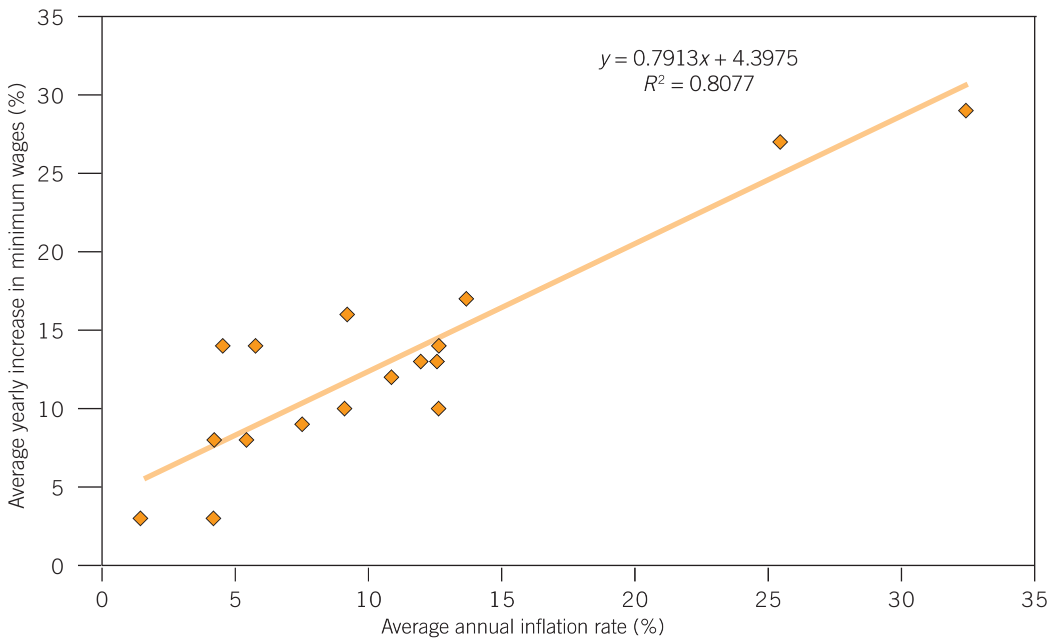
Figure 22 Minimum wages relative to average wages

Source: ILO Wage Database.

on uprating minimum wages, after some consultation with social partners. In a sizeable minority of countries, the minimum wages rates are set directly through social dialogue by independent tripartite bodies. When decisions are made by tripartite bodies, governments are in effect required to come to an agreement with employers' and workers' representatives. In a few cases, a *national* minimum wage rate is negotiated directly by social partners – such as in Belgium and Greece – and the government's only official role is to validate the outcome of negotiations.

In other countries, *sectoral* minimum wages are determined exclusively through collective bargaining. This is the case, for example, in Germany, Italy and Switzerland. This system certainly provides the most flexibility and avoids state intervention into minimum wage fixing. There are, however, some increasingly obvious limitations. First, whereas such systems can effectively protect a majority of workers in some European countries, which have well-established collective bargaining, they would be mainly ineffective in developing countries, where the coverage of collective bargaining is typically very low. Second, even in European countries, the recent decline in collective bargaining coverage and the increase in the number of "working poor" in the unregulated part of the labour market have created strong social tensions. In Germany and – to a lesser extent – Switzerland, these shortcomings have revived the debate about the possible introduction of a national minimum wage to provide a decent wage floor for *all* wage earners.

Figure 23 Nominal minimum wages and inflation in Latin America, 1996–2007



Source: ILO Wage Database.

Uprating minimum wages

Minimum wages should be adjusted regularly to maintain the purchasing power of affected workers in the face of price increases, and to avoid large occasional shocks to the economy. The welfare of poor workers and households critically depends on both their wages and the prices they face. The adjustment of the nominal minimum wage in the context of increasing prices is thus as important as the setting of the initial rate for a minimum wage. In the current context of sharply increasing food and oil prices, and high inflation forecasts for 2008 and 2009, swift adjustment in minimum wages is all the more important.

