



Economic and Social Council (ECOSOC)

Topic 3: The implementation of fair minimum wage legislations

Research report by Ginevra Romanelli

Contents

1. Definition of key terms	1
2. Introduction	1
3. Background information	2
4. General overview	3
5. Major countries involved	4
6. UN involvement	5
7. Bibliography	6

1. Definition of key terms

Minimum wage: The lowest remuneration an employer must pay to wage earners for work performed during a specified period, which cannot be reduced by collective agreement or individual contract.

Fair wage: Compensation reasonably commensurate with the value of services or a class of service rendered.

Living wage: The income required to provide an employee with a basic but socially acceptable standard of living.

Collective bargaining: Negotiations between trade unions and employers to determine working conditions and terms of employment, covering aspects like pay and working time, and regulating relationships between employers and workers.

Price floor: A government-imposed minimum price for a product or service aimed at regulating the market.

Salary: A consistent payment by an employer to an employee based on the work and services associated with a specific position.

International Labour Organization (ILO): A specialized agency of the United Nations (UN) dedicated to improving labor conditions and living standards worldwide.

2. Introduction

Minimum wages serve the crucial purpose of safeguarding workers from receiving unreasonably low pay, ensuring a fair and just minimum living wage for all employed individuals. This not only contributes to poverty reduction but also fosters decent work and diminishes inequality by upholding the right to equal remuneration for work of equal value.

The process of determining minimum wages involves social dialogue and collective bargaining, which are instrumental in striking a balance between the legitimate needs of workers and enterprises. Minimum wages can be established through various means, including statutes, competent authority decisions, wage boards, industrial and labor courts, or legislative provisions in collective agreements.

It is important to differentiate the purpose of a minimum wage, which sets a floor price, from collective bargaining, which is employed to negotiate wages above the established floor. The effectiveness of minimum wages hinges on their comprehensive protection for all workers, irrespective of contractual arrangements, industries, or occupations, as well as their adjustment to a level sufficient to cover the economic needs of workers and their families. Compliance with minimum wage regulations by employers is crucial for the success of these measures.

For a minimum wage to be deemed fair, it must be equitable, appropriate, and aligned with the value of the work being performed.

3. Background information

The worldwide landscape of minimum wage systems is diverse, with various approaches tailored to the needs and preferences of individual countries. Some nations implement a single minimum wage applicable to all employees, while others have multiple rates based on factors such as sector of activity, occupation, or geographical region.

Ensuring compliance with the principle of equal remuneration for work of equal value is crucial, especially when minimum wages vary by sector or occupational category. It is essential to prevent wage discrimination against specific groups of workers, including migrants, individuals with disabilities, female workers, and young workers, by avoiding systematically lower minimum wages in sectors dominated by these groups. Each country should consider its specific circumstances and policy goals to avoid unjustified wage differentiation among workers, based on factors like education, work experience, or skills.

Minimum wages can be established through various methods, including collective bargaining, where provisions of collective agreements are legally binding. However, relying solely on collective bargaining for minimum wage determination is uncommon in most countries. In most cases, the coverage of collective bargaining is insufficient to extend minimum standards protection to a broad majority of workers. Consequently, many countries adopt statutory minimum wages in addition to those established through collective agreements.

In establishing statutory minimum wages, governments should actively seek full consultation and direct participation of social partners in the development and operation of minimum wage systems. Although governments, employers' organizations, and workers' organizations may have differing perspectives at times, social dialogue acknowledges the common interest in the well-being of enterprises and the workers and their families.

Ideally, minimum wages should provide sufficient protection to all workers in an employment relationship, irrespective of their contractual arrangements. However, in practical terms, certain groups of employees, such as domestic workers, those in the informal economy, workers in non-standard forms of employment, and home-based workers, may be excluded from minimum wage protection due to various reasons. Therefore, countries should progressively work towards

extending minimum wage protections to these specific categories of workers that currently lack coverage under minimum wage regulations.

