

Pay equity, minimum wage and equality at work

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DECLARATION/WP/19/2003

Working Paper

Working Paper

**Pay equity, minimum wage and equality at work:
theoretical framework and empirical evidence**

by

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November 2003

Foreword

In June 1998 the International Labour Conference adopted the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up. The Declaration obligates all member States of the International Labour Organization to respect, promote and realize freedom of association and effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation¹. The InFocus Programme on Promoting the Declaration is responsible for the reporting processes and technical cooperation activities associated with the Declaration Follow-up; and it carries out awareness raising, advocacy and knowledge functions – of which this Working Paper is an example. Working Papers are intended to stimulate discussion of the issues covered by the Declaration. They express the views of the author, which are not necessarily those of the ILO.

Professor Jill Rubery was commissioned by the ILO to write this Working Paper, as an input for the preparation of the 2003 Global Report on the elimination of discrimination in the world of work². The establishment of a floor to the wage structure is of paramount importance to groups of workers discriminated on grounds such as sex, ethnicity, national origin, age and disability, as these groups are disproportionately represented at the bottom of the occupational hierarchy. By identifying the role that minimum wages can play in reducing gender discrimination in pay, Jill Rubery's paper contributes to our understanding of the forms of labour market processes compatible with the promotion of non-discrimination, equality and decent work.

The paper reviews the underlying causes of pay discrimination embedded within the organisation of the labour market and structures of pay and reward. It compares minimum wage policies to more targeted equal pay policies as a tool to reduce the gender pay gap. It explores attitudes towards minimum wages among the major actors in order to identify potential obstacles to or support for such policies. It reviews experiences with the use of a minimum wage instrument in specific countries, identifies gaps in knowledge and the need for both new approaches to research and policy monitoring.

¹ For the text of the Declaration, please visit our website at: <http://www.ilo.org/public/english/standards/decl/declaration/text/index.htm>.

² ILO, *Time for Equality at Work* (Geneva, ILO, 2003).

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November 2003

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Introduction

Discrimination takes many forms and has multiple outcomes. One of the most evident outcomes is to reduce the rewards for effort and skill paid in the form of wages to those groups who are discriminated in the labour market. This form of discrimination has been found to affect women in all countries, although to varying extents. Reduction of the gender pay gap has been identified as a major objective of anti-discrimination and pro equal opportunities campaigns. It is an essential element of the ILO's programme to reduce discrimination, in line with the Declaration on Fundamental Principles and Rights at Work – namely freedom to organize and negotiate conditions of work, freedom from forced or compulsory labour, freedom to protect children from requirements to work and freedom from discrimination in employment and occupation. This paper aims to contribute to our understanding of the forms of labour market organisation which may be compatible with the promotion of non-discrimination and decent work by identifying the role that minimum wages can play in reducing gender pay discrimination in particular and discrimination in the labour market more generally.

Two hypotheses underlie this study:

- minimum wages can be an efficient and effective tool for reducing gender pay inequality, provided that the minimum wage is set at a sufficiently high level to improve the pay received by women and other disadvantaged groups;
- this tool can have beneficial effects in reducing wage discrimination in the labour market more generally, for example discrimination encountered by racial or ethnic minorities, immigrants etc.

The organisation of the paper is as follows. In the first part we discuss the underlying causes of pay discrimination, taking gender discrimination as the starting point. The argument is made that pay discrimination is embedded within the organisation of the labour market and the structures of pay and reward. Similar factors are associated with the discrimination against other labour market groups – for example associated with ethnicity, race, class or social origin – and as such minimum wage policy may constitute a common policy tool, capable of being applied to reduce discrimination, broadly defined. In the second part we discuss the need to focus on pay equity as part of a general strategy of promoting equity and decent work. The third section examines in more detail the case for using minimum wage policies in comparison to more targeted equal pay policies to reduce gender pay equity. Section four explores attitudes towards minimum wages among the major actors in order to identify potential obstacles to or support for such policies. The fifth section considers the potential and actual role of minimum wages in reducing gender pay equity and discrimination, drawing on actual experiences of the use of minimum wages in specific countries. We conclude by identifying continuing gaps in knowledge and the need for both new approaches to research and policy monitoring.

1. Unequal remuneration: the embeddedness of discrimination

Unequal remuneration between the sexes has been explained by a range of theoretical frameworks derived from an equally wide range of disciplines or intellectual traditions. Most of these frameworks or theories start from the need to account for the degree and persistence of gender discrimination. Mainstream economists approach the issue from a different perspective; essentially their aim is to account as much as possible for gender pay differences within the standard tools of economic theory (for a critique see Humphries 1995). Differences in pay are taken, unless proven otherwise, as evidence of differences in productivity or differences in preferences between men and women with respect to involvement in wage work or investment in skills. Policy intervention, where required, should therefore act on factors outside the labour market that constrain choices or influence preferences; intervention to influence pay levels or structures within the labour market is held to be unwarranted. The approaches we review here reject this premise, namely that the labour market is a neutral force in the generation of gender pay differences. Instead of acting as neutral arena of exchange, the operation of the labour market is structured by power relations in the economy and wider society. Labour market institutions and policies – such as a minimum wage – can act to intensify or to modify these inequalities in power. Most importantly the labour market is embedded in its social and economic environment; the actors within the labour market operate according to rules and norms that have been generated over the long term and do not necessarily immediately accommodate to new patterns of behaviour. Thus the labour market may, for example, continue to reflect traditional patterns of gender relations, embedded in pay systems and structures, well beyond the point at which traditional household arrangements and gender relations have broken down.