Past evidence from Latin America shows that – in the medium term – inflation is generally compensated for by commensurate adjustment in the nominal minimum wage (see figure 23). The data, however, also show that there can be a lag between inflation and minimum wage adjustments. In the context of high inflation, this lag can be the cause of much human suffering. When adjusting minimum wages, it must also be kept in mind that the consumer price index (CPI) reflects the prices faced by an average consumer and is used to monitor economy-wide consumer price inflation. When food prices increase rapidly, the CPI typically underestimates the increase in the prices of goods and services consumed by those earning minimum wages. This is because poorer households spend a larger proportion of their incomes on food. In other words, the rate of inflation experienced by minimum wage earners might be

Table 4 National and sectoral minimum wages (% of total countries with a minimum wage)

	National minimum wages (%)	Minimum wages by sectors and/or occupations (%)
Latin America and the Caribbean	43	57
Asia and the Pacific	47	53
Africa	69	31
Middle East	100	0
Developed economies and European Union	67	33
Central and South-Eastern Europe (non-EU) and Commonwealth of Independent States (CIS)	100	0
Total	60	40

Source: ILO Wage Database.

significantly higher than the CPI. This should be taken into account when uprating minimum wages. In China, for example, many provinces raised their minimum wages in 2007 and 2008 in consideration of the rising food prices and their effects on low-wage workers.

In a context of rising inflation, much has been said about the risk that higher minimum wages may lead to a so-called “wage–price spiral”, which has been defined as a situation in which wages and prices chase each other upwards.[91] This perception is linked to the fact that the minimum wage is often considered as a benchmark in collective bargaining, or even for wages in the informal sector,[92] and hence also affects wages of workers above the minimum wage. But while it is true that minimum wages can affect prices, this effect has generally been found to be modest, especially in the case of simple national minimum wages.[93] Therefore, fears that minimum wages can trigger overall inflation increases throughout the economy are often exaggerated.

Keeping it simple

It is important that the design of minimum wage fixing institutions is kept simple. A majority of countries in the world implement relatively straightforward national minimum wages (see table 4). National minimum wages are economy-wide wage floors that apply to all workers, with possible variations between regions or broad categories of workers (in particular young workers or other groups such as domestic workers).

91 See Layard et al. (1991).

92 See Saget (2006).

93 For a review of the literature on the effects of minimum wages on prices, see Lemos (2004).

Examples include the United Kingdom's national minimum wage and the SMIC in France. Another example is the US federal minimum wage, which celebrated its 75th anniversary in 2007. There are also a fair number of developing countries that rely on such relatively simple systems, including Brazil, China, and much of francophone West Africa. National minimum wages may also contribute to enhanced gender equality, as the examples of the Netherlands and Portugal have shown.

A minority of countries implement more complex systems of sectoral and/or occupational minimum wages. Systems in which public authorities determine different minimum wages rates for different economic activities or occupations are relatively more frequent in developing countries (as can be seen in table 4). Such systems have often been implemented to compensate for the absence of collective bargaining in some sectors. In South Africa, for example, the Government sets minimum wages through so-called "sectoral determinations" in sectors characterized by a non-unionized and vulnerable workforce. Since 2002, this has included domestic workers and farm workers – categories which encompass some of the lowest-paid and poorest workers in the economy. Similar systems of mandated minimum wages at sector or occupation level exist in quite a large number of countries in Africa, Asia and Latin America. These sectoral minimum wages are important for the workers they protect and – when they are set in sectors characterized by vulnerable workers – they can be useful in complementing the collective bargaining that takes place in other sectors. In many cases, however, the systems with multiple minimum wages that prevail in African and Asian countries have been observed to "crowd out" collective bargaining. This typically occurs when minimum wages shift from simply providing a wage floor towards determining actual wage policy at enterprise level. The resulting system is then more an actual wage-fixing method than a regulator of minimum wages. Taken to the extreme, such a system becomes a substitute for collective bargaining, often with the state as the dominant player.

