ITUC

FRONTLINES REPORT
FEBRUARY 2014

Workers are on the frontlines of a war on their living and working conditions.
Income inequality: Time to deliver an adequate living wage.

International Trade Union Confederation

“Our money, our wages are not enough to survive. We have to send our children to live with their grandparents. Foreign companies should respect women workers and pay a living wage, we are helping them make profits.”

Atook, Indonesia

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Photo: The All-Nite images

Introduction

Inequality is growing in almost all nations, and wages are amongst the lowest on record as a share of wealth.

Unemployment is the highest on record and while more than 50 percent of workers are in vulnerable or precarious work 40 percent of workers are trapped in the desperation of the informal sector where there are no minimum wages and no rights.

Health, public education, transport and quality public services in general are increasingly denied to those who cannot pay. Tax evasion by large multinational corporations is rampant.

The global financial crisis wrought by the greed of the financial sector might have begun in 2008 but the aftershocks are still imposing instability for national economies and destruction of jobs for working families.

Inequality is both a global economic risk and at the heart of the increasing hopelessness felt by many of the world's working people. The majority of households in developing countries – more than 75 percent of those nations' populations - are living today in societies where income is more unequally distributed than it was in the 1990s, according to United Nations Development Programme findings.

A minimum living wage is an important part of the challenge to reduce inequality.

Nearly one hundred years ago in the aftermath of the First World War global leaders recognised that a minimum living wage was essential for social justice and lasting peace.

The Preamble to the International Labour Organization (ILO) constitution of 1919 states;

"… conditions of labour exist involving such injustice hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperiled; and an improvement of those conditions is urgently required; as for example, by.....the provision of an adequate living wage".

Trade unions are united on three fronts:

- organising for a minimum wage on which workers can live with dignity, everywhere;
- organising to raise wages where a minimum wage exists and is too low to meet the test of a living wage, and
- organising to ensure compliance such that all workers receive an established minimum living wage.

Recent research indicates that about 90 percent of ILO member states have some form of minimum wage, however even within these countries not every worker is covered.

The fight for universal access to a fair wage is a central issue for the ITUC.

With inequality rising within and between nations there is evidence that in the overwhelming majority of countries the minimum wage is inadequate to ensure workers and their families can afford basics such as nutritious food, housing, clothing, health care, education, and transport with minimal provision for emergencies.

One in eight respondents to the ITUC Global Poll 2013 say they are struggling financially and can no longer pay for basic living expenses like housing, food and electricity. More than half of all respondents (59 percent) are no longer able to save any money.

Where countries have some form of minimum wage or wage floor this has been established in different ways, including; a national or regional minimum wage established by governments or an independent body; sectoral minimum wages that are different for different industries or collective bargaining agreements that are extended to cover all workers in a sector, a geographic area or a nation.

Setting a minimum living wage must rely on evidence of what is required to lift workers out of poverty and enable them to live with dignity. The ILO constitution calls for 'an adequate living wage' and this must allow for the cost of essential goods and services and be adjusted regularly to reflect shifting prices.

The dramatic growth in precarious work and the desperation of the informal sector means establishing a minimum living wage and enforcing the provision of such is more important than ever. In many countries unions work to ensure compliance through under-resourced and sometimes corrupt inspectorates and labour courts. The task becomes even more complex where there are different minimum wage floors for different areas, occupations or sectors.

Corporations, conservative governments and neoliberal economists argue, without substantive evidence, that raising the minimum wage costs jobs. Tragically too many governments have been influenced by this view with the result that inequality now threatens both the livelihoods of working families and economic stability.

Research by opponents of the minimum wage is badly flawed. The evidence is that every penny paid to low-paid workers is returned to the economy through local enterprises in key sectors, such as retail, housing, food and energy. A wage increase for the poor is an injection of economic energy that results in increased jobs and greater prosperity for all.

The global slump in workers' wages relative to gross domestic product has contributed to the massive growth in inequality and must be reversed. This stands in contrast to the soaring profits for major corporations, the pursuit of shareholder value at any cost and the massive increase in the wealth of the 1 percent who derive most of their income from investments in equities, property and commodities.

A confronting figure in the face of corporate wealth is that one in six people live in urban migrant slums. This will grow to one in three by 2030 if business as usual wins.

Reversing income inequality will require reforms in many areas, including; macroeconomic policies, tax and welfare justice, the regulation of financial markets and labour market policies. This is a battle with many interrelated fronts and a minimum living wage in every nation is a key element.

As we draw closer to the centenary of the ILO it is time to deliver on the promise of its constitution 95 years ago for an 'adequate living wage' in all countries.

Working people want jobs, decent wages and social protection. The ITUC Global Poll 2013 found 89 percent of people support strong labour laws, which establish and protect a decent minimum wage.

In the previous edition of Frontlines we focused on collective bargaining. The evidence shows that a comprehensive collective bargaining system is economically desirable and recent attacks on this fundamental right cannot be justified. National collective bargaining systems provide a significant tool to narrow wage differentials. The disastrous economic and social consequences of destroying collective bargaining are now clear and must be addressed.

This edition of Frontlines adds to the focus on wages and wealth distribution tools in the fight to reduce inequality. It concentrates on the relationship between a minimum living wage and income inequality. The next edition of the Frontlines series will focus on Social Protection and add to the research base in support of our fight for wage justice and the necessity of a basic social protection floor.

Sharan Burrow, General Secretary ITUC

Global Economic Conditions

The latest projections from the World Bank suggest global growth will pick up from 2.4% in 2013 to 3.2% in 2014, with the Bank saying that high-income countries "appear to be finally emerging from the global financial crisis". However, forecasts by the International Financial Institutions have been successively revised downwards since 2010 when restrictive policies were introduced in many countries.

The Managing Director of the IMF Christine Lagarde recently said, "we see rising risks of deflation, which could prove disastrous for the recovery".

It is becoming clear that the global economy cannot recover on export-led growth that so many countries are espousing. There must be an expansion of demand, particularly from working households. The World Economic Forum's Outlook on the Global Agenda 2014 and Global Risks Report identifies widening income disparities and structural unemployment as the most serious problems confronting the global economy this year.

According to the WEF's own Global Agenda Council on Employment:

"What started as a deep but temporary jobs crisis is becoming a persistent challenge with serious effects on the social fabric. Little respite is on the horizon in 2014 without significant changes in policy."

Providing a minimum living wage must be an essential part of this response.

2. A minimum living wage

There is broad recognition that income inequality is now excessive and a threat to social cohesion and political stability. A key objective for the trade union movement is the introduction of a minimum living wage that provides a decent living in all countries.

A minimum living wage that provides workers with sufficient income to purchase all the basic necessities for their family would have a significant impact on in-work poverty and will help narrow the gap between the lowest paid and the middle-income earners.

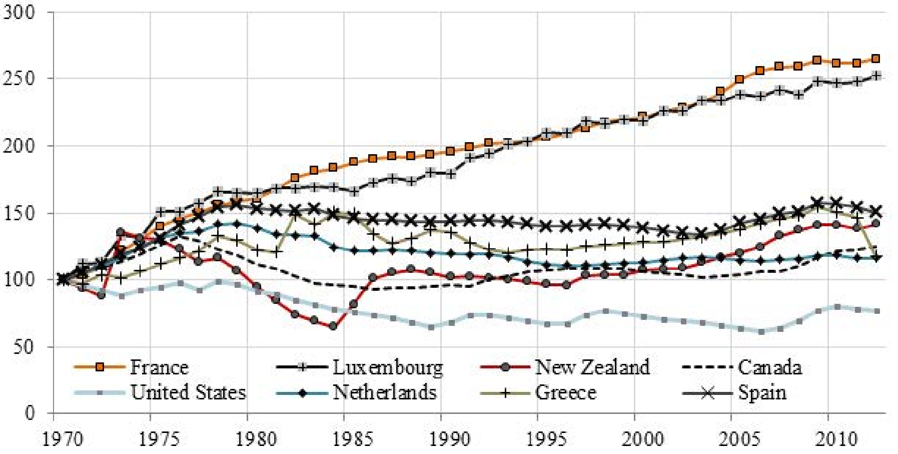
The introduction of a minimum living wage is particularly important to precarious workers and those without the benefit of collective bargaining. Minimum wages can assist to formalise work for informal workers who make up the bulk of the labour force in too many countries. They can also help reduce gender inequality as the majority of low paid workers are usually female.

A recent report by the ILO reveals a US$25 monthly pay gap between Cambodian women factory workers and their male counterparts. Women's labour is "cheap".

Minimum wages can take different forms. Some countries have set minimum rates for different industries, different occupations or even geographical regions. In a few countries the extension of rates set through collective bargaining provides a minimum. A national minimum wage has the advantage of being easily communicated to the general population, which improves compliance and enforcement.

As trade unions and some governments seek ways to tackle poverty and prevent rising inequality there is evidence that minimum wages work.

Figure 1: Long-term development of the real hourly minimum wage in purchasing power parity USD (1970=100)



Source: OECD (2013 Minimum Wage Database.

Positive experiences with minimum wages in a few key countries have demonstrated the value of a minimum living wage. In 1999, the United Kingdom reversed policy and introduced a national minimum wage and it has subsequently increased in its real value without any adverse consequences for employment and with a positive impact on poverty. According to some observers this was the single most important reform for helping vulnerable UK workers in the last 15 years. Ireland followed this lead and introduced a national minimum wage in 2000, while in Germany government coalition parties recently announced an agreement to introduce a minimum wage by 2015.

Emerging economies such as Brazil, South Africa, China, Indonesia and India have also taken action on the minimum wage in the last decade.[1]

In the late 2000s some developed countries lifted minimum wage levels after a long period of stagnation or erosion in their real value. Figure 1 shows long-term trends in the real hourly minimum wage (in purchase power parities) for a group of advanced economies.

Real minimum wages remained flat in most countries after the oil-crisis in the 1970s because many abolished their wage indexation mechanisms. In the United States the real value of the minimum wage fell dramatically between 1980 and 2006, declining by more than a quarter.

Towards the end of the last economic upswing (between 2002 and 2007)[2] several countries started to increase the real value of the minimum wage, with the ILO confirming an increase in real terms by 5.7 % on average in countries where data are available between 2001 and 2007. This occurred as evidence of widening income inequality intensified. Unfortunately the global economic recession cut short this revival of the minimum wage.

Figure 2 shows the attack on the long-term development of the minimum

A recent report by the ILO reveals a US$25 monthly pay gap between Cambodian women factory workers and their male counterparts.

In the United States the real value of the minimum wage fell dramatically between 1980 and 2006, declining by more than a quarter.

wage relative to the average wage for the same group of countries plus Turkey and Romania.

With the exception of France and Luxembourg it is evident that minimum wages failed to grow in line with average wages in the 1970s and 1980s. The moderation of this trend during the 1990s is due to the stagnation of average wages as the real value of minimum wages did not improve either.

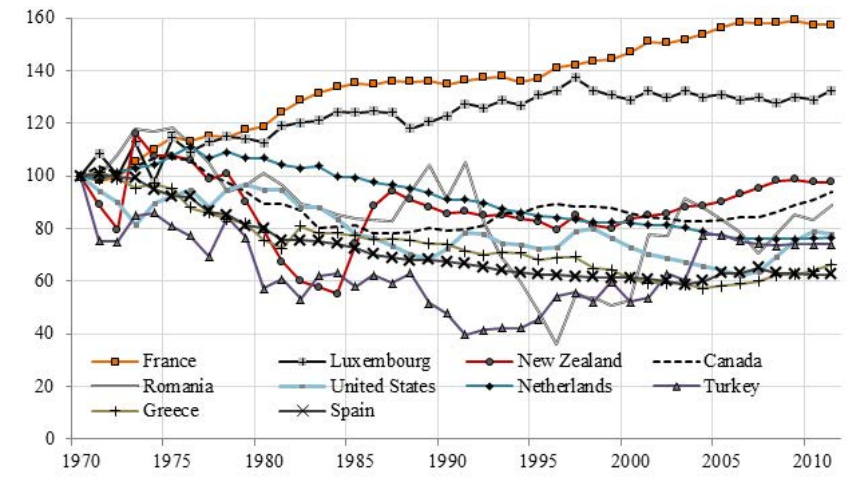
Figure 3 shows changes in the real minimum wage between 2008 and 2012 for a larger sample of countries. Since 2008 most countries, with the exception of Spain and Greece, have at least maintained the real value of their minimum wage.