The embedded approach moves beyond the formal legal definitions of discrimination that focus on unequal treatment primarily by the same employer or within the same workplace and do not address discrimination as embedded in broader social and economic structures. It is complementary to the implicit notion behind the ‘equal pay for work of equal value’ approach to discrimination; that the way we value jobs reflects historical conceptions of value, including the different values to be attached to different types of labour. However, it rejects some interpretations of the equal value concept where it is believed possible to eliminate all forms of bias from pay and grading structures and establish a gender-neutral and politically free set of wages, reflecting an appropriate set of prices by job type. Instead the determination of wages is seen as necessarily a more political and institutional process, reflecting decisions and choices, reflected in social and political institutions, as to how labour is to be valued. This approach fits with the principle, central to the mission of the ILO, that labour should not be seen as a commodity and that the labour market is different from other markets as it is constituted by labour performed by human beings. Wages are simultaneously not only the price of a factor of production but also the means by which people are able to sustain themselves and their families: according to Figart et al. (2002) there is a constant tension between wages as a living and wages as a price. Moreover, wages are also part of the process through which social identities are constructed and reproduced, including gender divisions and identities; this third dimension has been labelled by Figart et al. as wages as a social practice.

Within this ‘embedded’ approach to labour market organisation we can identify six types of explanations of gender pay differences associated with disadvantage and discrimination. These six ‘explanations’ and their relationship to the wage structure and payment practices are summarised in the first two columns of table 1. The second two columns consider the

implications of the causal factors for minimum wage policy and suggest some considerations that would need to be considered when setting minimum wages.

Table 1: Causes of gender pay inequality and their implications for a minimum wage policy

Cause of gender pay inequality	Potential impact on pay	Impact of minimum wage	Conditions for improvement under a minimum wage
<i>Dependence on income sources other than own wages for subsistence:</i> women are assumed to be seeking second income and to have access to family subsidies, so only a component wage may be paid; women less likely to have access to unemployment benefits due to employment discontinuity which increases pressure to take low wage job	Employers' pay policies reflect social expectations: pay family wage in male jobs/component wage in female jobs. Reinforced by limited access to unemployment benefits for women	Raises floor to wage structure towards wage necessary to cover reproduction costs of single adult; reduces subsidies by family wage employers of component wage employers	Minimum wage should be set above component wage level – towards reproduction cost of single adult
<i>Powerful employers:</i> women's assumed and actual domestic responsibilities restrict employment options by time/space	Employers may act as monopsonists, keeping wages and employment low so as not to spoil the market. Standard employment contracts may restrict the range of jobs where it is possible to work flexible/reduced hours.	Minimum wage may raise employment as well as wages; reduce penalty of seeking non standard jobs	Minimum wage needs to cover workers in non standard jobs defined by time and space (part-time, homeworkers etc.) and needs to be set above monopsony wage level
<i>Weak representation:</i> women have traditionally had less access to both wage employment and the public arena, including trade union organisation and politics	Women are found in less well organised sectors and are less well represented within organised sectors. Lack of direct representation among women has reduced attention paid to gender issues in collective bargaining.	Minimum wage if universally applied provides some substitution for the representation of the non or weakly organised within the wage determination system.	Minimum wage coverage must extend to non or weakly organised groups; the wage level set needs to redress the undervaluation of wages caused by inequalities in representation and organisation between different groups of workers
<i>Job segregation:</i> women confined to specific labour market segments	Job segregation can provide a basis for differences in wages not covered by equal pay for same work laws or equal pay for work of equal value (if segregation results in employment in different firms). Job segregation may lead to crowding effects; lower wages and less incentive for productivity enhancements in the crowded sector	Minimum wages could reduce the wage gap between the feminised and the non-feminised sectors and establish a new floor for women's wages when seeking employment outside the crowded sector.	Wage must be set above the prevailing rate in the feminised/ crowded sector. Coverage must extend to feminised sectors.
<i>Social valuation of skills:</i> women's role as care providers has not been highly valued in the wage economy; transfer of care work to wage economy has been based on this low valuation.	Care work has been considered low skilled and has been largely invisible. Skills are not validated by labour market institutions (training systems or pay structures).	Minimum wage could reduce gap in value between traditional wage work and care work.	Minimum wage should cover domestic and other forms of care work in the wage economy, including the informal economy e.g. childminders.
<i>Social hierarchies:</i> women paid less than men so as not to challenge man's dominant role in wider society	Employers are socialised in same society; employment policies and practices reflect acceptance of gender hierarchies. Couples who wish to change gender division of labour constrained by limited opportunities for female partner, irrespective of abilities or domestic commitments	Minimum wage may be basis for beginning to challenge gender hierarchies, but a minimum wage will need to be built upon to generate higher earnings opportunities for women, facilitating a change in gender hierarchies.	Minimum wage must be set above minima in female dominated sectors to start process of challenging established hierarchies.

1.1 Explanations of gender pay inequality

Within this ‘embedded’ approach to labour market organisation, we can identify six types of explanations of gender pay differences associated with disadvantage and discrimination. These six ‘explanations’ and their relationship to the wage structure and payment practices are summarised in the first two columns of table 1. The second two columns consider the implications of the causal factors for minimum wage policy and suggest some considerations that would need to be taken into account when setting minimum wages.

Women as economic dependents, recipients of ‘component’ wages

One of the most powerful ideologies underpinning women’s lower wages is the notion that by virtue of their family role women are in less need of wage income than men. Men are seen – by employers, trade unions and governments – as being in ‘need’ of a living wage. Women’s wages are in contrast rarely compared to any concept of need or cost of social reproduction. This notion that women’s labour supply is not linked to social reproduction costs applies at several levels of analysis.

First, there is the issue of total wages: women are assumed to be able to take part-time jobs even though few part-time jobs provide sufficient income support to meet an adult’s living costs. Second, women are also assumed to be available for work at hourly wages which, even if in full-time work, would not be sufficient to generate a living wage. Third, even in Western welfare states, the alternative income available to a woman who decides not to take a low wage job is often zero. Women are less likely than men to be eligible for the social security and unemployment benefits that have been used in the West to ensure that wage levels should not fall below subsistence needs even in a recession. Eligibility conditions for access to unemployment benefits are predicated on continuous full-time employment in the labour market, a male rather than a female form of participation. Where benefits are paid on the basis of means testing at a household level, fewer women without work are eligible for benefits than men as they are usually in households with a male breadwinner (Rubery et al. 1998). The factors that constrain women’s labour supply under these conditions are the opportunity costs of working (childcare costs in particular) and the level of family income. If the need to supplement household income is high, women face few options other than to accept a low paid job even in the context of relatively well developed welfare systems. For women, therefore, often the best protection against having to take a low wage job is not unemployment benefits but minimum wage protection.