4. General overview

When determining the level of the minimum wage, it is crucial to adopt a balanced and evidence-based approach that considers the needs of workers and their families, as well as economic factors. Striking an appropriate balance is essential to ensure that minimum wages are tailored to the national context, providing effective protection for both workers and the sustainable development of enterprises. Poorly designed minimum wages can jeopardize worker well-being, impede effective implementation, and contribute to the growth of informal employment.

If set too low, minimum wages may have limited effectiveness in safeguarding workers and their families from unduly low pay or poverty. Conversely, if set too high, compliance may be challenging, leading to negative employment effects.

An evidence-based approach involves establishing clear criteria and relying on reliable statistical indicators to inform discussions on the level of minimum wages. These indicators include the general level and distribution of wages, changes in the cost of living, national or sectoral levels of labour productivity, and rates of economic growth.

To maintain their relevance, minimum wage levels should be periodically adjusted to prevent wage inequality and ensure that the minimum wage is fair and suitable for the national economic and social conditions, considering factors such as the cost of living and the overall wage level.

In certain countries, a significant number of wage earners entitled to the minimum wage receive pay below the legal floor. High rates of non-compliance have adverse effects not only on workers and their families, whose rights are violated, but also on compliant employers, as it provides non-compliant enterprises with an unfair cost advantage. The level of non-compliance is influenced by the national design of minimum wage policies, encompassing the level and rate structure of the minimum wage.

To enhance compliance, implementation measures can include:

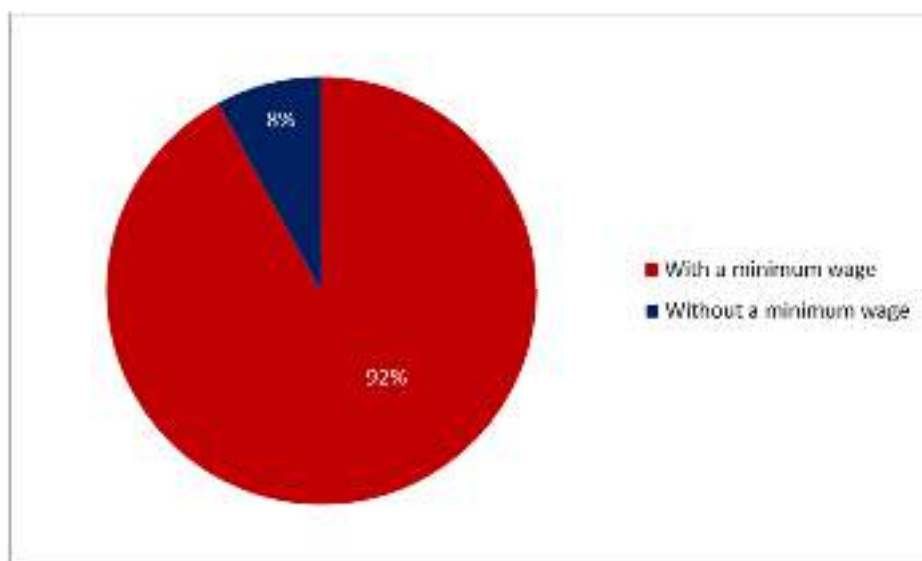
- Information and awareness-raising campaigns.
- Capacity-building activities for employers' and workers' representatives.
- Empowering workers to assert their rights through individual complaints and collective action.
- Measures to formalize the informal economy.
- Targeted labor inspections.
- Sanctions serving as a deterrent to non-compliance.
- Monitoring and responsible purchasing practices within global supply chains.
- Public employment programs that adhere to minimum wages.

Furthermore, it is crucial to ensure that the impact of minimum wage adjustments is adequately monitored and studied. Impact assessment studies should inform governments and social partners and, if necessary, recommend adjustments or changes to the system. The specific studies considered should monitor the effects of minimum wages on economic and social aspects such as employment, informality, labor productivity, income inequality, poverty, prices, household consumption, and the overall economic development of countries.