At the outbreak of the global economic crisis various international institutions acknowledged the important role that minimum wages could play to cushion the adverse effects. In their Declaration on Social Justice, the ILO (2008) committed itself to:

"…developing and enhancing measures of social protection – social security and labour protection – which are sustainable and adapted to national circumstances, including: policies in regard to wages and earnings, hours and other conditions of work, designed to ensure a just share of the fruits of progress to all and a minimum living wage to all employed and in need of such protection."[3]

The priority on minimum wages was reaffirmed in the ILO, Global Jobs Pact of 2009 which states:

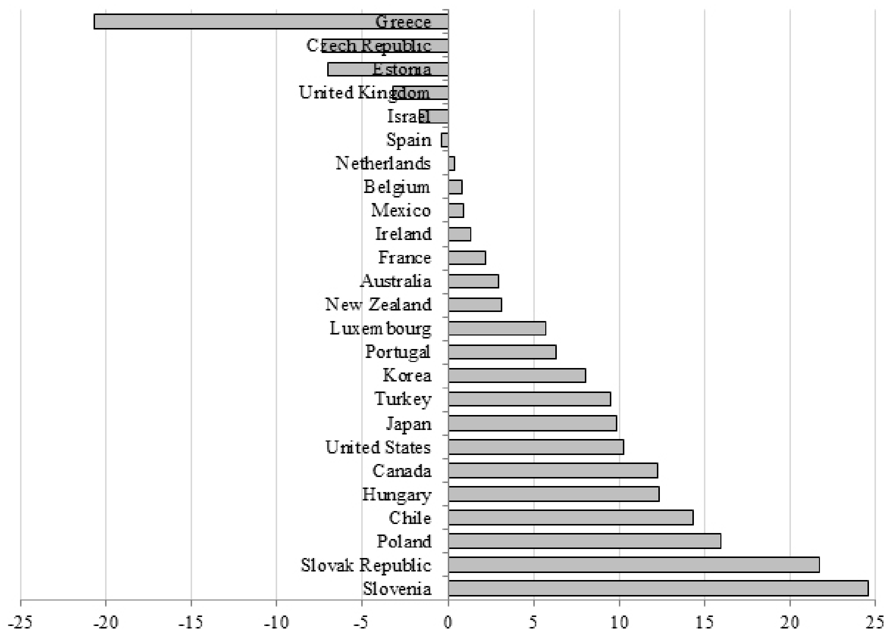
Figure 2: Long-term development of the minimum to average wage ratio (1970=100)



Note: Data for the real development of the minimum wage are not available for this time span for Turkey and Romania.

Source: OECD (2013) Minimum Wage Database.

Figure 3: Percentage change in the real hourly minimum wage measured in PPP USD (2008-2012)



Source: OECD (2013) Minimum Wage Database.

"Governments should consider options such as minimum wages that can reduce poverty and inequity, increase demand and contribute to economic stability."[4]

In recent documents the European Commission has also made some helpful comments about minimum wages and poverty, stating:

"Even before the crisis, having a job has not always been a guarantee against poverty, and the EU in-work- poverty rate is still above 8%. The risk of in-work poverty is high, particularly in countries with uneven earnings distribution and low minimum wages, among people with temporary contracts and in low work intensity and single parent households.

Setting minimum wages at appropriate levels can help prevent growing in-work-poverty and is an important factor in ensuring decent job quality."[5]

Despite this, the European Commission was a major force behind the dramatic decline of minimum wages in Greece. It supported draconian labour reforms and severe wage restraint in countries such as Portugal, Bulgaria, Romania and Spain.

The IMF has also sent mixed signals on the issue. Their 'Factsheet' about "The IMF's Advice on Labour Market Issues" starts by reminding readers that "[t]*he IMF's Articles of Agreement commit the institution to 'the promotion and maintenance of high levels of employment and real income."*

But the importance of maintaining real incomes is quickly lost once the IMF gets down to policy advice, arguing that:

"In the longer run, a broader set of policies and institutions influences the functioning of labor markets and the extent of job creation. Often, changes in these policies and institutions are needed to boost growth and job creation. Such changes can be politically contentious and difficult to implement. It may, for instance, be necessary to lower labor costs."[6]

The ILO and the World Bank undertook a review of policy responses to the crisis between 2008 and 2010 in 77 countries. This revealed that 33 countries (43 %) increased the nominal value of their minimum wage since the recession and 16 countries (21 %) managed a real increase in the minimum wage during this period.

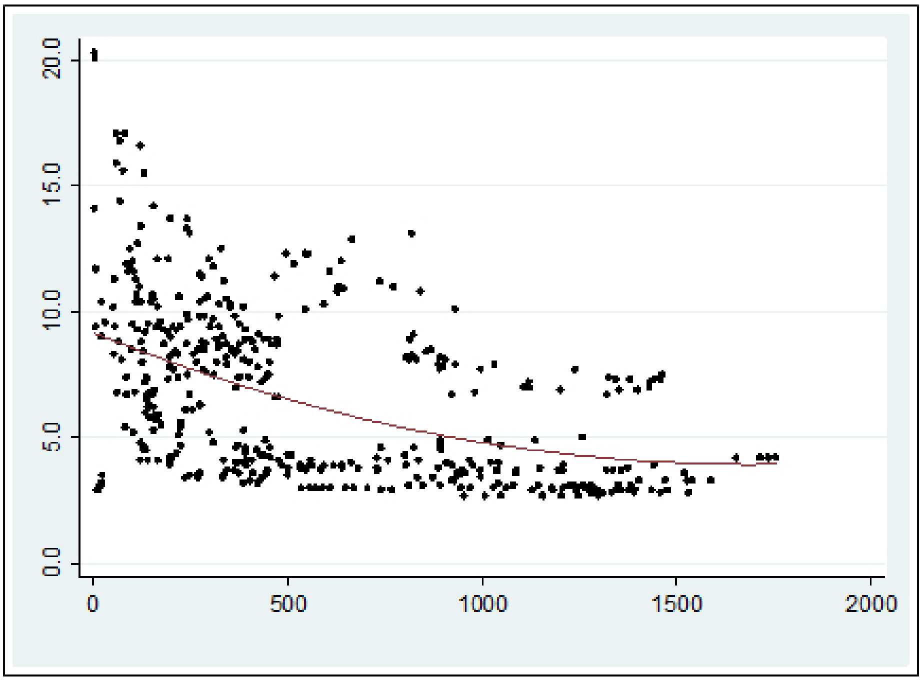
3 The impact of minimum wages on inequality

The role a minimum living wage can play in reducing wage inequality is widely accepted in much of the academic literature.[7] Figure 4 is a simple scatter plot showing the relationship between the magnitude of the minimum wage and the degree of wage dispersion between those at the top 10 % of wage earners and those in the bottom 10 %. The data suggests a fairly strong negative relationship such that higher minimum wages lead to a lower earnings gap between those at the top and bottom. The actual strength of this relationship in practice depends on factors including level, coverage, enforcement, the size of the informal economy and the shape of the upper half of wage dispersion.

The impact of minimum wages on poverty is less conclusive, partly because poverty itself is only measurable in relative terms. The impact also depends on how widespread minimum wage earners are among poor households and how effective minimum wage regulations are implemented. Figure 5 gives a good indication that the share of working poor is substantial in a wide range of developing and emerging countries. The same is true in advanced economies. In their latest Global Wage Report, the ILO urged their 185 Member States to use minimum wage policies more effectively to reduce in-work poverty.[8]

A minimum living wage is an excellent tool for securing decent income for migrant workers, young people, those in precarious forms of work, and for reducing the gender pay gap.

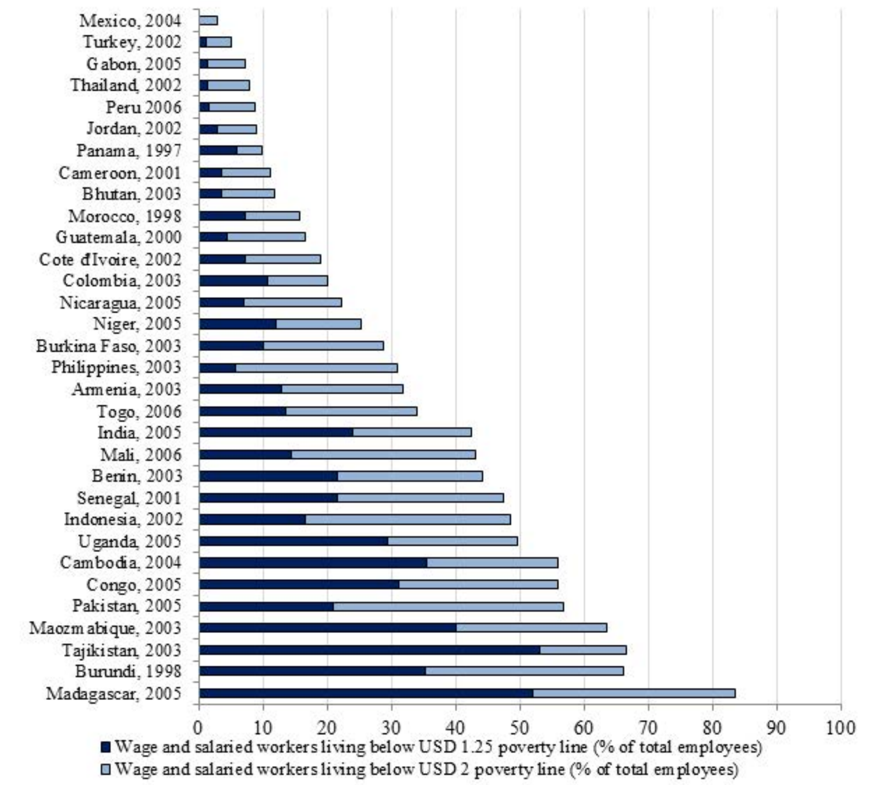
Figure 4: Scatter plot showing the minimum nominal monthly wage in USD purchase power parities (X-axis) plotted against the ratio of the 9th to the 1st wage decile (Y-axis)



Note: Countries include Albania, Argentina, Armenia, Australia, Azerbaijan, Belgium, Brazil, Canada, Chile, Colombia, Costa Rica, Czech Republic, Ecuador, Estonia, France, Greece, Honduras, Hungary, Indonesia (minimum wage was calculated as weighted average by province, based on employees in each province), Ireland, Israel, Japan, Kazakhstan, Republic of Korea, Latvia, Lithuania, Luxembourg, Malta, Mexico, Republic of Moldova, Netherlands, New Zealand, Panama, Peru, Poland, Portugal, Slovakia, Spain, Turkey, United Kingdom, United States, Uruguay and Venezuela.

Source: ILO minimum wage database; USD purchase power parities stem from the World Bank's World Development Indicators.

Figure 5: Working-poor as percentage of total employees



Source: ILO (2012) Global Wage Report 2012/2013, p. 40.

3.1 The minimum wage and a potential employment impact

> 95 % of people agree that "all companies, businesses and employers should pay workers a reasonable wage regardless of where they work", ITUC Global Poll 2013

Opponents of a minimum living wage often argue that vulnerable workers will not benefit because their jobs will be abolished when labour costs increase.

This conclusion is derived from an ultra-simple supply and demand model that has exerted excessive influence over policy for decades.

However, this model assumes bosses do not have control over the price they charge customers for products, nor any space for increasing wage payments. This argument ignores the fact that firms make profit, have influence and market power.

The model also assumes that workers are homogeneous, have all the relevant information about the firm and potential jobs outside and they are so flexible they can move across the country to take up a new job instantaneously.

The real world – where family connections may influence recruitment decisions or basic discrimination may determine who gets a job vacancy or workers are intimidated into accepting wages and conditions that fail to reflect their contribution to the company – are completely ignored. Also the possibility that workers might use any pay increase to buy food, clothing and shelter and thereby create additional jobs is never even considered. In this model a wage increase only pushes up costs for employers and accelerates inflation. It is never considered to generate faster growth by strong domestic demand, higher productivity or a better work environment.

Empirical results tell a different story. Two American academics, David Card and Alan Krueger, took advantage of the fact that minimum wages were different in two neighbouring states (New Jersey and Pennsylvania) yet most other characteristics that could influence employment were very similar. They investigated what happened to jobs in the fast food industry when one state hiked up the minimum wage and the other did not. They found that if anything the higher minimum wage helped create more jobs.[9] The authors went on to strongly question the estimation methods used in the early studies that had found increasing the minimum wage led to a rise in unemployment.[10]

The introduction of a national minimum wage in the UK in 1999 and its subsequent upward adjustment provided more data to explore the relationship between minimum wages, employment, poverty and income inequality. The UK literature clearly confirms that there were no major negative employment effects for the low paid as a result of the minimum wage introduction but it did improve the welfare of the low paid and marginal groups in the labour market.[11] The predictions by Conservative British politicians in the mid-1990s that a national minimum wage would lead to massive job losses were proven incorrect. As the UK Low Pay Commission noted:

"A surprising concensus has now emerged, with government, business, unions and academics all sharing the view that there

In their latest Global Wage Report, the ILO urged their 185 Member States to use minimum wage policies more effectively to reduce in-work poverty.

has been no significant adverse impact resulting from the statutory wage floor... Almost eight in ten firms...back the principle of a statutory wage floor. Just 4 percent oppose the idea."[12]

It is often argued that small businesses (which in most developed countries employ between 60 % and 80 % of workers) would suffer most from a minimum wage and be forced to shut down.

In fact, the Fiscal Policy Institute found in US states with higher minimum wages, growth in the number of SMEs and jobs in the retail sector was actually stronger.[13] One explanation for this could be that a higher minimum wage leads to stronger competition outside wages which can improve productivity and enhance growth of SMEs.

Studies in emerging economies such as Brazil, Indonesia, India and South Africa, also suggest that the minimum wage has either an insignificant or positive impact on employment and a desirable impact on poverty and income inequality.[14]

Even the OECD (2006) in their revised Jobs Study stated:

"The fact that a considerable number of studies have found that the adverse impact of minimum wages on employment is modest or non-existent, also suggests that there may be scope to use minimum wages as one part of employment-centred social policy, intended to mitigate poverty while fostering high employment rates."[15]

A comprehensive background paper for the World Bank 'World Development Report 2013' also concluded that minimum wages have no significant negative impact on the labour market.[16]

Furthermore, one study revealed that results showing that higher minimum wages had a negative impact on employment are cited much more regularly and are given greater prominence in policy papers even though the majority of studies lead to an inconclusive result.[17] This finding underpins the suspicion that the debates about minimum wages among academics and policy makers are often driven more by ideology rather than hard evidence.