This ideology that women are less ‘needy’ than men (Kessler-Harris 1990, Siltanen 1994, Figart et al. 2002) – and in particular that needs should be considered at a household level – continues to influence public policy debate and academic analysis of the role of minimum wages. In the UK the government defended its decision to abolish wages councils which set minimum wages in selected sectors, precisely on the grounds that most of the workers were women and did not belong to low income households (Machin and Manning 1996). Even within the academic literature, minimum wages are seen as good redistributive policy only if they distribute income towards low income households; the need for redistribution to individuals and to women in particular, to provide even middle class women with economic independence and some form of security in the face of household fragmentation is not really recognised in the policy debates (Freeman 1996). Dickens (1999) acknowledges in a footnote, when analysing the implications for poverty reduction of the national minimum wage in the UK, that promoting equal pay would provide alternative justification for the national minimum wage. In practice most of the authors looking at redistribution effects in the UK have been able to point to the positive poverty reduction effects for the national

minimum wage and, therefore, the causes of promoting equal pay and poverty reduction in this context can be seen to be complementary. It is less clear what the arguments would be if they were found to be in contradiction to each other.

While this ideology is explicit in many policy debates, most employers, at least in the West, would probably deny that family situation or gender influenced the rates paid for particular occupations. The influence of these factors has to be understood in a more historical context, where notions of both family wages on the one hand and component wages on the other have influenced the rates of pay associated with particular occupations. Women have tended to enter those occupations which have failed to offer 'living wages' and one of the main impacts of feminisation of an occupation has been to push the occupation down the pay hierarchy. After a while these new lower rates of pay and associated social status are treated as simply a fair reflection of both market factors and skill requirements, while careful study of this process of gender segregation reveals an important influence of gender in the restructuring and re-labelling of the job category (Reskin and Roos 1990). Of course, the extent to which the notion of component wages has influenced women's position in the pay hierarchy depends on the other conditions in the labour market; where there is a less strong ideology of men as the breadwinner or an egalitarian and comprehensive system of wage regulation there is less opportunity to pay low wages to second income earners.

Women as vulnerable to powerful employers

While the first set of arguments focuses on how women's family position has shaped both their labour supply price and traditional valuations of women's jobs, the second argument focuses on how employers may be able, collectively or individually, to take advantage of the specific labour supply conditions associated with women's domestic roles. This argument has recently been developed as an extension of the notion of labour market monopsony (see below section 3 for a more extended discussion). Where labour market groups face constrained labour market opportunities – in women's case due perhaps to both time and geographical constraints on their availability – employers may be able to keep wages and employment below the so-called market-clearing level. In this context if a minimum wage is introduced, even within mainstream economic assessment, the impact may be to both raise wages and employment³ (Card and Krueger 1994; Manning 1996).

While this argument has been useful in selling minimum wage policies to governments, it does rely strongly on the notion that market-clearing in labour markets is the norm, while conditions in the low wage labour markets can be regarded as a deviation from the norm. It may be more appropriate to reverse this analysis and see employers having power over their workforce unless there are specific institutions and mechanism in place – such as minimum wages and collective bargaining – to limit that power. By turning the question around we can ask under what conditions will employers' power and control be constrained. One of the main constraints on that power, and the factor that underpins employers' acceptance of the open ended employment contract, with its provisions for income and job protection over the longer term, is the perceived need to cultivate and develop a skilled and experienced workforce (Marsden 1999). However, if women are perceived as more contingent workers, with a tendency for high quit rates or for limited commitment to work, employers may favour a contingent and commodified form of employment relationship. These differences in contract are not necessarily related to actual differences in productivity but to expectations related to

³ Dickens et al. (1994) have identified employers in this category as 'supply-constrained' employers in contrast to the 'demand-constrained' employers of textbook analysis.

future behaviour. Thus the male employee may be offered better conditions and even promotion, even if not performing better than female employees, on grounds of potential. Here gender is used as a cheap form of screening device for employers; not all women may be contingent and uncommitted workers but employers find it difficult to use more sophisticated forms of screening and where women and men tend to work in different occupations, the provision of differentiated employment conditions is further facilitated. Indeed if the labour supply is segmented, there may be no simple trade-off between wages and the degree of loyalty or commitment from the workforce. Female low paid workers are often found to be very reliable and loyal workers, in part because of limited alternative employment opportunities (Rubery 1994, 1997; Edwards and Gilman 1999).

Employers' power in the employment contract over some groups of workers may in part be increased by the existence of strong regulation and norms for the standard or mainstream labour force. Thus women may be vulnerable to low wages and poor employment conditions if they seek non-standard employment – such as part-time work, flexible work or homework to fit with their domestic arrangements. As these are non-standard and outside the scope of current regulatory norms, employers may be able to offer these jobs at particularly unfavourable terms even when these time or space arrangements are in the employers' favour. For example, employers have often excluded part-time jobs from fringe benefits etc (Lissenburgh 1996, Horrell et al. 1989), even when expanding part-time work to fit with their own need for more flexible time schedules or in order to reduce staffing levels during dips in demand. Regulation requiring equalisation of conditions between full and part-timers, as passed in the European Union, has not notably slowed the growth of part-time work.