If effective, the design and implementation of minimum wage policies should increase the wages of certain groups of workers through "spillover" effects on the wages of workers who are paid above the minimum. "Spillover" effects occur when, due to an increased minimum wage and its subsequent effects on pay in the public sector, workers with more seniority or skills also seek higher wages, either through collective or individual bargaining.

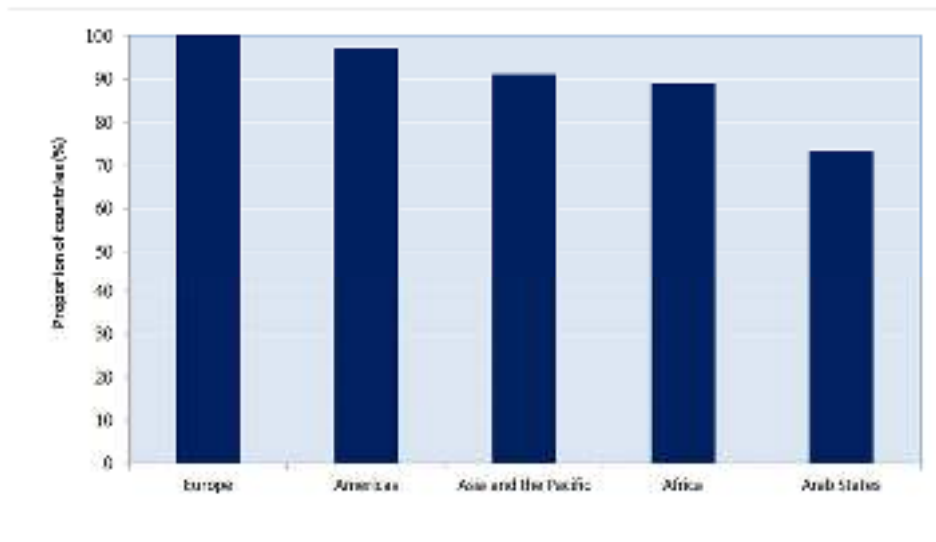
5. Major countries involved

Statistics indicate that more than 90 percent of the 187 International Labour Organization (ILO) member states have one or more minimum wages set through legislation or binding collective agreements. However, despite the widespread implementation of minimum wages, not all of these countries cover a majority of workers, regularly adjust minimum wages, or effectively enforce them.



*Proportion of ILO member States with and without a minimum wage
Source: ILO estimate*

In Europe, all countries have either a statutory or collectively bargained minimum wage covering at least part of the private sector. In the Americas and the Caribbean, very few countries, such as Suriname, exceptionally do not have minimum wage legislation. In Asia and Africa, the number of countries without a minimum wage is higher and includes nations like Singapore, Brunei, Ethiopia, Eritrea, or Somalia. Among Arab states, countries such as Qatar, Bahrain, or the United Arab Emirates do not have a minimum wage.



Proportion of countries with a minimum wage, by region, 2014
Source: ILO estimate

Furthermore, statistics reveal that the number of countries with minimum wages is higher in regions with a high level of gross domestic product (GDP) than in low-income groups.

European Union (EU)

The wage policy in the EU is a patchwork of different national traditions and legal frameworks, leading to considerable divergence in minimum wage levels among member states. While setting minimum wages is within the competence of EU member states, the EU plays a supporting and complementary role in improving minimum wage protection, which can be provided through collective agreements and statutory minimum wages set by law.

In October 2020, the European Commission proposed a directive with the aim of increasing the coverage of minimum wages and promoting the adequacy of statutory minimum wages, while also strengthening collective bargaining as the main instrument to ensure fair wages, working conditions, and living conditions. This marked the first time the Commission initiated legislative action on minimum wage protection, allowing member states to define specific minimum wage levels.