About half the 118 countries with a fixed minimum wage have introduced sub-minimum wages for young workers. This is based on neoliberal studies that suggest that while the overall effect of minimum wages might be inconclusive, specific groups of workers are negatively affected, particularly very young and older workers.[18]

The Committee of Application of Standards made clear that a lower minimum wage which is only justified by age, constitutes an act of discrimination and violates the principle of equal pay for equal work. It states that *"the quantity and quality of work carried out should be the decisive factor in determining the wage paid"*.[19]

The UK Low Pay Commission has commissioned two studies, which found no negative effect on youth employment from a minimum wage.[20] Reich and Dube have equally questioned the existence of a negate causality applying high standards of econometric analysis techniques.[21]

3.2 The impact of minimum wages on the overall wage structure, productivity and inflation

The introduction of a minimum living wage may also have spill-over effects on the wages of workers higher up the income distribution.

Neoliberal economic theory often suggests that a higher minimum wage will impact negatively on the wages of workers in the informal sector by reducing the available formal sector jobs and forcing more people to seek an existence in the informal economy. Due to this influx of workers into the informal economy, wages would decrease as a consequence.

In reality, the evidence shows that an increased minimum wage performs a similar role in the informal economy as it does in the formal economy, providing an objective signal that wage levels need to rise and a guideline for how much. Some authors have referred to this as the "light house effect".[22]

Another prediction of neoliberal theory is that a minimum wage increase will result in higher inflation, meaning lower real incomes for everyone. However, the effects of inflation are not evenly spread across income groups. Those on low incomes need to spend a much greater share of their income on basic commodities and services just to survive.

In the vast majority of situations an increase in the minimum wage leads to a very small increase in total costs for employers because wages represent a relatively minor component of overall production costs. Empirical studies tend to confirm that inflation is the result of pressures that are unrelated to the labour market or movements in the minimum wage.[23]

In addition the increase in the minimum wage is likely to lead to a more harmonious atmosphere at the workplace and greater commitment to the enterprise. Preventing management from competing through a low wage strategy provides an incentive for other changes that improve productivity or lower costs. This can include: investing more heavily in training and skill development; upgrading technology and capital equipment; and other improvements in the production process that enhance the quality of the product.

A number of empirical studies support this positive relationship between minimum wages and productivity. Studies corroborate the assumption that a higher minimum wage can be an incentive for employers to invest in training.[24] Sutch (2010) concludes that the minimum wage increase in the US led to capital deepening and the need for more skills, which led to people attending school longer.[25]

4. Minimum wage fixing in law and practice

Minimum wages should prevent exploitation of workers and guarantee a decent life. The terminology 'living wage' or 'minimum living wage' refers to this main function of the minimum wage, as cited in the ILO Constitution of 1919. The constitution states that the ILO dedicates itself to support:

"…policies in regard to wages and earnings, hours and other conditions of work calculated to ensure a just share of the fruits of progress to all, and a minimum living wage to all employed and in need of such protection"[26]

This was reiterated in the ILO Declaration of Philadelphia in 1944 and in the ILO Declaration on Social Justice for a Fair Globalization in 2008. The right to a living wage has also been recognised in the United Nations Declaration of Human Rights of 1948[27] and in the European Social Charter of 1961.[28]

4.1 International labour law on minimum wages

The ILO defines minimum wages as *"the lowest level of remuneration permitted"*. This must have *"the force of law and which is enforceable under threat of penal other appropriate sanctions"*.[29] Article 3 of Convention 131 states minimum wages should take into consideration *"the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups"*.

A minimum standard of living is defined concretely in Article 5 of Convention C117 - Social Policy (Basic Aims and Standards) Convention from 1962: *"In ascertaining the minimum standards of living, account shall be taken of such essential family needs of the workers as food and its nutritive value, housing, clothing, medical care and education"*.

Convention 131 establishes specific international labour law on minimum wage fixing institutions.

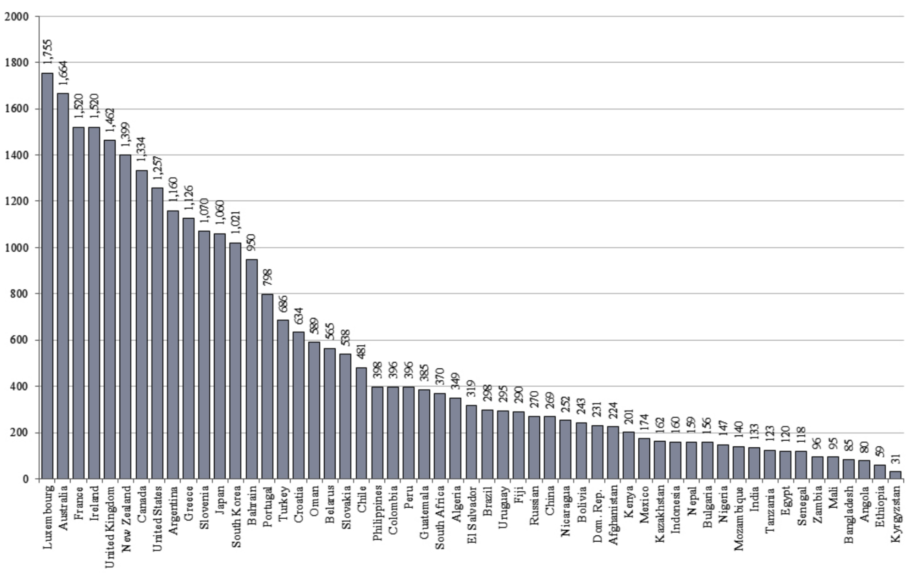
4.2 Minimum wage fixing institutions in practice

The international regulations on minimum wages facilitate the key role for governments in creating a wage system. About 90 % of ILO member states, more than 166 countries worldwide, employ some kind of minimum wage fixing system.[30]

The practical impact of minimum wages depends on many factors.

Eyraud and Saget (2005) found the most important factors to consider when setting the level of the minimum wage are inflation/cost of living, the general economic situation and wage levels. Other factors include the capacity of

Figure 6: Monthly nominal minimum wage levels across the world in USD ppp (2010/2011)



enterprises to pay and social security benefits.[31]

Figure 6 depicts the dispersion of minimum wage levels measured in US$ purchase power parities for a selection of countries around the world ranging from US$ 1,755 in Luxembourg to US$ 31 in Kyrgyzstan.

Figure 7 shows most minimum wages are at a low level, not just when measured in absolute terms.

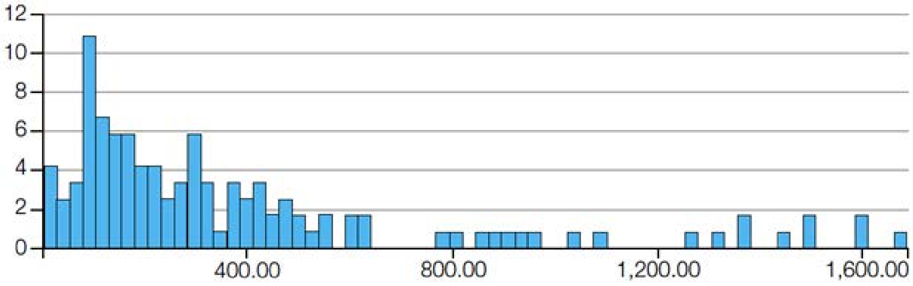
Even when considered relative to the average wage (see Figure 8), minimum wages are too low in the majority of countries to reflect the real cost of living. Roughly 60 % of the 77 considered countries have a minimum wage of 40 % of the average wage or lower.

Anker (2011) argues that the factors in determining a minimum wage are no more subjective than those used to measure poverty, unemployment and national income.[32] Researchers at MIT have developed a very detailed calculation of a living wage across the US for different family sizes and cities.[33]

It should provide essentials such as food, clothing and shelter for workers and their families. This includes medicines, transport, education and savings for the future, that should be achievable within reasonable working hours.[34]

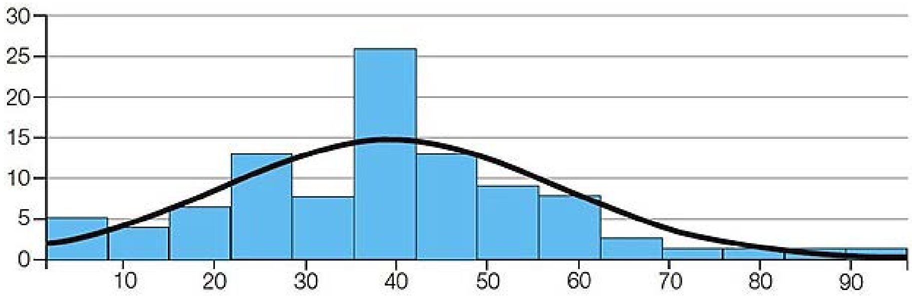
The evidence shows that an increased minimum wage performs a similar role in the informal economy as it does in the formal economy, providing an objective signal that wage levels need to rise and a guideline for how much.

Figure 7: Level of minimum wages (2009 or latest year, USD ppp, ILO) of 120 countries (percentages)



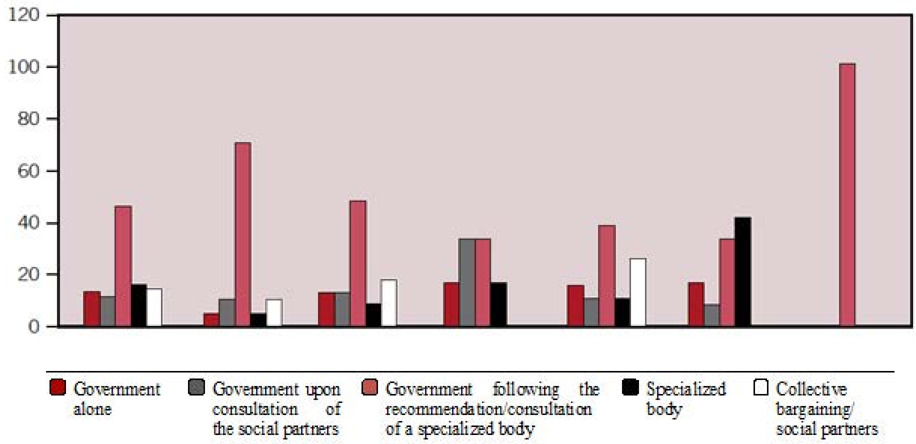
Source: Sangheon Lee (2012) "Varieties of minimum wage system" through the dubious lens of indicator-based rankings, International Labour Review, Vol. 151, No. 3, p. 265.

Figure 8: Ratio of minimum to average wages (ILO) of 77 countries (percentages)



Source: Sangheon Lee (2012) "Varieties of minimum wage system" through the dubious lens of indicator-based rankings, International Labour Review, Vol. 151, No. 3, p. 265.

Figure 9: Minimum wages and social dialogue (% of countries for which information is available)



Source: Patrick Belser and Kristen Sobeck (2012) At what level should countries set their minimum wage?, International Journal of Labour Research, vol. 4, issue 1, p. 108.

Well-functioning minimum wage systems depend mainly on the quality of institutions, continuous dialogue and on the commitment of stakeholders.

Eyraud and Saget (2005) analyse the differences between existing minimum wage fixing mechanisms. They differentiate four categories according to the actors involved (government versus social bargaining partners) and its universality (national/regional versus sectoral/occupational).[35]

In most countries the national or regional minimum wage rate is set by government or a tripartite body. This does not exclude further wage fixing above the minimum wage by collective agreements.

Elsewhere the government or a tripartite body set multiple sectoral and/or occupational minimum wage rates. This is the second most frequent type of system, predominant in developing countries mainly in Latin America and former English colonies.[36]

The third category in which national minimum wages are set by collective bargaining is the least frequent applied. Under this system higher rates may be set for specific sectors or occupations.

The forth category, where multiple minimum wages are set by collective bargaining, is the second least frequent and requires a developed landscape of collective bargaining. Countries like Germany, Namibia, Italy, Finland, Norway, Sweden and Austria belong to this group. The effectiveness of this system requires collective agreements to have broad overall coverage.

Out of all the countries for which information is available, 13 % set minimum wages without consultation, 11 % after direct consultation with social partners, and 45 % after consultation or recommendations of a specialized tripartite body. In 16 % of countries a specialized body with a tripartite structure takes the decision independently and in 14 % of countries social partners decide without state intervention.[37]

Preventing management from competing through a low wage strategy provides an incentive for other changes that improve productivity or lower costs.

5. Country experiences

Germany, Indonesia, Uruguay, USA, Zambia

These country profiles from Germany, Indonesia, Uruguay, the USA and Zambia show how country specific minimum wage systems work and their respective strengths and weaknesses. The most important ingredients for a minimum wage on which working people can live are political commitment and the strong involvement of trade unions.