Women as unorganised/unrepresented labour

If collective representation is held to promote the interests of workers within an unequal bargaining context, then the under representation and often absence of women from the bargaining table must be considered a source of concern and a potential reason why they are vulnerable to low wages. Their lack of representation has a number of causes, not all of which are related to discrimination within the union system itself. Other factors include the difficulties of organising some of the sectors where women are employed and the problems that women have in participating in public life due to their commitments to private or domestic life. Even if they are not directly represented, women may still benefit indirectly from the establishment of rules and norms with respect to pay established through collective bargaining. However, except where union organisation and/or collective bargaining coverage is both universal and egalitarian in operation, there will be segments of the workforce that are excluded from the norms and regulations of the collective system. Indeed this exclusion in some societies may be deliberate if the union movement wishes to protect the formal sector from the potential enormous competition from the informal sector. In this context a universal minimum wage can act as a form of protection and at the same time can bestow some form of representation of the interests of all workers within the wage determination system. Of course minimum wage enforcement may be more limited where workers are weak. As Shaheed has expressed it: 'Put somewhat brutally, the MW tends to be applied and complied with mainly in those areas where it is least required' (1995:130). There is still a need to develop ways of ensuring representation and organisation of women workers, but minimum wages could provide a basis for organisation and mobilisation (as for example in the US around living wage campaigns (Zabin 2001; Figart 2001)). It is important to note that the ILO's position is that employment rights such as a minimum wage should apply to informal economy as well as formal sector workers and that indeed rights should apply to workers, not just those in a formal employment relationship (ILO 2002).

Women as segregated labour

One of the main ways in which unequal pay by gender is maintained is through the segregation of women and men into different jobs, or into different segments of the same broad occupations or jobs. Segregation is in part the outcome of the segmentation of the labour supply by gender, as described above. To take advantage of the fact that women are 'component wage' workers, it is beneficial to segregate them into different jobs. However, segregation also reflects the segmentation, or differentiation, of the job structure, linked to differences in product market organisation and abilities to pay of organisations as well as to differences in labour supply conditions. Segregation can, therefore, be considered the outcome of segmentation on both supply and the demand side of the economy. Indeed it is the mutual interactions between supply and demand side forces that reinforce patterns of low pay and segregation.

There are a number of different explanations of segregation. One of the most influential explanations, associated with an essentially mainstream economic analysis, is the crowding theory of Barbara Bergmann. This analysis takes the initial causal factor as discrimination but recognises that discrimination becomes embedded in not only the price but also the productivity structure of the economy. Discrimination restricts women's economic activity to a limited number of sectors causing overcrowding relative to demand. This pushes down the price of labour in the overcrowded sectors and this low price of labour acts as a disincentive to innovation and productivity enhancement. Over time, therefore, there is a widening productivity gap between female- and male-dominated sectors, arising out of the process of crowding and not related to the potential productivity of the workers employed. This crowding effect establishes a low market price for female labour, which affects the wages of women even when they succeed in moving outside of typically female sectors. Employers treat the female sector wage as the opportunity wage for women workers and adjust the wage offered accordingly.

Segregation creates the market conditions leading to low pay in female-dominated occupations, in which most women hold jobs. The pay that women get in jobs in the male-dominated occupations is low because employers know that women's alternative job possibilities are the poorly paid, traditionally female jobs (Bergmann 1986:137).

Under these conditions, a minimum wage can help reduce the price gap and thereby help to prevent divergent paths of development between the low and the high wage sectors; over time this should bring the structure of jobs available closer to the potential productivity of the workforce. A passive approach to discrimination can be seen to lead to inefficiencies, allowing a low rate of productivity growth and a mismatch between worker potential and job productivity.

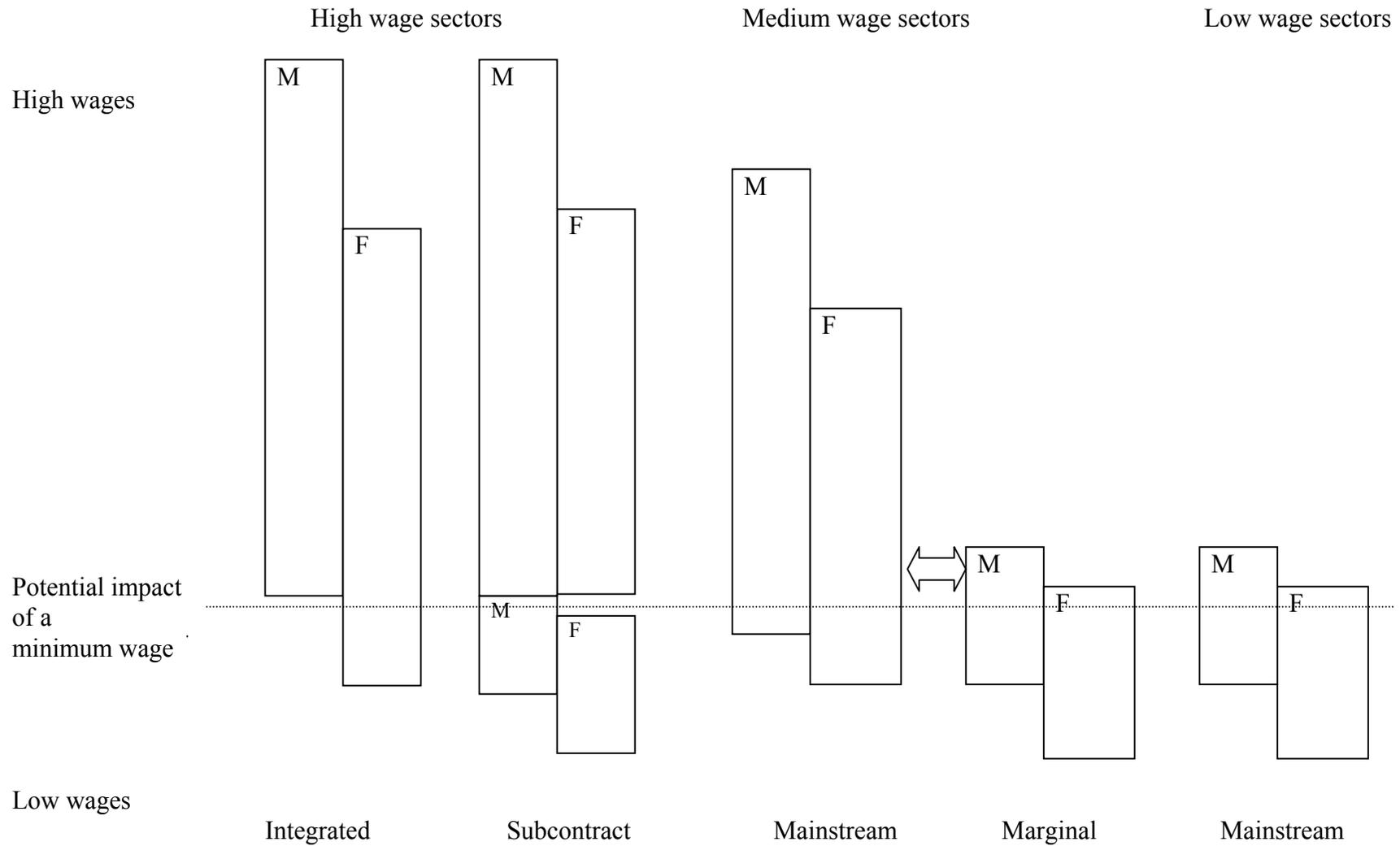
The difference between the crowding thesis and that of segmented labour market theory is that in the former the only cause of divergence in the economic structure is a non economic factor, discrimination. In segmentation theory the unequal power of organisations and the associated differences in productivity rates and in abilities to pay are seen as an endemic feature of uneven capitalist development and not a factor caused by a segmented labour supply. The availability of labour at low wages can exacerbate and reinforce these tendencies but there is no inherent tendency towards equalisation of wage and productivity rates across the economy, as is assumed in perfect competition models. This proposition is commonplace within industrial economics, which is well versed in the imperfections of markets, barriers to entry and other factors, but the translation of these effects to the labour market within