In Viet Nam, for example, the wages of all types of workers are fixed through a multiplier of the minimum wage, with all social benefits also being related to the minimum wage. But some confusion also exists in other, less centralized, countries. In Indonesia, most wages in the formal sector are ultimately clustered around the minimum wage, and hence not much bargaining takes place after the announcement of the minimum wage by the local government. Similarly, in the Philippines the regional boards seem to have supplanted firm-level wage bargaining, and companies now simply wait for the annual wage adjustments by the boards rather than negotiate with the workers. There are other examples in South Asia – such as in Bangladesh, Sri Lanka and India – where the government sets a series of minimum wages for 45 occupations and activities and where local governments do the same at local level, resulting is an estimated 1,230 occupational and sectoral minimum wages rates across the country.

Another complication arises when different aspects of social protection, such as pensions, disability payments or maternity benefits, are linked to the level of the minimum wage. In practice, this means that retirement and other benefits will be adjusted upwards when the minimum wage increases. So, for example, in Algeria the minimum pension is set at 75 per cent of the level of the minimum wage, while in Brazil the minimum wage is the benchmark for retirement, sickness and unemployment benefits. Although this may be useful in maintaining the purchasing power of the poorest pensioners, in practice it often prevents governments from increasing minimum wages for fear of the adverse impact on social security budgets. This therefore makes the minimum wage an ineffective policy. To be meaningful, the minimum wage should focus on providing a wage floor for low-paid workers, and social benefits should, in so far as possible, not be connected to minimum wages.

Compliance, coverage and coherence

Minimum wages, to be useful, need to be well enforced. Therefore, minimum wages should be accompanied by credible enforcement mechanisms. It is well appreciated that compliance is a function of the probability of firms being visited by labour inspection services, and of the level of penalties in the case of non-compliance. [94] Unfortunately, in many countries, labour inspection services are understaffed and penalties are too weak. As a result, minimum wages too often remain a "paper tiger" rather than an effective policy. Evidence from a number of country studies suggests that non-compliance can be extremely high, especially in developing countries. In Latin America, for example, it has been estimated that the share of workers who are earning less than the minimum wage frequently exceeds 20 per cent, and can reach up to 45 per cent. [95] The role of social partners is also important in ensuring observance of labour laws. Employers' organizations and trade unions can apply pressure on underpaying employers, while social peer pressure can also discourage abusive practices by employers.

In order to maximize the impact of minimum wages on gender equality, coverage and compliance acquire crucial relevance, as the jobs and sectors where women prevail are often excluded – de jure or de facto – from the protection of minimum wages laws. [96] When wage floors take the form of industry minima, coverage is frequently incomplete, various low-wage sectors are left uncovered and female-dominated jobs or sectors are the least likely to have high minima. [97] This is demonstrated by the consistently lower minimum wages rates set for domestic workers – when they are covered at all by minimum wages laws (see table 5). This problem has recently been addressed in the Netherlands through the extension of minimum wages coverage to casual and domestic workers. In Portugal the progressive levelling up of the lower rate of minimum wages set for domestic workers to align them with the rate applicable to other minimum wage earners also represents a positive development.

Finally, minimum wages should not be determined and evaluated in isolation from other policies. In fact, minimum wages should be seen as only one component in a battery of measures against low pay, poverty and inequality. This is because minimum wages only benefit wage earners (and, moreover, only those wage earners who are covered by minimum wages legislation). In some countries, this can leave many

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[94] See Squire and Suthiwart-Narueput (1997).

[95] See Cunningham (2007).

[96] See Rubery (2003).

[97] See Rubery et al. (2005).