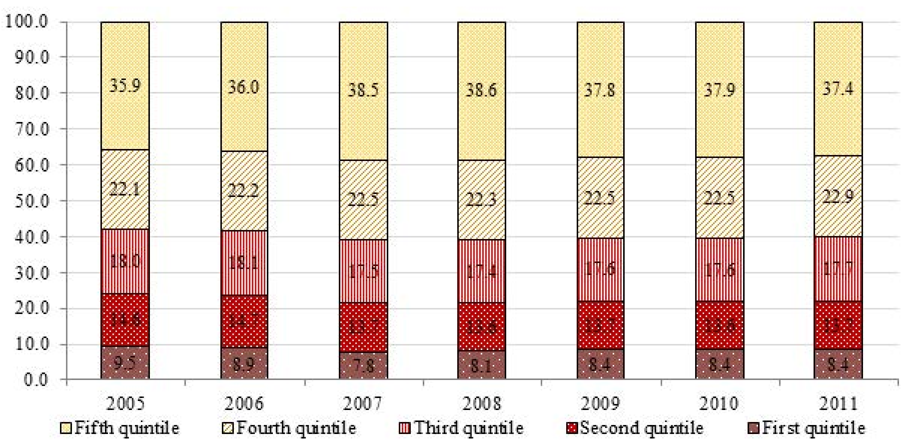
Photo: DGB - Claudia Falk

5.1 Germany

In recent years Germany has become the benchmark used by the European Commission (EC), the International Monetary Fund (IMF), the European Central Bank (ECB) and neo-classical economists when lecturing other European countries about labour market reforms and the need to depress wages to boost international competitiveness. However, as we saw in the last Frontlines report, although official unemployment rates in Germany remain relatively low, overall labour market performance is far less impressive. Job growth is heavily concentrated in various forms of precarious work. The recent pro-government Poverty and Wealth Report found that precarious work has increased from roughly 20 % of total employment in 2000 to over 25 % in 2011 as a consequence of the Hartz reforms in the early to mid-2000s.[38]

Between 2000 and 2012 the number of people in full-time employment declined by 1.44 million while part-time employment increased by 3.12 million. This meant that the proportion of all workers in part-time employment increased by more than 7 percentage points, reaching 34.4 %. The number of people forced to work two jobs to

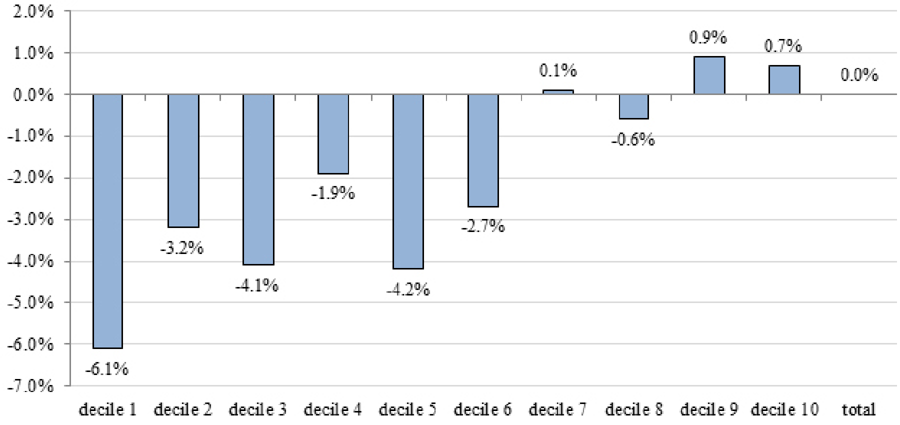
Figure 10: development of the quintile shares of the national disposable income



Source: European Commission (2013) Eurostat Database (SILC).

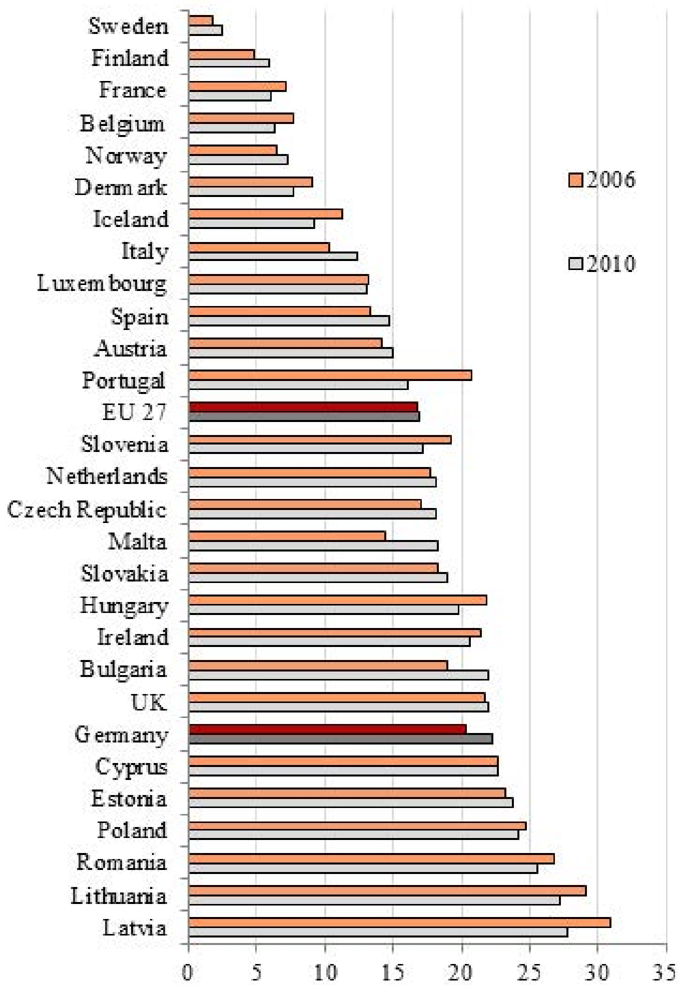
The number of people required to work two jobs to make ends meet doubled between 2000 and 2012 to 3 million workers.

Figure 11: Development of the real gross earnings of full-time workers by income decile, 2007 to 2011



Source: Bundesministerium für Arbeit und Soziales (2013) Lebenslagen in Deutschland – Armuts und Reichtumsberichterstattung der Bundesregierung, March, pp. XXIV.

Figure 12: Low-wage earners as a proportion of all employees (excluding apprentices) across Europe



Source: European Commission (2013) Eurostat, structure of earnings survey.

65 % of Germans say laws do not give adequate protection for fair wages, ITUC Global Poll 2013

make ends meet doubled over the same period to 3 million workers.[39] This trend is also apparent in the growing proportion of part-time workers who do so involuntarily. In 2000, 10.6 % were working part-time involuntarily, which almost doubled by 2008 to 20.8 %.[40] By 2012 there were 7.4 million so called "mini-jobs" without social security coverage.[41] This shift from full-time to atypical forms of work is also reflected in the volume of hours worked. Between 2000 and 2012, the total volume of work fell by more than 98 million working hours.[42]

As a result inequality in Germany has expanded dramatically. The share of private wealth (which includes real estate, savings, share and bond portfolios and other assets) held by the richest 10 % of population increased from 45 % in 1998 to 53 % in 2008. Over the same period the private wealth held by the poorest 50 % of the population shrunk from an extremely low 3 % to just 1 %. [43] Over the last decade the incomes of poor and middle-income groups in Germany have been so low they have had to fall back on savings just to survive. The savings rate for people in the bottom 70 % of the income distribution fell constantly between 2001 and 2011. By contrast, the richest 10% of the population increased their savings rate from 30.3 % in 2001 to 37.9 % in 2011. [44]

The much publicised labour market reforms in the early to mid-2000s produced a sharp increase in income inequality. The Gini coefficient jumped over 4 percentage points from 26.1 in 2005 to 30.4 in 2007 and has subsequently remained close to this elevated level.[45]

Income inequality was expanding rapidly in Germany immediately prior to the global economic crisis. Figure 10 shows the richest 20 % of Germans saw their disposable income as a share of total income increase from 35.9 % in 2005 to 38.9 % in 2007. In the same period, the poorest 20 % saw their disposable income shrink from 9.5% of their total income to 7.8%. Given that this period was characterised by robust economic growth the increase in income inequality reflects important structural flaws in how the benefits of growth were being distributed. The following period from 2007 to 2011 was dominated by turbulence in financial markets where income inequality stagnated mainly due to diminished capital gains for the rich.

In the last decade, despite being hit by the financial crisis the incomes of the wealthiest Germans still outpaced the poor. While in 2000 the richest 10 % of households had incomes (after tax and transfers) 5.9 times greater than the poorest 10%, this increased to 6.7 times by 2010.[46]

At the same time wage inequality in Germany increased even more than disposable incomes. Figure 11 shows trends in real earnings of full-time workers since 2007. For the vast majority real earning declined or stagnated over this period, with low paid workers experiencing very pronounced declines. For example, real earnings of workers in the bottom 10 % of the wage earners fell by over 6 % in just four years.

It is estimated that raising the minimum wage to €8.50 an hour would boost consumer spending by around €19 billion a year, with no negative impact on employment

Among the EU-27 countries, Germany had the seventh highest share of low-wage earners in 2010 (see Figure 12). More than one fifth of all wage earners made less than two thirds of the national median earnings of €10.3 per hour.[47] Only enterprises with 10 or more employees are included, so the real percentage of low-wage earners is far higher, estimated at 24 % or more than 8 million people.[48]

NEWS

The German trade union confederation (DGB) together with the Social Democratic Party has campaigned for a national minimum wage of 8.50 € per hour. The recent announcement of the agreement by government coalition parties to introduce this by 2015 is positive news.

The volume of work in the low-wage sector is also striking. In 2010 almost half of those in the low-wage sector were working full-time, 22 % part-time and 30 % had a mini-job or very short-term employment. A full-time worker in the low-wage sector works on average 45 hours per week, and a quarter work 50 hours or more. The average net wage of a full-time low-wage worker is €5.30 per hour (or €992 per month), while one quarter earn €4.70 or less per hour.[49]

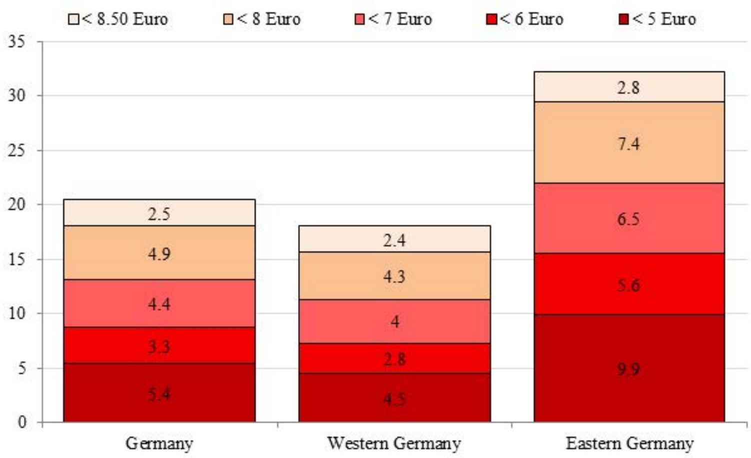
Germany has a wage floor that relies on collective bargaining agreements and minimum wages for specific regions or occupations. At the time of writing, minimum wages ranged from €7.00 per hour for laundry services in the east to

Michael Sommer, President, DGB and ITUC

Photo: ITUC

"The people in Germany who keep the country running and generate its wealth deserve to get their fair share."

Figure 13: Low-wage earners by different gross hourly wage levels expressed in (additional) percentage share of total workers



Source: Thorsten Kalina und Claudia Weinkopf (2013) Niedriglohnbeschäftigung 2011: Weiterhin arbeitet fast ein Viertel der Beschäftigten in Deutschland für einen Niedriglohn, Inst. Arbeit und Qualifikation, Duisburg, IAQ-Report, 2013-01, p. 10.

96 % of Germans favour laws giving workers a minimum wage, ITUC Global Poll 2013

€13.70 per hour for truck drivers and machine workers in the west.[50]

The German trade union confederation (DGB) together with the Social Democratic Party has campaigned for a national minimum wage of 8.50 Euro per hour.

For a single full-time worker (working 180 hours per month) this equates to a gross monthly salary of €1,530 and an estimated net salary of roughly €1,100. According to a study undertaken by the German trade unions, this would benefit more than 9 million people currently working for less than €8.50 an hour. That is more than 20 % of the entire workforce (see Figure 13). It is estimated that this would boost consumer spending by around €19 billion a year,[51] with no negative impact on employment.[52]

A national minimum wage of €8.50 would also result in substantial savings. As of July 2013 there were 4.45 million recipients of social assistance, and of these 1.3 million or almost 30 %, were in employment. In-work benefits would decline substantially with the introduction of a national minimum wage. Around 25 % of the employed social assistance recipients are in full-time employment while another 18 % are in part-time work. The most prominent occupations among such workers are cleaning services and positions in hotels and restaurants.[53]

This "subsidised work" has caused such extreme exploitation that courts in Germany have been asked to decide the level below which wages become immoral. For years one restaurant paid its employees a wage of about €1.32 per hour, while they received government assistance to assure a minimum existence.

The perception that workers are being exploited in the German labour market has spread far beyond the trade union movement. In the run-up to the elections in September 2013 the *Financial Times* newspaper highlighted the proliferation of precarious work in Germany and the failure of conservative political parties to address this issue.[54]

Discount food stores have become one of the fastest growing industries in Germany, reflecting the budget constraints faced by most working families. A charity initiative called "Die Tafel e. V.", which collects basic food and goods for the needy, reports a drastic increase in those asking for help. In their 2012 report, they stated about 1.5 million people visited one of their 906 nationwide facilities each week. Most of these people are single parents, pensioners, migrants, unemployed and increasingly also low-wage earners, unable to make ends meet. An increasing number of children are also dependent on charities, accounting for almost one third of all aid recipients in one of the richest countries in the world.[56]

A full-time worker in the low-wage sector works on average 45 hours per week, and a quarter work 50 hours or more.