mainstream economics has progressed more slowly. There are now a number of economic tools that can be used to explain divergences in wages and productivity within the economy – for example transaction cost analysis including the problems of monitoring and controlling labour, which lead to the payment of ‘efficiency wages’ rather than ‘market wages’ in some firms and sectors. However, the implications of these explanations for gender pay equity have not been directly explored (for a review see Grimshaw and Rubery 1995, 1998). We, therefore, prefer to use the segmented labour market theory tools, which provide a more macro analysis of divergences between segments.

According to segmentation theory – also sometimes called the queue theory of the labour market (Thurow 1975) – the number of good jobs available in the economy will not be determined by the skill structure or potential of the workforce but will depend both on the structure of product markets and industrial organisation and on the system of labour market regulation which may increase the number of good jobs by requiring organisations to meet minimum labour standards. Such regulations may act either to change the structure of jobs – by inducing productivity enhancing changes to jobs – or act to change prices in the economy so that consumers have to pay more for goods and services produced in those sectors affected by the regulations. Whatever the relative size of the good jobs sector, the labour market acts to ration access to the good jobs and it is in this rationing process that women tend to lose out. Failure to gain entry to the ‘good’ labour market segment may, in deregulated or non egalitarian economies, impose a very high wage penalty which is not proportional to any actual difference in potential productivity between the successful and the non successful candidates. In this theory it is the overall shortage of good jobs that results in crowding into sectors. Thus one reason that women may suffer low pay is that they fail to make entry into the high paid segments. However, introducing gender into segmentation theory requires, as we have argued elsewhere, a more fundamental review of segmentation theory to take into account how supply side factors – and here in particular the segmentation of labour supply between male and female labour – may also affect the structure of jobs (Craig et al. 1985, Grimshaw and Rubery 1995). Thus the division of jobs into the good and bad segments is not only dependent upon product market and technological conditions or the presence or absence of unions but also reflects the labour market status or bargaining power of the workers employed. Where women make entry into potentially good jobs, the status and pay of these jobs may reflect the low bargaining power of women and not the skills and responsibilities required in the job.

This mutual conditioning of the job structure hierarchy – including both demand and supply side influences – means that it is necessary to recognise that women may face low pay in different kinds of economic environments. Figure 1 sets out the potential for the incidence of low pay within a segmented industrial structure. For heuristic purposes we divide the industrial structure into high wage, medium wage and low wage segments. However, as we illustrate diagrammatically, low wages may occur in each segment.

Figure 1: The incidence of low wage work within a segmented industrial structure



First there are the low wage segments where all the organisations tend to pay low wages and firms tend to be female dominated. Second there are the medium wage segments: here women may still be low paid even within what we have called the mainstream firms, if the internal pay hierarchy extends into the low wage areas. In addition there is a risk of low pay in marginal firms that compete on the basis of low wages – they tend to either keep down prices or keep older technology in use. Marginal firms are less likely to be successful in competing in high wage segments, where quality and technology may be more important, so it is in the medium pay sectors where the risk of low pay as a form of undercutting of mainstream firms could be important. Finally there is the high wage segment. In some organisations the internal wage structure may stretch into the low wage segments, but in other high paying organisations the strategy may be to subcontract activities where low paid and often female workers are employed.

Figure 1 also shows the impact of a putative minimum wage in setting a new floor to the labour market operative across the three sectors. The question of the impact of minimum wages on the level of employment is discussed more fully in section 3 below. Here, however, it is useful to identify potential differences between segments as the product market or competitive factors influencing the employment effects will vary. In the low wage segment the impact of minimum wage policy on women's overall employment prospects will depend on the extent to which the existence of an imposed minimum wage may counter the power of employers in this segment (see above) or allow a rise in the overall productivity of jobs, as all employers in this segment face the same minimum wage constraint and are not tempted into competition based on low wages. This analysis depends of course on enforcement; if a minimum wage leads to a rise in the informal sector perverse effects could of course result. In the medium wage segment women may be employed in those marginal firms that exist either through undercutting and competing against more formal sector firms on the basis of wage costs or use low wages as a means of keeping out of date equipment and inefficient organisations in operation. If the minimum wage legislation extends to these organisations there may be some job losses in these marginal firms if they are not able to increase their productivity to match, but the impact could be to protect those workers' jobs in the more formal segment, some of whom may also be held by women (Nell 1988 cited in Prabsch 1996; Craig et al. 1982; Brosnan and Wilkinson 1988). If it is the formal sector that is regulated and this increases the gap between the formal and the informal, then there could, as we discuss further below, be perverse effects with the informal sector growing at the expense of the formal. However, a minimum wage could also raise expectations of minimum pay in the informal sector; wages may fall below this level but the minimum wage could still act as a standard against which the wages offered are compared (see below).