Table 5 Minimum wages and domestic workers (selected countries)[1]

Countries excluding domestic workers from coverage by minimum wages legislation	Countries where minimum wages rates for domestic workers are amongst the lowest minima	Countries in which domestic workers are entitled to the same minimum wages as the general workforce
Bangladesh, Cambodia, China, Egypt, India,[2] Indonesia,[3] Islamic Republic of Iran, Japan, Jordan, Malaysia, Pakistan, Peru, Republic of Korea, Saudi Arabia, Senegal, Sri Lanka, Thailand, United States,[4] Yemen	Argentina, Belgium,[5] Chile, Colombia, Costa Rica, Côte d'Ivoire, Guatemala, Italy, Mali, Nicaragua, Panama, Paraguay, Philippines, South Africa, Spain, Switzerland	Bolivia, Brazil, Bulgaria, Croatia, Czech Republic, Estonia, France, Ireland, Kazakhstan, Latvia, Moldova, Netherlands, Portugal, Russian Federation, Romania, Trinidad and Tobago, Tunisia, Turkey, United Kingdom, Viet Nam, Zimbabwe[6]

Notes
(1) Fifty-six countries from across all regions.
(2) Central government sets minimum wages for 45 occupations from which domestic work is excluded. Nonetheless, central and regional governments are allowed, with previous notification, to set minimum wages rates for additional occupations. The States of Karnataka, Kerala, Andhra Pradesh, Tamil Nadu, Bihar and Rajasthan have set minima for domestic work.
(3) The law applies only to workers employed by firms. Domestic workers are therefore excluded because they do not work for or in a firm.
(4) Only domestic workers hired on a casual basis (e.g. babysitters) and "companions" for the sick or the elderly are excluded.
(5) Same rate as for blue-collar workers, but part of the remuneration, up to a certain percentage, can be provided in kind.
(6) Domestic workers and agricultural workers are the only two categories of workers covered by minimum wages legislation.

poor people outside the reach of minimum wages. Therefore, minimum wages should be accompanied by a number of complementary policies,[98] such as targeted income policies. Indeed, minimum wages alone cannot be used for targeted poverty reduction. Minimum wages are paid to individuals, whereas the key unit for poverty-reducing income transfers is the household or the family. Hence, minimum wages should be used in conjunction with income transfers.

6.2. Promoting collective bargaining alongside minimum wages

Well-designed minimum wages will avoid the "crowding out" of collective bargaining. For minimum wages and collective bargaining to operate as complementary and mutually reinforcing elements of comprehensive wage policies, governments should accompany their reliance on minimum wages with measures and incentives to promote collective bargaining. This section addresses how this should be done and how it can be done.

Promoting a coordinated approach[99]

One basic ILO principle is that collective bargaining should take place within a framework that upholds the right to freedom of association. Freedom of association is char-

98 Some like Neumark (2008) have argued that a negative income tax would in fact be more efficient in the fight against poverty and would benefit all the poor – whether or not they are in the labour market. In practice, however, the applicability of such tax systems is controversial and questionable, not least because of the effect on incentives for employers to transfer the cost of decent wages onto the State.

99 Part of this section draws on ILO (2007) and ILO (2008).

acterized by a number of elements, including the recognition of the right of workers and employers to associate freely, without interference by the State, and to establish organizations of their own choice. Workers should also be protected against acts of anti-union discrimination by employers, such as the dismissal of unionized workers. Despite some significant positive developments in recent years, freedom of association remains a challenge. Government intervention in trade union activities remains a recurrent problem and the number of complaints received by the ILO concerning acts of anti-union discrimination and interference has increased. Several countries also continue to exclude important categories of workers from the right to collective bargaining, particularly domestic workers, agricultural workers, seafarers and public servants. In some countries, the murder of trade unionists also remain a serious concern.

In addition to guaranteeing freedom of association, governments should create an enabling environment to promote collective bargaining at all different levels – company, industry, sectoral and national – and ensure that these levels are connected. Indeed, it is now increasingly recognized that bargaining systems in which the different levels of bargaining are coordinated can lead to more efficiency and equity. Unions and employers who are involved at different levels have been found to take into account the broader needs of the economy when negotiating collective bargaining arrangements. [100] In Central and Eastern European countries, for example, the lack of intermediary sectoral bargaining between the national tripartite bodies and enterprise-level wage fixing has led to a disconnection between the wage increases decided at the national level and the actual wage increases observed at enterprise level. [101]

Examples of measures to activate collective bargaining

The previous section emphasized the importance of promoting collective bargaining at different levels. To address how this can be done, this section provides a number of examples, some of which are clearly more country specific and difficult to replicate in different circumstances than others.