Photo: Ikhlasul Amal

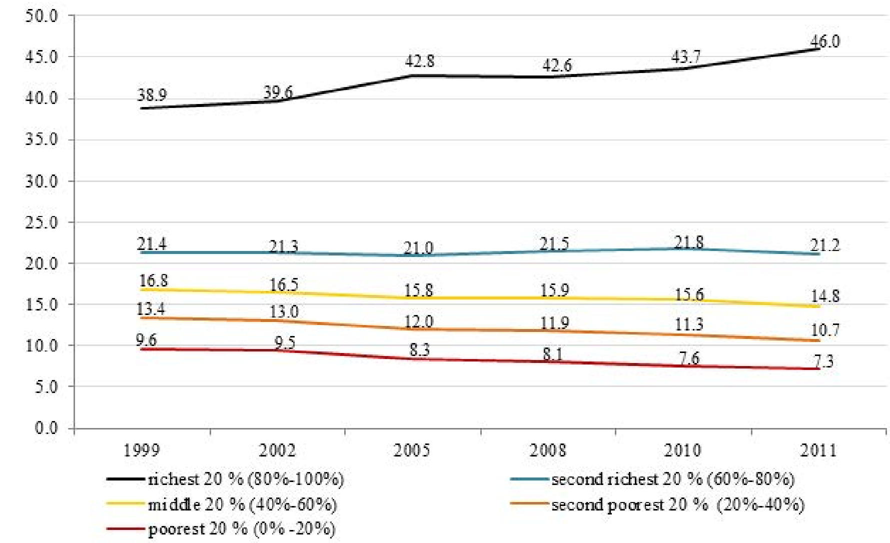
5.2 Indonesia

The Indonesian economy remained resilient following the global economic crisis in 2008 and recorded robust economic growth until very recently (above 6 % in all years except 2009). A well-targeted fiscal stimulus programme and relatively modest reliance on the export sector contributed to this sound performance. As a result real GDP per capita (in 2005 prices) increased by 60 % from US$ 1,086 in 2000 to US$ 1,731 in 2012.

However, the benefits of this strong growth were not evenly distributed. Income inequality, as measured by the Gini coefficient, rose substantially from 29.7 in 2002 to over 38 in 2011.[57] Widening income inequality is also reflected in the development of the income share of groups at different points along the income distribution (see Figure 14). The income share of the richest 20 % rose from 38.9 % in 1999 to 46 % in 2011, whereas the income share of the next richest group stagnated and the poorest 60 % of the population saw their share of income shrink.

While progress appears to have been made in reducing poverty, the accuracy of the official data is open to debate[58] as the national poverty line is below the extremely low international threshold of US$ 1.25 per day applied by the World Bank.[59]

Figure 14: Income share of different quintiles in per cent (1999-2011)



Source: World Bank (2013) World Development Indicators.

Indonesia was hit hard by the Asian currency crisis in 1997/1998, which led to a humanitarian crisis and social unrest. The government was forced to borrow from the International Monetary Fund and the conditions attached to the loan required major structural reforms, resulting in a significant rise in poverty.[60] The number of people living on less than US$ 2 a day rose by 25 million between 1996 and 2000.[61] Another legacy of the crisis was the decentralisation of political power to district and municipal levels. Given that natural resources and the quality of infrastructure are unevenly distributed across this vast country, this resulted in a more uneven distribution of poverty between regions (see Figure 15).

Indonesia's labour market has changed dramatically since the 1990s. In the last decade the population grew by 22 % or roughly 45 million people while at the same time unemployment fell to 6.6 % by 2011 and the employment rate increased to 63.1 % in 2012. The proportion of workers in vulnerable employment fell 8.2 percentage points between 1998 and 2011 to 57.2 %, though given the strong growth in recent years this remains very high. The vast majority of those in vulnerable employment were own-account workers or contributing family workers. The proportion of workers in the informal economy as a share of total non-agricultural employment stood at 61.6 % in 2009 and has changed little in recent years. [62]

Given these mixed economic trends, debates over a minimum wage have been a focus for trade unions in recent years.

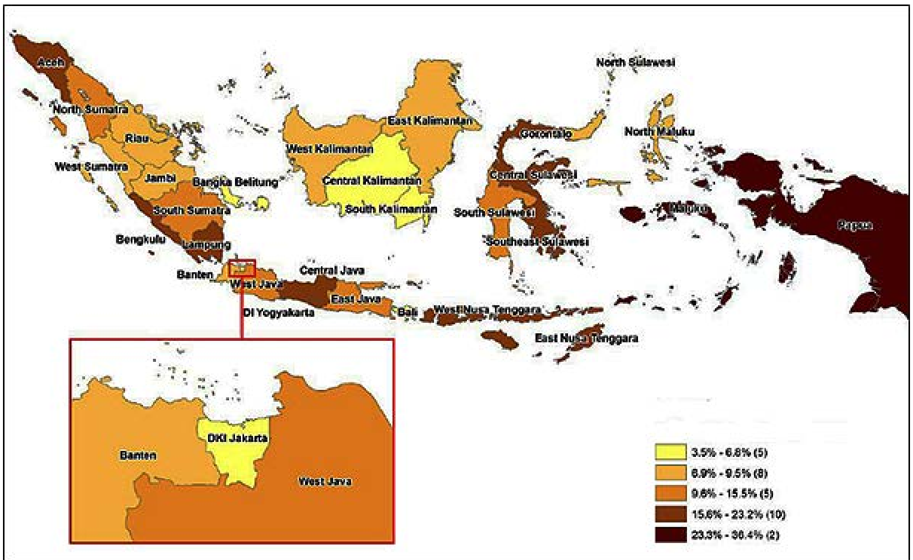
Indonesia has no national minimum wage fixing mechanism. Minimum wages are set by provinces or at the district and city level where there are wage councils monitoring price developments. Once a year, following input from social partners and experts, these councils make a recommendation to the local mayor or governor who then decides minimum wage adjustments on all levels. In urban areas like Jakarta, Surabaya and Medan, a minimum wage is also established for some occupations.[63]

Currently, monthly minimum wages range between 830,000 Rupiah (US$ 76) in West Java to 2,200,000 Rupiah (US$ 201) in Jakarta. In 2012/2013 the minimum wage increased on average by 18.3 %, a much stronger increase than the year before (10.3 %). The increases varied considerably by region from 3.4 % in West Sulawesi up to 48.9 % in East Kalimantan.[64] The inflation rate of 5.4 % in 2011 and 4.3 % in 2012 meant that the real impact of these increases was fairly dramatic[65] and a major achievement for the Indonesian trade union movement. In 2010 real average wages grew by 6.4 % to US$ 118 per month after low or negative growth in previous years.[66]

However, compliance with the minimum wage remains a serious problem. The government announced it would not enforce the most recent minimum wage increase in Jakarta for small and medium enterprises that

94 % of Indonesians support a minimum wage, ITUC Global Poll 2013

Figure 15: Provincial poverty rates (%) 2010



Source: Riyana Miranti, Yogi Vidyattama, Erick Hansnata, Rebecca Cassells and Alan Duncan (2013) Trends in Poverty and Inequality in Decentralising Indonesia, OECD Social, Employment and Migration Working Papers, No. 148, OECD Publishing, Paris, p. 23.

Said Iqbal, chairman Confederation of Indonesian Workers Union (KSPI)

Photo: Sebastiaan ter Burg

"We are fighting just for a little justice. Our struggle is to have employers provide better jobs and pay a decent wage to workers amid good economic growth of six percent." [69]

claimed they faced economic difficulties. Article 90 of the Labour Act 13/2003 allows employers to postpone payment of minimum wages for a certain period of time if they cannot afford it.[67] Over 490 companies have requested such an exemption from recent adjustments and 5 large textile companies in Jakarta are among those that received approval to avoid the new minimum wage.[68]

Employers claimed that these recent minimum wage increases would deter foreign investment and reduce growth potential and employment opportunities. However, economists from two large multinational banks (UBS and Deutsche Bank) have disputed these claims. Deutsche Bank has argued that there was strong employment growth in urban areas in the autumn of 2012, after the minimum wage rise, and foreign investment is 25 % higher than expected. Car companies that are expanding employment and upgrading technology are a significant source of foreign investment.[70] Existing textile companies have also benefited from rising wages through higher clothing sales and have begun opening new shops in urban areas. The public sector has also enjoyed an increase in direct and indirect tax revenues.[71]

Less than two-thirds of Indonesians believe the law adequately protects fair wages, ITUC Global Poll 2013

The current minimum wage round is being dominated by discussions over rising inflation and in particular higher fuel prices. Indonesian trade unions have demanded an increase of 50 %, while employers have proposed an increase of 20 %.[72]

The most recent macro-economic developments suggest economic uncertainty is mounting. But this is largely the result of outside factors, including the announcement by the US Federal Reserve that it would start to wind back quantitative easing measures. This led to substantial capital outflows and a significant decrease in the exchange rate of the Indonesia Rupiah against the US dollar. This has also produced a 23 % fall in the Indonesian Stock Exchange and the shrinking of foreign exchange reserves by 18 % in recent months. The declining exchange rate means that imports are becoming more expensive at the same time as Indonesian exports are hit by the economic slowdown in China. As a result the Indonesian trade surplus has been reversed and the country now faces a substantial external deficit amounting to US$ 2.3 billion in July 2013. Inflation is increasing due to reduced fuel subsidies, a falling exchange rate and increased import prices.

There was strong employment growth in urban areas in the autumn of 2012, after the minimum wage rise, and foreign investment is 25 % higher than expected.

All of these macro-economic factors illustrate the importance of a balanced growth strategy that diversifies production and strengthens the internal market. Such conditions mostly affect poor Indonesians while companies and the rich hoard US dollars to protect the real value of their wealth.[73]

Raising minimum wages to fully compensate for increases in the cost of living is now crucial to reduce poverty and counteract rising income inequality.

Photo: Rob Ali

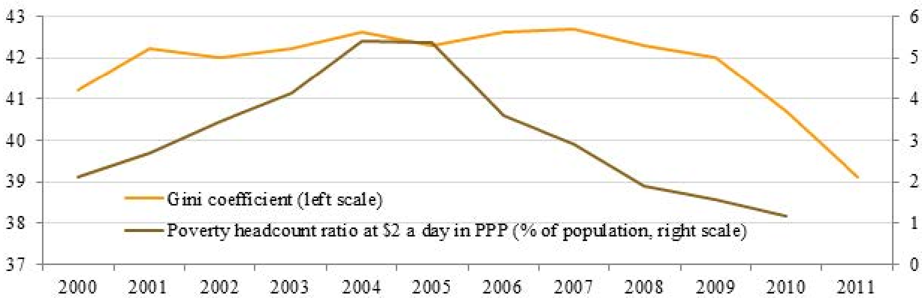
5.3 Uruguay

Uruguay has a unique history of dealing with the minimum wage. In 2002, Uruguay was affected by the Argentinean exchange rate crisis and entered a period of severe financial turbulence, which paralysed the real economy. Output fell by over 10 % between 2001 and 2003, while unemployment skyrocketed to more than 17 %.[74]

Uruguay, like many Latin American countries, has high levels of income inequality, which increased sharply in the mid-1990s. This coincided with the abandoning of collective bargaining agreements in 1992 except in some specific sectors.[75] The Gini index stood at 42.1 in 1995 and remained around this level until 2007 (see Figure 16). In more recent years the Gini coefficient has decreased considerably. Those in extreme poverty rose from a moderate 2 % of the population in 2000 to over 5 % in 2004 before declining sharply after 2005 back below the 2000 level (see Figure 16).[76] A new government took office in 2005, three years after the economic crisis. It initiated a series of legal and institutional changes with considerable impact on collective bargaining, the tax and transfer system and the functioning of the minimum wage. Before 2005, the real minimum wage had been declining for 30 years and had a non-

The positive impact of stronger labour institutions, including the minimum wage system, saw GDP growth average more than 6 % between 2005 and 2008.