In the high wage sectors women may be low paid because of their supply price rather than because of specific product market conditions. Here we reject the original segmentation theory proposition that internal pay hierarchies within the primary sector are mainly reflective of the internal value of jobs and suggest instead that in the construction of internal hierarchies organisations are influenced by the external conditions in shaping their pay strategies (for further elaboration of this see Grimshaw and Rubery 1998). Thus women's jobs may be institutionalised as low paid within the organisation's pay structure even when they are valuable to the organisation and require skills. For example, clerical work in the UK is one area where the skills required have not been properly reflected in the wage structures of organisations. The payment of low wages in this case has been facilitated by the absence of integrated pay hierarchies in UK companies (Rubery et al. 1997). However, where it is difficult to segment female wages from male wages, the alternative strategy of subcontracting may be used. Such strategies are often represented as simply good business sense: a recent

study of subcontracting stated that they could think of no reasons why a high paying firm would wish to extend those high wages to janitorial work (Abraham and Taylor 1996). This approach takes the low value of cleaning work as inherent in the nature of the work, and not a reflection of the disadvantaged position of the workers who take on this work. Moreover, the fact that paying a high efficiency wage to core workers and a 'market' wage for non core workers explicitly increases wage differentials between the core and non core is not commented upon (Grimshaw and Rubery 1995). Pressurising only the subcontract companies to pay fair wages fails to deal with the large companies' power to seek the lowest price tender (see Justice for Janitors campaign in California (Zabin 2001). As jobs such as cleaning are an essential part of the large organisations' activities, the impact of the minimum wage should do more to redistribute profits than to undermine employment opportunities. The public sector may be another area where the established wage structure may reflect women's low supply price. If the minimum wage were set at a level high enough to affect the wages for public sector workers, the employment effects would of course be dependent upon the willingness of the society to fund the increased wage bill.

The overall argument is that within a segmentation theory approach the role of the minimum wage is to narrow the gaps between sectors, to help to establish a market rate for labour which is independent of differences in supply conditions: in effect to establish the market by providing a common rule to ensure fair competition (Webb and Webb 1920).

Women and the care economy

In providing a common floor to the wage structure, minimum wage policy could also help to reduce another but related cause of women's low pay; that is the low value attached to the care sector of the economy. This low value applies with respect to the esteem attached to the job as well as to its monetary value. The care sector has traditionally been largely within the domestic economy and there are no mechanisms at work to bring about equality of esteem between wage work and non wage work; the wage sphere has enjoyed the prestige and has provided the basis for collective organisation to raise the pay and status of the jobs performed. Now that care work is increasingly found within the wage economy, the low value or esteem associated with care work is being translated into low monetary values. The skills needed for care work have remained largely invisible as they are developed in the non formal or domestic economy. Moreover, some economists have suggested that the wage attached to care work should be low as women have both a natural aptitude for care work and derive positive pleasure from its performance (Polachek and Siebert 1993). The integration of the care and the non care wage economy through the establishment of a minimum wage may also have spin offs in providing a base point for understanding the value of time spent in caring within the domestic economy. The non-commensurability of the value attached to skills performed in different sectors of the economy may be a more general point, underpinning the need for minimum wages to tackle discrimination arising out of difference by class, caste or between rural and urban economies.

Women as subordinate to men

The construction of women as secondary, low status workers cannot be solely attributed to materialist or rationalist issues. While women's subordination can be seen as the counterpart to the materialist campaign to establish living or family wages for the head of the household, or as the outcome of the need to provide security and care for children, female subordination is much more pervasive and relates to all areas of gender relations in both public and private life. In short, forces of patriarchy as well as capitalism may be evident (Hartmann 1979; Walby 1986). Policy tools to reduce the identification of women as component wage workers

or to reduce the costs and problems of childcare can be expected to assist the cause of gender equality, but the pervasiveness of male dominance in all aspects of society and the potential for men to resist change must not be underestimated. Low pay for women may be interpreted, from this perspective, at least in part as maintaining the gendered social order within organisations. Minimum wages can only make a limited contribution to changing this social order and challenging gender hierarchies. Nevertheless if women begin to have access to wage income sufficient to provide for their economic independence, the materialist base for the retention of the gendered social order would be at least partly undermined.

1.2. Inter-linkages between gender pay inequity and other forms of pay inequality and discrimination

The same framework as the one we have developed to describe how gender pay inequality and discrimination are embedded in the social and economic environment can be used to describe the pay inequalities faced by other disadvantaged labour market groups. Not all the arguments apply with equal force to all disadvantaged groups but each of the factors we have identified with respect to gender pay inequality can be found to share common ground with causes of inequality for at least some other groups. The development of a common framework for understanding the sources of pay inequality also provides a context in which policies identified as favourable for women's equality may have positive spin offs for other groups.

If we look first at the '*economic dependence*' or '*component wage*' dimension, we can find other groups whose vulnerability to low pay may be dismissed as unimportant either because it is assumed that the recipients will find additional resources from other sources, or that they are willing to accept a standard of living below the acceptable level for the dominant population group. Young people and older workers on partial pensions fall into the first category, as do rural migrants who are still linked through the family to resources from the land (Hare 1999). These groups can be considered not to be fully 'commodified' or fully proletarianised labour, in the same way as female labour is regarded as not fully dependent on the wage labour market for either their work or their income resources. The problem for pay inequality or discrimination is first, that employers may take advantage of these external resources to reduce the wage paid and second, that the assumption of access to supplementary income is not true in all cases. For some other social groups the prevalence of low pay may be in some way legitimised by expectations of low living standards associated with the position of these groups at the bottom of the social hierarchy; these groups include most obviously members of low caste groups or racial and ethnic minority groups with low social standing, and migrants, especially illegal migrants (Recio 2001). Some of these groups may also be expected to gain additional support through extended family systems or to have low income needs if they are single unattached migrants, for example.