Interinstitutional negotiations between the European Parliament and the Council concluded with a provisional agreement, approved by the Parliament during its plenary session in September 2022 and formally adopted by the Council in October 2022. Member states have two years to ensure that national measures comply with the new rules.

6. UN involvement

Implementing fair minimum wage legislations has been identified as a key objective in the 2030 Sustainable Development Agenda, adopted at the United Nations in 2015. Goal 8 of the 17 Sustainable Development Goals (SDGs) specifically calls for "sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all." It underscores the importance of achieving equal pay for work of equal value and protecting labour rights.

The International Labour Organization (ILO) does not seek to promote an international single model of minimum wage legislation for all ILO member states. Instead, it aims to develop different

minimum wage policies and practices based on national preferences, country circumstances, and the level of economic and social development. This is achieved through cooperation with governments and social partners around the world.

The issue of minimum wages has been fundamental at the ILO since its creation in 1919. The 1919 ILO Constitution called for urgent improvement in labour conditions, including "the provision of an adequate living wage." Furthermore, in 1944, the ILO Declaration of Philadelphia emphasized the importance of "a minimum living wage to all employed and in need of such protection."

In 1928, the ILO adopted the Minimum Wage Fixing Machinery Convention, encouraging member states to implement minimum wages "for workers employed in certain of the trades or parts of trades in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low." Following this, the ILO played a role in extending minimum wage protection to previously excluded categories of workers, including agricultural workers and seafarers.

In 1970, the ILO adopted the Minimum Wage Fixing Convention, which encourages member states to establish a system of minimum wages that:

- Offers a broad scope of application with minimal exclusions.
- Establishes machinery to fix and adjust minimum wages periodically.
- Is based on the principle of full consultation with social partners.
- Involves social partners and independent experts in the design and operation of the system.
- Sets minimum wage levels considering the needs of workers and their families, as well as economic factors.
- Includes measures to ensure the effective application of minimum wages.

However, the ILO Conventions do not prescribe a single national minimum wage. The 1970 Minimum Wage Fixing Recommendation highlights that the protection of all workers against unduly low wages can be achieved by fixing a single lower limit of general application or by fixing a series of minimum wages applying to particular groups of workers.

7. Bibliography

<https://au.indeed.com/career-advice/pay-salary/what-is-salary>

<https://www.britannica.com/topic/International-Labour-Organization>

<https://www.eurofound.europa.eu/en/european-industrial-relations-dictionary/living-wage>

<https://www.eurofound.europa.eu/en/european-industrial-relations-dictionary/collective-bargaining-and-competition-law>

[https://www.europarl.europa.eu/thinktank/en/document/EPRS_ATA\(2022\)733618](https://www.europarl.europa.eu/thinktank/en/document/EPRS_ATA(2022)733618)

[https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2022\)733535](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2022)733535)

<https://www.ilo.org/global/topics/wages/minimum-wages/beneficiaries/lang--en/index.htm>

https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439072/lang--en/index.htm

<https://www.ilo.org/global/topics/wages/minimum-wages/definition/lang--en/index.htm>

https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439073/lang--en/index.htm

https://www.ilo.org/global/topics/wages/minimum-wages/definition/WCMS_439070/lang--en/index.htm

<https://www.ilo.org/global/topics/wages/minimum-wages/enforcement/lang--en/index.htm>

<https://www.ilo.org/global/topics/wages/minimum-wages/monitoring/lang--en/index.htm>

<https://www.ilo.org/global/topics/wages/minimum-wages/rates/lang--en/index.htm>

<https://www.ilo.org/global/topics/wages/minimum-wages/setting-adjusting/lang--en/index.htm>

<https://www.ilo.org/global/topics/wages/minimum-wages/setting-machinery/lang--en/index.htm>

https://www.ilo.org/global/topics/wages/minimum-wages/WCMS_458660/lang--en/index.htm

<https://www.lawinsider.com/dictionary/a-fair-wage>

<https://www.studysmarter.co.uk/explanations/microeconomics/supply-and-demand/price-floors/>