Figure 16: Inequality and Poverty in Uruguay from 2000 to 2011



Source: World Bank (2013) World Development Index for Poverty; ILO (2013) Global Wage Database for the Gini coefficient.

binding status.[77] Consequently it had no real impact on the labour market and its only role was as a reference point for different payments including family allowance, social benefits, disable allowance, unemployment benefits, and some medical benefits.[78]

Due to its link to social protection, and the consequences for public spending, there was no increase in the minimum wage for lengthy periods. With high inflation the real value of the minimum wage entered free fall. In 2002 and 2003 it fell by 10.2 % and 12.3 % respectively (see Figure 17),[79] such that in 2004 it only amounted to 12.3 % of the average monthly wage.[80]

In that same year however the direct link between the minimum wage and social protection payments was broken, and an independent reference point close to the minimum wage was established for social protection.[81] In the years that followed a number of labour regulations were strengthened. Working conditions for domestic workers were improved and triangular working relationships were strictly regulated, including an equal-pay-for-equal-work regulation. Annual leave entitlements in the private sector were regulated by law, where these had previously only been part of collective bargaining agreements. The scope of the Labour Inspection Agency was strengthened to prevent anti-union discrimination and strengthen trade union activities, though the right to unionise is still regulated only by the Constitution and by the ILO Conventions 87 and 98.[82]

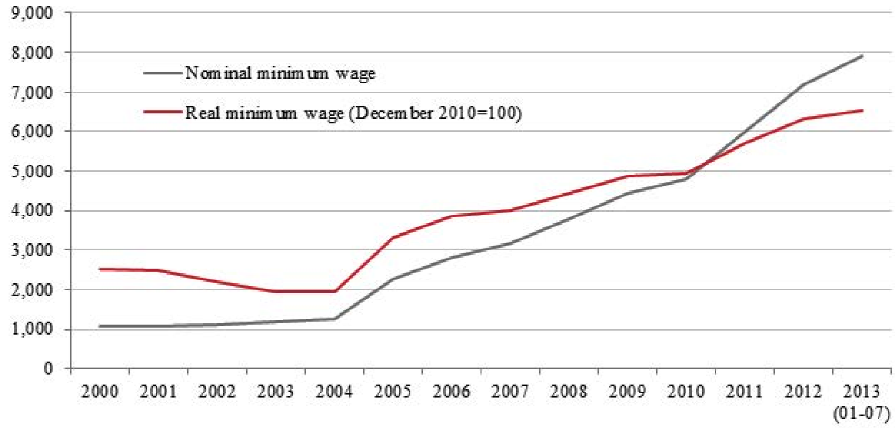
At the national level, the government now sets the minimum wage after consulting a Tripartite Board comprising 9 members of the government, 6 representatives of employers' organisations and 6 representatives of workers' organisations.[83]

There are also a variety of wage councils responsible for negotiating minimum wages in different economic sectors and occupations. These councils last met in 1990, risking the almost complete extinction of collective bargaining, but were reinvigorated in 2005. Within the private sector the councils were supplemented by another wage council for the rural sector and another for domestic workers that came into force in 2008.[84]

The consequence of this changed environment was a 70 % real increase in the minimum wage in 2005 and a further 16 % real increase in 2006, with adjustments exceeding the inflation rate since then (see Figure 17).[85]

The positive impact of stronger labour institutions, including the minimum wage system, saw GDP growth average more than 6 % between 2005 and 2008. After lower growth in 2009, Uruguay bounced back rapidly to growth of almost 9 % and 6 % in 2010 and 2011 respectively. Government debt was almost halved from 104 % to 58 % of GDP between 2003 and 2010. Unemployment also fell despite the considerable increases in the minimum wage. The unemployment rate declined from 17 % in 2003 to below 10 % in 2007 and stood at 6.6 % in June 2013.[86] At the same the employment rate went up from 57.6 % in 2003 to 61.8 % in 2012.[87] Average wages, which had declined by 22 % between 2001 and 2004, recovered with real annual increases of around 5 % while inflation was held below 10 %.[88]

Figure 17: Development of the nominal and real minimum wage in Uruguayan pesos



Source: National Statistical Institute of Uruguay (2013).

NEWS

Photo: Infosurhoy

In 2012 Uruguay made headlines worldwide after it became the first country to ratify the Convention on Decent Work for Domestic Workers. This gives domestic workers the same rights as other employees, including a minimum wage.

In 2006 the government passed Act 18065, which incorporated domestic workers into the sectorial wage-setting system. Of Uruguay's 120,000 domestic workers, 73 % are now covered by social security – twice as many as in 2005.

Photo: Several seconds

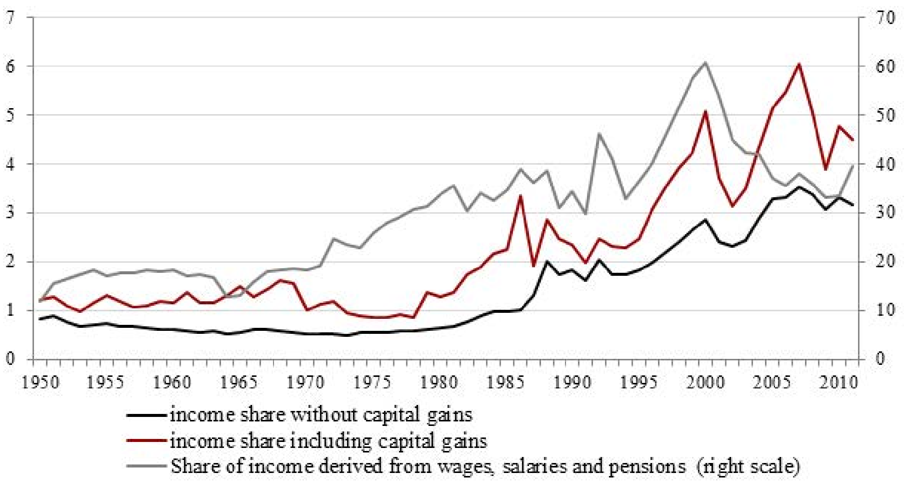
5.4 USA

Growing income inequality and the skyrocketing incomes of the super-rich in the United States have been well documented. Since 1980, the income share of the top 0.1 % of income earners increased by 230 %. Those "elites" in the top 0.01 % saw their share of total income rise nearly fourfold in the same period, as shown in Figure 18. Before the early 1980s this group's share of the total "economic pie" had remained relatively constant since 1950. If we only consider the income this small group derived from wages, salaries and pensions they received less than 1% of total income (black line) and slightly more than 1% if we included capital gains (red line). From the early 1980s however, the income share accruing to the super rich started to accelerate rapidly and has continued growing, albeit with some short and sharp fluctuations, over the last 30 years.

Since the early 2000s the kind of income enjoyed by the super-rich has also changed significantly. Capital gains from investments in equities, property and other investments have become a much more significant factor in the total incomes of this elite group. Meanwhile, the contribution from wages, salaries and pensions has diminished sharply.[89]

The very wealthy find it relatively easy to manipulate their sources of income to avoid tax, and these trends can be explained by two factors: the rapid expansion in financial assets held by the wealthy; and, the ability of the wealthy to prevent gains derived from these financial assets from being taxed.

Figure 18: Income share (by source of income) for the richest 0.01 % in the USA



Source: Facundo Alvaredo, Anthony B. Atkinson, Thomas Piketty and Emmanuel Saez (2013) The World Top Incomes Database.

Women make up two-thirds of fast-food workers with the median age being 32. One quarter of fast-food workers have dependent children.

This increase in the income share for the very rich came at the expense of the poorest segment of society. The disposable income of poor households (including wages and salaries, capital gains and income and transfer payments minus taxes) did not keep up with the average increase in incomes. Between 1979 and 2007 the disposable incomes of the poorest fifth of Americans grew by a mere 18 % in real terms (see Figure 19), while the disposable incomes of the richest 1 % increased by 275 %.

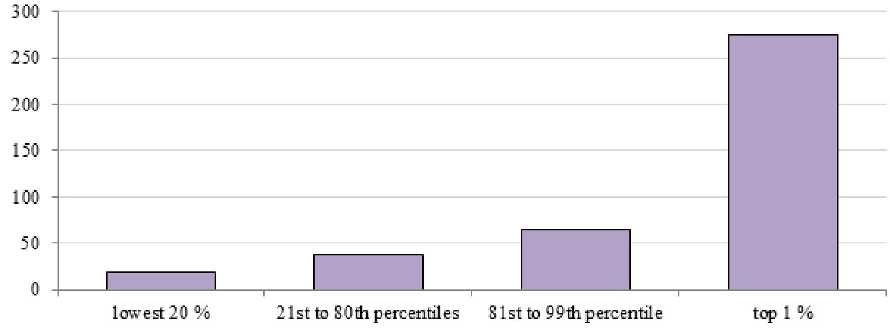
This resulted in major changes in the distribution of incomes (see Figure 20). The top 1% more than doubled their share of total disposable income (from 8% to 17%), whereas those in the bottom 80 % of income distribution saw their share diminish (see Figure 20). Between 2005 and 2007, the richest 20 % of the population received a total after-tax income greater than the combined income of everyone else.[90]

In the United States the tax and welfare system has become increasingly regressive. Between 1979 and 2007 the gap in incomes (before taxes and transfers) between the highest and lowest earners expanded by about one-quarter. After accounting for the impact of taxes and welfare payments however the gap is even bigger, increasing to about one-third.

The main reason for this was a tilt in welfare payments. In 1979, those in the bottom 20 % of income distribution received more than 54 % of all welfare payments. This was reduced to 36 % by 2007. Changes in the tax system also played an important role. While tax revenue reduced only slightly between 1979 to 2009, the emphasis shifted towards more regressive consumption taxes and away from income tax.[91]

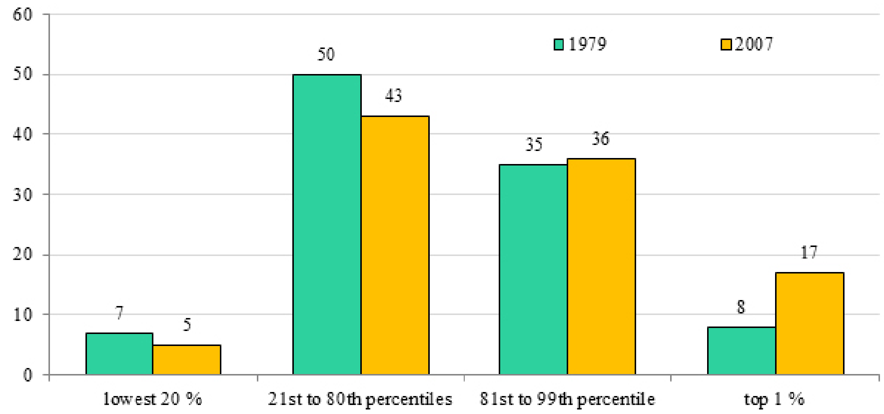
The share of those earning less than two-thirds of the gross median earnings of all full-time workers in the US has always been amongst the highest in the developed world. Figure 21 shows that

Figure 19: Disposable (after tax and transfers) income growth between 1979 and 2007 by income percentiles



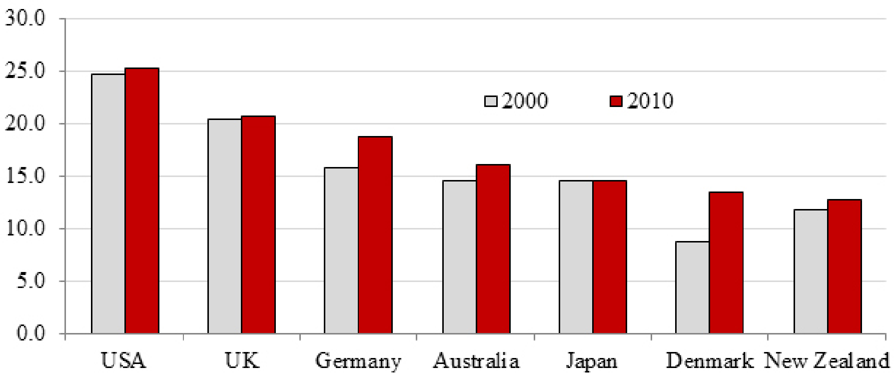
Source: Congress of the United States (2011) Trends in the Distribution of Household Income between 1979 and 2007, Congressional Budget Office, A CBO Study, October, p. 2.

Figure 20: Share in disposable income of different percentiles in 1979 and 2007



Source: Congress of the United States (2011) Trends in the Distribution of Household Income between 1979 and 2007, Congressional Budget Office, A CBO Study, October, p. 2.

Figure 21: Share of workers in dependent employment earning less than two-third of median earning



Source: OECD (2013) Earnings database.

their number increased even further in the last decade and exceeded more than 25 % of workers in 2010. Two-thirds of gross median earnings of a full-time worker corresponded to roughly 500 USD per week in 2010.[92]

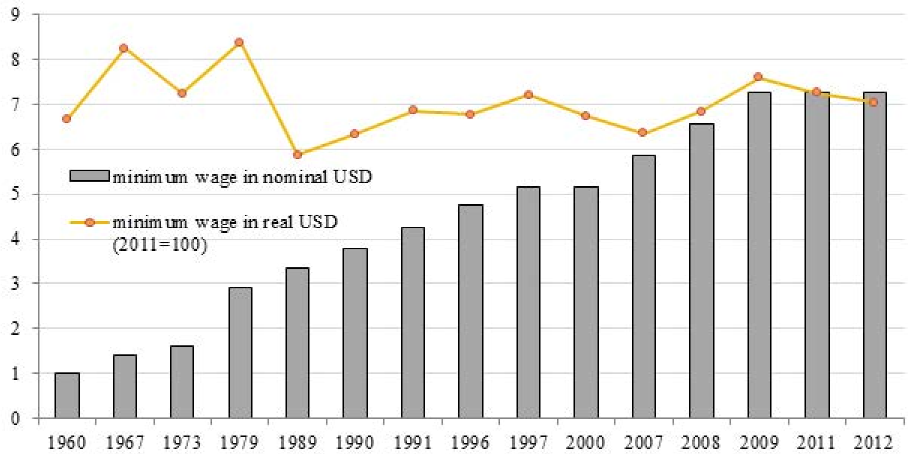
Official data on absolute poverty shows that 46.5 million Americans lived in poverty in 2012 – the highest number since 1959 when data collection began. The poverty rate stood at 15 %, the highest since 1993. The poverty rate for children (21.8 %) is even more extreme despite the use of conservative measurements. A single person is considered poor if their disposable income is below US$ 11,945 per year (US$ 995 per month), and a family of four people if their income is below US$ 23,283 (US$ 1,940 per month).[93]

Raising the minimum wage could help many members of the working poor and their families. The most recent report on poverty in the US from the US Census Bureau showed that in 2012, 2.9 million workers (1.54 million men and 1.36 million women) worked full-time all year but were still living below the poverty line. Another 8 million workers who did not work all year also lived in poverty. Working full-time all year at the federal minimum wage a worker would make US$ 15,080 a year; this is below the poverty line for a family of two (a single mother and her child) of US$ 15,825 a year.[95]

President Obama acknowledged this in his State of the Union address in February 2013 when he announced plans for an increase in the federal

65 % of Americans believe the law does not provide adequate protection for fair wages, ITUC Global Poll 2013

Figure 22: Development of the nominal and real federal minimum wage in the US (2011=100)



Source: Congress of the United States (2011) Trends in the Distribution of Household Income between 1979 and 2007, Congressional Budget Office, A CBO Study, October, p. 2.

minimum wage up to US$ 9 an hour. Back in July 2009 the federal minimum wage was increased in nominal terms by 10.7 % to US$ 7.25 per hour.[96] It has remained at this level for the last 4 years and has been gradually eroded in real terms (see Figure 22). Legislation proposed by the Democratic Party in the US House of Representatives and the US Senate would raise the minimum wage to US$ 10.10 an hour and would foresee an annual adjustment from 2016 onwards.[97]

One major flaw of the minimum wage system in the US is a lack of regulation on the timing of any adjustment. Between 1997 and 2007 there was no adjustment, causing the real value of the minimum wage to fall dramatically. As Figure 22 shows, the minimum wage is now far below its real level in the late 1960s and 1970s.