If we turn next to the *powerful employer* explanation, we find that some of these groups are particularly dependent upon their employer, placing them in a weak bargaining position. At the most extreme we find the dependency of the illegal migrant. Racial and ethnic groups may find it necessary to live in close communities for collective protection as well as for social reasons; lack of geographical mobility or language difficulties may place them in a dependency relationship with their employers. Young people are also in a position of dependency as they need to gain work experience to improve their market skills yet they are also the group first to be hit by recession as new entrants to the market are immediately affected by a slowdown in job creation. Their limited geographical mobility plus commitments to family or education may further restrict their options. This vulnerability to

powerful employers is reinforced by the weak representation of these groups within systems of collective regulation. In the case of illegal migrants, representation may be politically impossible, although in the US there have been campaigns by and on behalf of the rights of illegal migrants. Even legal migrants, or those awaiting asylum decisions, are likely to be outside collective representation structures. The other groups considered here are also at risk of under representation, not just because of difficulties of organising workers in the sectors where they may be employed but because the dominant group monopolises the representation structures. This dominance may be derived from race, nationality, religion, class, gender, age, sector geography (e.g. the urban-rural divide). Effective representation of interests may be compromised by the fact that the disadvantaged groups in a particular society are defined by their differences from the dominant group. Where the disadvantaged group is seen as a potential competitive source of low wage labour there may be even more difficulties in providing effective representation. However, where collective representation is based on universal and egalitarian principles, and not on the development of working class elite groups, representation may be more effective.

Job segregation may be another way through which these groups face pay inequality and discrimination. Where social stratification is strong, jobs associated with a low status caste, tribe or class may take on low social and monetary value. Some disadvantaged groups may not be sufficiently numerous to affect the status of an occupation; in these cases they may instead find their job opportunities limited to those jobs reserved for other more dominant disadvantaged groups, such as women. Gender pay inequality may have a particular link to inequalities faced by other groups if other disadvantaged groups find that their employment opportunities tend to be restricted to those of the disadvantaged gender. Illegal migrants and indeed young people may, however, be found in jobs designed specifically around their needs; temporary jobs with no questions asked in the first case (Peck and Theodore 1998), training jobs or jobs to fit round studies in the latter case (Jany-Catrice and Lehndorff 2001). Geographical concentrations of ethnic or racial groups may lead to some occupations becoming associated with that group in particular regions or urban areas, resulting again in a downgrading of the pay and status of that occupation.

The low *social valuation of skills* which affects women through the low value attached to care skills and the care economy may also affect other groups in comparable ways. Skills or trades associated with particular castes, tribes or classes may be low valued. Rural crafts and skills may also be considered of low esteem and low value. Young people may be paid on a wage for age basis irrespective of their relative productivity in the job and older workers, if displaced from their career job, may find their experience, highly valued in their previous occupation, to be simply a liability and an assumed obstacle to operating in a new environment.

Finally, and potentially most importantly, the disadvantaged position of these groups may be maintained through *processes which maintain, reproduce and reinforce social hierarchies*. Women must not challenge men's dominance through their labour market activities; similarly hierarchies of class and caste, race, religion, nationality, age, seniority, sexuality must not be challenged by the operation of the labour market.

By developing a common framework for analysis of disadvantage it is possible to see how minimum wage policy can have positive spin offs beyond reducing the gender pay gap. Moreover, these positive spin offs can apply even in a context where without minimum wage legislation there could be divergence of interests between disadvantaged groups: for example the availability of relatively cheap female labour may place downward pressure on terms and

conditions for male disadvantaged workers operating in similar labour markets. Minimum wage policy should limit women's role as a reserve army of labour and provide a form of protection for all groups; however, if minimum wage policy is used to redistribute wage income primarily within groups at the bottom of the labour market, instead of from high wage earners and rent or profit receivers, the possibility of conflict remains. These issues are discussed further in section 3.

Table 2: Causes of pay inequality for other disadvantaged and discriminated against groups.

	Gender	Race/ethnicity	Class/caste	Illegal migrants	Rural migrants	Youth	Old
<i>Dependence on income sources other than own wages for subsistence /lack of access to welfare/unemployment support</i>	Nuclear family support – limited access to state unemployment benefits as alternative to low wage job	Extended family support; low expected living standards.	Low expected minimum living standards so can be paid less than standard subsistence	Pay may be based on costs of single migrant, no family support, no state unemployment benefits	Supported by family network in rural areas and urban areas	Family support/ no state unemployment benefits	Pension support
Powerful employers	Domestic labour /lack of transport leads to time/space constraints	Geographical concentration limits employment options		If illegal, high employer dependency		Lack of transport/ constraints of education/ need to gain work experience	
<i>Weak representation</i>	Representation dominated by men; sectors difficult to organise	Representation dominated by main race/ethnic group	Representation may be dominated by skilled groups/ higher castes	May lack right to representation - seen as threat by organised labour	Not integrated into urban system of representation	Representation dominated by mature adults	Representation dominated by prime age adults
<i>Job segregation</i>	Crowding into feminised jobs	Crowding by geographical area and by occupation	Status and pay of jobs reflects social class/ caste hierarchy (including in educational system)	Confined to informal economy or illegal sector		Jobs designed and organised for young people	If only seeking part-time work may have to take jobs in female/ youth sector
<i>Social valuation of skills</i>	Care work accorded low value	Skills associated with discriminated against ethnic/ racial groups may be accorded low value	Social valuation of skills may reflect class/ caste status of workers	Not allowed/able to work at skill level	Rural skills accorded low value	Wage for age systems may devalue young workers' skills	Experience of older displaced workers accorded low value
<i>Social hierarchies</i>	Male patriarchy	White (most powerful ethnic group) dominance	Class/caste hierarchy	Nationality/ citizenship	Urban dominance	Age/seniority hierarchy	Prime age workers dominate hierarchy