Recent experience in Latin America suggests that state intervention can be effective in activating or reactivating collective bargaining. In the 1990s, shortcomings in social dialogue and the search for flexibility and promotion of enterprise-level bargaining throughout the region had been identified as some of the causes explaining its large wage inequalities. The ILO considered that countries in "Latin America recovered more slowly from external shocks because they lacked institutions that would have allowed them to process distributive conflicts generated by international turbulences". [102] Since then, however, a number of countries in the region have tried to redevelop their wage and collective bargaining institutions.

The stimulation of collective bargaining turned out to be an important channel through which economic growth led to improvement in wage trends in Argentina,

[100] See Marginson and Sisson (2004) for a European comparative assessment. See also Tzannatos and Aidt (2008) for a more general review. See also Baccaro and Simoni (2007).

[101] Ghellab and Vaughan-Whitehead (2003).

[102] ILO (2002).

where the Government's decision to push for higher wages ultimately stimulated collective bargaining. There, the Government, in agreement with social partners, imposed fixed general wage increases by decree – which were incorporated as of 2003 by social partners into collective agreements. This progressively reactivated genuine collective bargaining to all sectors of activity, and the number of workers covered increased from 1.2 million in 2004 to 2.1 million in 2005 and 3.5 million in 2006. Another example in Latin America is the case of Uruguay, where the Government implemented an active tripartite policy (see box 3).

In other regions, too, there have been attempts to activate collective bargaining alongside minimum wage policies. In Asia, one example is Cambodia (see box 4). Some promising trends have been observed in some European and CIS transition countries, where collective bargaining has been boosted in the hope of improving wage developments. In Bulgaria, for example, the "Pact on economic and social development

Box 3 Uruguay: Reactivating collective bargaining and wage policy

In 2005, Uruguay's Government identified the promotion of social dialogue and collective bargaining as among its top priorities. This objective was pursued through a comprehensive strategy based on three main pillars: the adoption of a series of laws to promote collective bargaining and trade union activities; the development of national tripartite mechanisms for social dialogue; and the reactivation of collective bargaining and wage councils at sectoral level, in order to stimulate wage bargaining, including in the formerly excluded public sector and in agriculture.

At the same time, the Government decided to play an active role in wage fixing, through two major means. First, the Government reactivated tripartite sectoral wage councils, which were asked to negotiate wage agreements and to adjust wages twice a year in line with past and expected inflation. Wage councils also were given the role of determining minimum wages for each category of workers. Second, the Government chose to uprate the national minimum wage so that it would recover its previous function, namely to provide a decent wage floor. For this purpose, the Government also stopped the official practice of using the minimum wage as the basis for calculating all social benefits.

This shift in government policy had direct effects on both collective bargaining and wages. The return to collective bargaining rounds after many years led to a number of agreements being adopted by consensus between the three sides. A few agreements have introduced more refined wage-fixing criteria (such as enterprise size or geographic location) or have been extended to cover non-wage issues such as health and safety, training and non-wage benefits.

In the context of economic recovery following a deep crisis, and with the reactivation of minimum wages and collective bargaining, the trend of deterioration of wages was stopped. In 2005–06, average wages in real terms increased by 9.1 per cent, while wage disparity also decreased. Together with increased employment and social protection plans, this may have contributed to the Government's success against poverty, which was reduced by 13.7 per cent in 2005–06. The gender pay gap, regional pay gaps and wage disparity between workers of different educational levels were also reduced. Wage dispersion, however, remains very high in Uruguay.

Source: Contribution from Juan Manuel Rodriguez and Graciela Mazzuchi.