If the minimum wage had grown in line with productivity since 1960, it would stand now at US$ 22 an hour.[98]

In 2011 the minimum wage was only 37 % of the value of the average salary, only slightly above its lowest value in 47 years.[99]

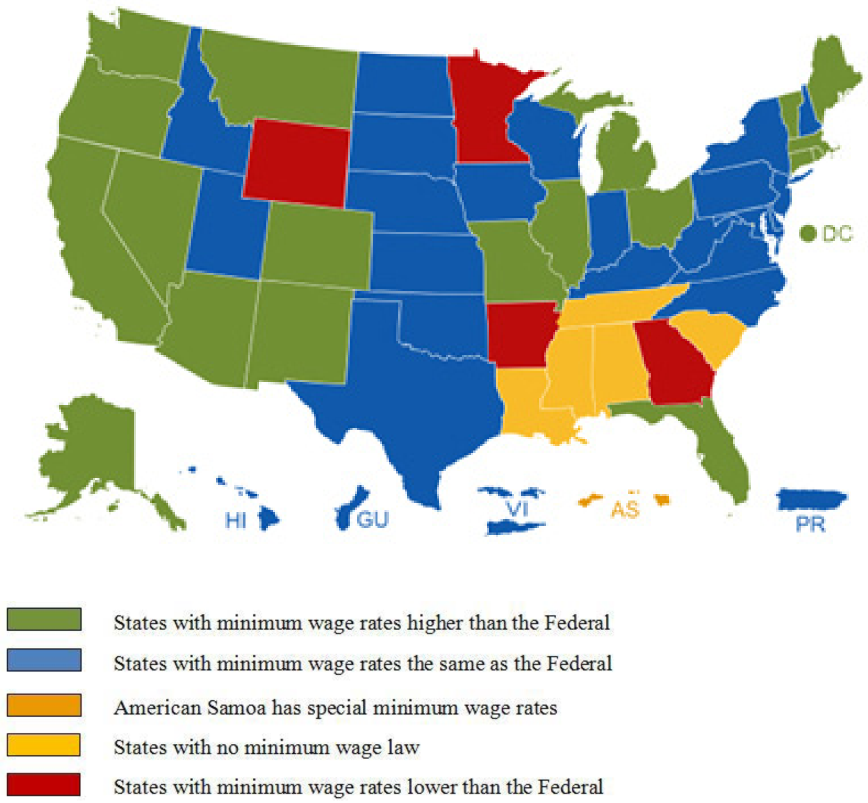
In 2011, 5.2 % of wage and salary earners received the minimum wage or less.[100] In absolute numbers, 1.7 million workers earned the minimum wage and 2.2 million earned less. This results from a number of exceptions from the minimum wage, including farm workers, administrative employees, fishermen and babysitters to name just a few.[101] A recent regulation issued by the US Department of Labor would bring millions of workers who assist the elderly and disabled as personal care workers under the coverage of minimum wage and overtime laws beginning on January 1, 2015.[102]

Richard Trumka, president, AFL–CIO

Photo: Bernard Pollack

"All the wage increases over the past 15 years have gone to the wealthiest 10%, according to the Economic Policy Institute. All of them."[94]

Figure 23: Minimum Wage Laws in the States - January 1, 2013



Source: United States Department of Labour (2013) Minimum Wage Laws in the States.

The failure to adjust the federal minimum wage has been mitigated to some extent by state minimum wage laws that are more than the federal amount. Nineteen states and the District of Columbia have minimum wages above the federal level—the highest being California at US$ 8 an hour, which will be gradually increased to US$ 10 until 2016.[103] Figure 23 shows the differences in minimum wage laws on the state level. As a result, the impact of the federal minimum wage varies considerably in different regions.

NEWS

Source: Centre for American Progress Action Fund

In his 2014 State of the Union address US President Barack Obama urged Congress to raise the minimum wage to $10.10 an hour for all businesses: "This will help families. It will give businesses customers with more money to spend. It does not involve any new bureaucratic program. So join the rest of the country. Say yes. Give America a raise."

In 1994 Card and Krueger published their famous study on the impact of a minimum wage increase on the fast-food industry in New Jersey, in which they concluded that a rise would not affect employment. These findings were reconfirmed in a recent study by Dube, Lester and Reich, who accounted for a series of econometric flaws in previous studies.[105]

Today, America's fast-food workers are on the streets striking for higher wages and the freedom to join unions. These protests, which have grown considerably since they started in New York in November 2012, were fuelled by a humiliating budgeting plan by Mc Donald's – a company that made profits of US$ 5.46 billion in 2012. The plan included a 'second job income', revealing that not even management expects a worker to be able to live on a single wage in the fast-food industry. In the budget there is no provision for food or heating costs and health insurance is projected to cost 20 dollars per month.[106] The idea of jobs in the food industry being for students wanting to make a bit of extra money is history. Women make up two-thirds of fast-food workers with the median age being 32. One quarter of fast-food workers have dependent children.[107]

Recent political developments and the shutdown of the federal government in late 2013 make it difficult to imagine a consensus emerging for an increase in the federal minimum wage. Many in the Republican Party do not just oppose an increase but indeed the very existence of a minimum wage. Meanwhile, unions continue the fight for minimum wage justice without which millions of America's workers will continue to live in poverty.

Between 2005 and 2007, the richest 20 % of the population received a total after-tax income greater than the combined income of everyone else.

91 % of Americans support a minimum wage, ITUC Global Poll 2013

Photo: ITUC

5.5 Zambia

Zambia like many other Sub-Saharan countries was required to implement far reaching structural reforms to secure IMF loans in the early to mid-1990s. Financial and labour markets were liberalised, state-owned companies were privatised and the role of the state was reduced in many fields. As Oxfam reports, public healthcare spending was cut by half between 1990 and 1994, and spending on primary education in 1999 was the level of the mid-1980s.[108] The legacy of these policies is still apparent today.

Zambia has recorded real GDP growth rates of above 5 % since 2003, averaging about 6.6 % since 2005. Inflation has declined from hyperinflation levels in the early to mid-1990s to a reasonably moderate 8.6 % in 2011.[109] The economy in Zambia is mainly driven by mining and in particular the extraction of copper. The mining sector accounts for over 70% of exports, and output expanded by an average of about 9 % each year between 2000 and 2006, aided by a booming copper price prior to the global financial crisis. The second pillar of the economy is agriculture, which accounts for more than 70 % of total employment and had moderate growth rates of around 2 % in the same period.[110]

Despite this robust economic growth the economy was unable to create decent employment opportunities or reduce poverty. The proportion of the population (older than 15) engaged in economic activities declined from 84.5 % to 74.5 % between 2005 and 2008, partly due to rapid population growth (on average 2.8 % annually) and the high incidence of HIV/AIDS.[111] Between 2006 and 2010 paid employment stagnated at 43.1 % of total work, whereas unpaid family work decreased only slightly from 12.1 % to 10.5 %. Unemployment fell from 9.1 % to 8.1 %, mainly due to the decrease in the active population and an increase in informal work.[112] The ILO estimates that roughly 60 % of paid employees suffer from high job instability and insecurity.[113]

Income inequality in Zambia is one of the highest in Sub-Saharan Africa. The Gini coefficient increased from a very high level of 60 in 2006 to 65 in 2010, mainly due to rising inequality in rural areas. In 2010, the poorest 50 %

of the population earned just 9.1 % of total income in the country, while the richest 20 % accumulated almost 70 %.[114] As Table 1 shows, there has been little improvement since 1996. The Gini coefficient fluctuated but always remained at a very high level with no clear downward trend (see Table 1).

The share of expenditure is equally stark. In 2010, the richest 20 % spent about 16 times more than the lowest 20 % and 3 times more than the national average. The population's richest 20 % spent more than 60 % of total expenditure while the poorest 20 % accounted for just 3.9 %. On average, expenditure on food as a share of total expenditure increased from 41.9 % in 2006 to 48.5 % in 2010.[115]

National poverty rates were above 70 % nation-wide and above 80 % in rural areas in the 1990s. However the reduction in poverty in the last decade was modest given the favourable macroeconomic circumstances.[116] Today, about 13 million people (roughly 64 % of the population) are still estimated to live in extreme poverty on one dollar or less a day.[117]

The current government, which came into office at the end of 2011, initiated reforms aimed at strengthening the domestic market and providing a more balanced growth model. New rules were introduced to fight tax evasion; the currency was stabilised bringing down inflation; minimum capital requirements for banks were tightened; and the monitoring of foreign currency flows was increased.[118]

One crucial aspect of this policy concerned the revival of the minimum wage. In Zambia there are different minimum wages set by either collective bargaining agreements or statutory instruments for those not covered by collective agreements.[119] In 2011, coverage was extended to domestic workers, who were previously outside any wage regulation. The timing of revisions to the minimum wage is not regulated but they have happened more frequently in recent years.

The ILO Committee of Experts on the Application of Conventions and Recommendations noted in 2008 that despite its insufficient level, compliance with the minimum wage was low. Many employers do not comply, knowing that labour inspections and punishments are unlikely due to insufficient public

Table 1: Percentage distribution of household per capita income deciles between 1996 and 2010

	1996		1998		2002		2006		2010	
Decile of households by income	% share of per capita income	Cumulative share of per capita income	% share of per capita income	Cumulative share of per capita income	% share of per capita income	Cumulative share of per capita income	% share of per capita income	Cumulative share of per capita income	% share of per capita income	Cumulative share of per capita income
First	0.5	0.5	0.2	0.2	1.2	1.2	0.2	0.2	0.5	0.5
Second	1.5	2	1	1.2	2.3	3.5	0.7	0.9	1.1	1.6
Third	2.2	4.2	1.8	3	3.1	6.6	1.3	2.2	1.7	3.3
Fourth	2.9	7.1	2.6	5.6	3.9	10.5	2.2	4.4	2.4	5.7
Fifth	3.9	11	3.5	9.1	4.8	15.3	3.3	7.8	3.4	9.1
Sixth	5.2	16.2	4.8	13.9	5.8	21.1	5.2	12.9	4.5	13.6
Seventh	6.8	23	6.4	20.3	7.4	28.5	7.7	20.6	6.6	20.2
Eighth	9.2	32.2	9	29.3	9.6	38.1	10.8	31.3	10.1	30.3
Nineth	14.9	47.1	13.9	43.2	14.3	52.4	16.8	48.1	17.1	47.4
Tenth	52.9	100	56.8	100	47.7	100	51.9	100	52.6	100
Gini	**0.61**		**0.66**		**0.57**		**0.6**		**0.65**	

Source: Central Statistical Office of Zambia (2012) Living Conditions Monitoring Survey Report, Lusaka, March 26, p 151.

The population's richest 20 % spent more than 60 % of total expenditure while the poorest 20 % accounted for just 3.9 %.

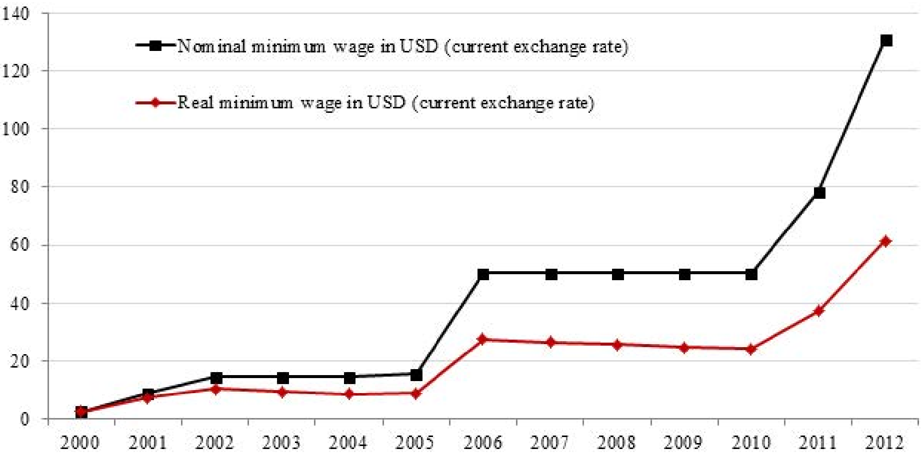
resources. In 2012 the ILO reported many workers felt exploited because in many cases the employer has the economic capacity to pay higher wages and provide better working conditions.[120]

In recent years, the government has taken some action to strengthen the minimum wage. Substantial increases in real terms in 2006 (over 200 %), in 2011 (over 50 %), and in 2012 (over 60 %) lifted the minimum wage up to 700,000 kwacha (equal to US$ 130) (see Figure 24).[122]

This corresponds to US$ 4.3 per day, which is still unlikely to lift workers and their families out of poverty. In comparison, in 2010 the line for extreme poverty based on a food basket for a family with six members was set at 435,574 kwacha (US$ 81.5). At the time this was well above the minimum wage.[123] If this level is adjusted for inflation it corresponds to 504,343 kwacha or US$ 94 in 2012, but because this includes only food it cannot be considered a living wage. Estimates from other sources suggest a living wage should be as high as 3,395,660 kwacha or US$ 635 for a five-person family living in Lusaka (June 2012).[124]

Recent increases in the minimum wage are a significant improvement for many workers. The wage tripled for domestic workers from US$ 30 to its current US$ 105, easing the strain on the predominantly female workers. Furthermore, the government has urged workers to report non-compliant employers.[125] A recent survey reflects these improvements. It shows that in 2012, 29 % of respondents thought the government was doing well in narrowing income gaps, ensuring enough to eat (34 %) and improving living standards for the poor (43 %). All these rates went up from below 20 % in 2009.[126]

Figure 24: Real and nominal minimum wage development in Zambia since 2000



Note: Minimum wages are stipulated for five categories of worker; the minimum wage presented here refers to the first category including general workers not classified elsewhere; the applied exchange rate is 5,345 Zambian kwacha per USD.
Source: ILO (2013) Global Wage Database, updated by The Minimum Wage and Conditions of Employment (General) Order 2012; I MF (2013) World Economic Outlook Database for the inflation rate.

But this modest progress is already under attack. Foreign investors and big employers claim that recent increases in the minimum wage will erode Zambia's chances of attracting foreign direct investment. Employers and neoliberal economists also warn inflation will skyrocket again as it did in previous decades.[127] However, the available evidence does not corroborate these assertions. According to the National Statistical Institute, inflation stood at 7.1 % in August 2013, considerably below the double digit rates experienced in the early 2000s.[128] While it is too early to see the impact on income inequality and poverty, the labour market shows no signs of weakening. The results of the Labour Force Surveys for 2008 and 2012 show that labour force participation remained at the same level, around 74.5 % of the population aged 15 and older. The employment-to-labour-force population increased slightly from 68.8 % to 69.1 %, while unemployment remained unchanged at 7.9 %. There might be no apparent changes on the surface, but in different sectors the improvements are clear. The share of agriculture in total employment fell from 71.3 % in 2008 to 55.8 % in 2012. Formal employment, which was declining in numbers and in quality before 2008, saw a considerable rebound in its share of total employment, increasing by 75 % (see Table 2).[129]

Roy E. Mwaba, secretary general, Zambia Congress of Trade Unions (ZCTU)

"Minimum wage rates are not adequate to help workers meet basic needs. Current rates range between US$100 to US$200 while the cost of living is estimated at about US$700. Moreover, there had been no regular review of minimum wages to protect the erosion of incomes of protected workers against inflation… With GDP growth at over 6.5 percent for the last five years and inflation at less than 7 percent, policy makers have to ensure that this economic growth is linked and have a strong bearing on social development."

Table 2: Changes in formal and informal employment

	2008		2012		Change	
Employment	Number	percentage share	Number	percentage share	number	percentage
Total	4,606,846	100 %	5,386,118	100 %	779,272	+17 %
Informal	4,095,508	88.9 %	4,492,022	83.4 %	396,514	+ 9.7 %
Formal	511,338	11.9 %	894,096	16.6 %	382,758	+ 74.9 %

Source: Ministry of Labour and Social Security (2011) Labour Force Survey Report 2008, Central Statistical Office Lusaka, August, p. viii; and Ministry of Labour and Social Security (2013) Preliminary Results of the 2012 Labour Force Survey, Central Statistical Office, Lusaka, May, p. 9.

Growth remains robust, estimated at 7.3 % in 2012, despite a slowdown in the mining industry due to falling global copper prices and electricity shortages.[130]

Investors have responded. The purchase of Zambian bonds amounted to US$ 750 million in just one week in late 2012. The high demand enabled the government to decrease yields to 5.625 %. This is comparable to those for Spanish bonds, which stood recently at 5.78 %.[131] Foreign investment surged as well from US$ 1.3 billion in 2011 to 1.7 billion in 2012, leaving little doubt that the direction Zambia has chosen could be a prosperous one – both in economic and social terms.[132]

Photo: ITUC

6 Conclusions and recommendations

Income inequality has reached levels that threaten economic prosperity, social cohesion and political stability.

This is not just and not economically or socially sustainable. Workers deserve incomes that reflect hours worked and the productivity generated. In the last three decades, rather than sharing the benefits of higher productivity, the elites have enjoyed bigger bonuses and profits at the expense of ordinary workers.

These included: making full employment and decent work the principle objectives of economic policy; the introduction of tax systems that were progressive and generated sufficient revenue to fund comprehensive social protection through welfare systems; legislation and institutions that supported comprehensive collective bargaining; and, wage fixing systems that recognized the importance of real wages rising in line with productivity.

Market economies underpinned by fair wages and social protection, when combined with collective bargaining, have better sustained both income equality and economic growth. The resulting expansion of middle-incomes enhanced social cohesion and strengthened democracies.

As the leading economists from the ILO argue:

"Equitable societies with large middle classes are not the natural outcome of market forces. Equity, rather, is created by the society – by the institutions, laws and policies that govern the society, its economy, and, in particular, its labour market.[133]"

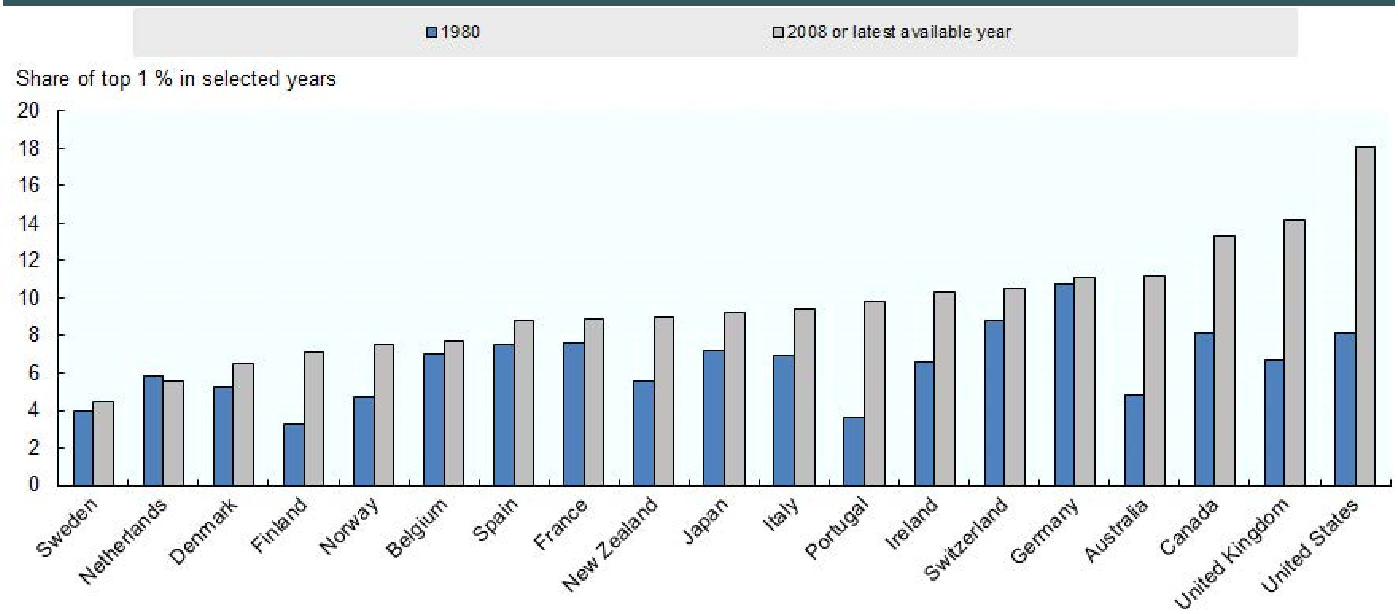
Tragically, the policies and institutions that had smoothed the rough edges of market economies and helped people prosper have been eroded or demolished.

The United Nations was one of the first international institutions to claim a definite causal link between industrial relations reforms and widening inequalities. In its 2005 Report titled "The Inequality Predicament", the UN argued that:

"Liberalization policies entail changes in labour laws and institutions and account for major changes in the labour market. The process of economic liberalization is typically marked by greater wage flexibility and the erosion of minimum wages, a reduction in public sector employment, declining employment protection, and the weakening of employment laws and regulations. The desire of developing countries to attract foreign investment and expand exports frequently leads to a race to the bottom with labour protection and environmental standards ignored or compromised."[134]

In 2008, the OECD's Growing Unequal report acknowledged that: "the single most important driver [of the growing gap between rich and poor] has been

Figure 25: Share of the top 1% of earners in total taxable income, 1980 and 2008



Note: The pre-tax income data exclude capital gains for all countries except Australia and Finland. The data are based on tax returns.

Source: Alvaredo F., et al. (2011), The Top Incomes Database, www.parisschoolofeconomics.eu/en/news/the-top-incomes-database-new-website/; Matthews, S. (2011), "Trends in Top Incomes and their Tax Policy Implications", OECD Taxation Working Papers, No. 4, OECD Publishing.

Income inequality has reached levels that destroy confidence in capitalism and call into question our political institutions. But this was not always the case. For several decades during the middle of the last century the benefits of economic growth in developed economies were evenly spread. The number of people receiving a middle-income expanded and the poor had opportunities to move up the economic ladder. This did not happen by chance. Rather, it resulted from policy choices.

greater inequality in wages and salaries", and "…the most promising way of tackling inequality is more than ever by the employment route. More and better jobs, enabling people to escape poverty and offering real career prospects, is the most important challenge".

Mainstream media is also becoming critical of the growth in inequality. For example the *Financial Times* columnist, Tim Harford, recently noted:

"This is what sticks in the throat about the rise in inequality: the knowledge that the more unequal our societies become, the more we all become prisoners of that inequality.[135]"

To restore faith in our political institutions we must urgently implement policies that will ensure those in the middle and bottom of the income distribution get a much more equitable share. This will require: fundamental changes to our tax and welfare policies; more appropriate regulation of financial markets; focusing our macroeconomic policies on balanced growth and quality employment; a major attack on precarious work; and increased investment in infrastructure, education and skills. The trade union movement is fighting for reform on all these critical issues.

A better deal for workers also requires strong trade unions and comprehensive collective bargaining. These issues were addressed in the Frontlines Report of April 2013.

In this Frontlines Report we have focused on the relationship between minimum living wages and income inequality. A minimum living wage needs to be country and time specific so that it increases with economic development. It must be sufficient to provide a worker and their family with the absolute necessities like food, shelter and clothing. However, it must go beyond this and also provide a decent life.

The provision of a minimum living wage must be universal. Nearly one hundred years ago the founders of the ILO declared that an 'adequate living wage' was required to ensure "universal and lasting peace".[136] For centuries before that prominent individuals and religious institutions had been arguing for a living wage. Over sixty years ago the notion of a living wage became a basic human right.[137]

In practice however, minimum wage levels in virtually all countries are far too low to provide a decent standard of living, enforcement is weak and vast sections of the population have no wage floor whatsoever.

A concerted move towards the introduction of a minimum living wage in all countries would greatly diminish poverty and reduce inequality in the lower half of the income distribution. It would also promote gender equality and give hope to workers in the informal economy.

Assertions that a minimum living wage will reduce job opportunities for the low skilled or other vulnerable groups - by bankrupting enterprises or encouraging employers to use more machines and fewer workers – do not stand up. Hard evidence from studies in the last decade shows that a meaningful wage floor can boost consumption, economic growth and employment.

The evidence exists to construct a solid and defendable minimum living wage estimate in virtually every country.[138]

The ITUC is fighting for a minimum living wage everywhere. This concept was strongly endorsed in the ILO Constitution 95 years ago. Over the next 5 years we aim to make it a reality for all workers in all countries. It is a key component in a package of policies designed to reverse the destructive trends in our increasingly unequal world.

What we're fighting for:

- A minimum living wage on which people can live
- A social protection floor
- Strengthening collective bargaining
- Regulation of financial markets
- An end to tax evasion
- Macroeconomic policies focused on balanced growth and quality employment
- An end to precarious work, including formalising the informal economy
- Increased investment in infrastructure
- Jobs, jobs, jobs. Full employment and decent work

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