Box 4 Cambodia: The minimum wage as a foundation for collective bargaining

Cambodian labour law states that the minimum wage shall be set by the ministry responsible for labour, after receiving recommendations from the Labour Advisory Committee (LAC), the country's highest tripartite consultative body (Kingdom of Cambodia, Labour Law, article 107, paragraph 2; 1997).

Cambodia has witnessed two minimum wage setting episodes, one in 2000 and the other in 2006. A third wage adjustment took place in April 2008. All have applied only to the textile, garment and shoe sectors, and all have been preceded by a period of inflation and industrial unrest.

The Government consulted with employers and unions prior to setting the first minimum wage in 2000. By contrast in 2006, the employers and 17 union federations from across the political spectrum took the lead in negotiating the new minimum wage, the social partners' first attempt at industry-wide wage fixing. Although the negotiations were inconclusive, the experience was an important step in establishing social dialogue, and it set the foundation for a change in attitude towards collective bargaining. In the end the Government established the new minimum wage for a three-year period starting from 1 January 2007, following recommendations from the LAC.

In the wake of inflationary pressures, the Government agreed in April 2008 to union demands for additional wage increases. Rather than issue a new minimum wage, the Government has instead labelled it a "cost-of-living adjustment", although the effect is largely the same.

In Cambodia, as in other countries in the region, the ILO consistently tries to distinguish between minimum wage fixing and wage setting through collective bargaining. Enterprise-level collective bargaining, while still in its infancy, is most mature in the hotel industry and continues to develop in the garment, construction and other industries. The ILO in Cambodia supports these developments through policy advice, training and capacity building, and review of laws and regulations. The tripartite constituents agree that the environment for industrial relations and collective bargaining has improved in recent years.

Source: Contribution from John Ritchotte (ILO, Cambodia).

of the Republic of Bulgaria up to 2009" signed by the social partners in 2005 aims to promote both collective bargaining and minimum wages.

A further issue that arises is the appropriate use of "extension mechanisms", under which collective agreements are extended to other employers and workers in an industry or sector. Such extension practices can significantly increase the level of coverage. Indeed, it has been shown that the degree to which extension mechanisms are used in different countries is the most powerful single determinant of variations in the level of bargaining coverage across countries.[103] Extension mechanisms of various kinds are used in almost all European countries[104] and can be powerful tools to stimulate collective bargaining. In particular, obliging employers to implement collective agreements that

[103] Traxler et al. (2001).

[104] EIRO (2002).

they have not signed provides a strong incentive for them to join employers' associations and to participate in the bargaining process.

Monitoring collective bargaining and collecting wage statistics

Finally, monitoring, reporting and statistical analysis of collective agreements trends should represent one basic avenue for promoting collective bargaining. In most countries, due to the lack of a registration process, it is impossible to track and monitor trends in the number of agreements, their content, or possible extension. In Brazil, for example, employers and workers are organized by sectors, occupations and regions – usually starting at the level of municipalities. Furthermore, unions can negotiate either with an employers' association *(convenio colectivo)* or with enterprises directly *(acordo colectivo)*. As in many other countries, the absence of centralized registration and monitoring of collective agreements hinders informed policy decision-making.

Solid data on wages should also be collected in order to inform collective bargaining. Indeed, solid wage statistics are not just useful for analysis and macro policy development but are also critical in creating a favourable environment for social dialogue on wages. Without a shared understanding of key wages statistics, collective negotiations between workers and employers at various levels (including tripartite negotiations over minimum wages) may not be as constructive as needed. In some cases, even when such data are available to both parties, confidence is lacking on how the statistics have been created and their reliability may even be questioned. Therefore, the importance of reliable and transparent wage statistics in promoting effective wage bargaining cannot be overestimated. Transparency and reliability should be ensured in both data collection and data processing, and the resulting wage statistics need be to made available as "public goods" to all members of society, rapidly and in an easily accessible format. These goals and principles are yet to be achieved in many parts of the world, although substantial progress has been made in recent years.