2. Equal remuneration and other equal opportunity policies: towards greater and sustainable equality

Debates over the priority to be given to equal pay issue within an equal opportunities agenda in part stem from differences in viewpoint as to the proximate causes of gender pay inequality. Those who favour prioritising equal opportunities policies to enhance education, training and promotion or to promote more equal sharing of domestic labour or better provision of care services see unequal pay as arising out of differences in the gender division of labour and differences in women's career orientations. Those who prioritise equal pay as the problem to be solved before equalisation of the gender division of labour in the home, or before further progress in education or training, see unequal pay as a barrier to these equal opportunity policies. Without equal pay in place it is impossible for individuals and households to make decisions that do not reflect and reinforce current inequalities. Moreover, while differences in the gender division of labour and such factors provide the long term historical explanation for unequal pay, their removal will not necessarily do much actually to change the causes of current wage inequalities, which are embedded in the whole structure of pay and operation of the labour market. A good example of how labour market and wage structures lag behind changes in the social organisation and gender relations is the US; here there is much greater involvement than elsewhere of women in the labour market and the notion of the male provider has perhaps been eroded to a large extent by the now high share of women in high paid jobs (Salverda et al. 2001) and the high rate of family breakdown. However, these developments have not led to the disappearance of the component wage jobs; instead there are increasing proportions of both men and women who are employed at wages that are insufficient to provide for adult social reproduction. This argument has been neatly summed up by Nancy Folbre:

Both the expansion of markets and the enlargement of state participation in the economy empowered women and youth just enough to destabilise the patriarchal organisation of social reproduction, but not enough to generate a non-patriarchal system that might fairly and efficiently meet the needs of children and other dependants (Folbre 1994:248).

From this perspective it can be argued that action on equal pay is a precondition for the development of gender equality. Some of the arguments behind this position can be summarised as follows.

Equal remuneration provides freedom to determine gender division of labour

Without access to equal remuneration, households and individuals are not able to make choices concerning the domestic division of labour and the relative importance to be attached to the careers of the partners, without reference to differences in potential rewards in the labour market. The notion, found in some mainstream economics analyses, that the current organisation of the family (Becker 1981, 1985) reflects the preferences of the population fails to take into account how preferences are conditioned by external opportunities. Even if pay discrimination against women is limited solely to the risks of employing women associated with childbirth, individual women are not able to signal to employers that either they do not intend to have children or that they will not, in their particular household, have the prime responsibility for children. Under these conditions the household is likely to continue to allocate prime responsibility for children to the woman. Moreover, low returns to working for women reinforces a pattern of interrupted or partial participation as the costs of childcare are high relative to the expected wage. Of course, a minimum wage may also increase the costs

of childcare, as many child carers are low paid. It may therefore be desirable for families to receive assistance with childcare costs to promote dual careers. If women take into account only the immediate returns from working they may decide to leave the labour market for a short period, but in doing this they overlook the long term loss of earnings due to interrupted careers (Joshi and Davies 1993)

Equal remuneration as a means to escape poverty and to achieve economic independence

Access to independent wage income can be an important source of protection for women from poverty, particularly in old age or in conditions of family instability due to divorce or low life expectancy. The more individualised the society the greater the importance for women to have their own economic independence as protection against poverty. However, the more the society is based on household and family welfare, the more women may be constrained to play a subordinate role in the family – as unpaid helpers in the family business, as the recipient of state benefits on grounds of marriage, or as carers for the wider family and relatives. Within these societies, access to more equal remuneration could be an important catalyst for changing these social relationships by establishing an economic incentive for change in traditional family arrangements.

The particular role that equal remuneration plays in poverty alleviation may depend upon the characteristics of the society in question. In advanced societies dual earner households are found to be less likely to fall into poverty than single earner households (Marx and Verbist 1998). Moreover, both partners having access to employment may reduce the risk of social exclusion in times of recession: if one partner loses his/her job the family may still remain connected to the labour market.

In all societies women having access to independent income is an important means of improving the transfers of income and resources to children, thereby reducing the incidence of poverty for children.

Equal remuneration opens up occupational choice

Mainstream economists assume that women are concentrated in low paid occupations because they under invest in education and training in anticipation of a discontinuous pattern of labour market participation. But empirical evidence shows that as occupational groups become more female-dominated, employers may reduce the value of the work, resulting in a declining relative wage as the female share increases (Reskin and Roos 1990). This means that without equal remuneration (through policies of equal value and comparable worth) it becomes very difficult for women to find jobs that remunerate them for their level of skill and education.

Equal remuneration enhances training and productivity

The argument that equal remuneration policies, and minimum wages in particular, may undermine employment opportunities for women if the wage level exceeds productivity levels can be turned on its head. Low wages can encourage a wasteful human resource policy where raising workers' productivity does not appear as a core objective because the wage rates are so low. This leads to low training expenditures, tolerance of high turnover rates and low attention to productivity and quality (see OECD (1998a) study of feminised occupations). Higher minimum wage rates could set new human resource policy standards,

leading to improvements in productivity and quality of product and services. Improved access to higher quality jobs for women could again prove to be a catalyst to change the traditional division of labour within the home.

3. The merits and demerits of equal pay and minimum wage policies

3.1. Merits and demerits of equal pay and minimum wage policies compared

In an ideal world the promotion of pay equity for women and other disadvantaged groups would involve both general policies – such as minimum wage legislation – and more targeted policies to deal with specific problems of pay inequality related to job segregation and specific aspects of the pay structure which affect the disadvantaged gender or other group. This compatibility can be found at an empirical level: higher minimum wage levels tend to be found in countries with lower gender pay gaps (OECD 1998b) but gender pay gaps still remain and have to be addressed by other policies. In practice there may need to be priorities attached to policies. It is in this context that it is worth considering whether strengthening or establishing minimum wage legislation would be more beneficial than promotion of targeted equal pay policies. Nevertheless, it needs to be stressed that these approaches are more complementary than competitive and that the decision as to which to prioritise will depend upon the specific conditions in a particular society. Moreover, both policies involve dangers and pitfalls that could lead to perverse effects that need to be identified. Detailed discussion of actual experience of such pitfalls with minimum wage legislation will, however, be postponed to section 5.

The merits and demerits need to be considered from a range of perspectives, such as the coverage of the policies, the effectiveness of the policies, the costs and who bears them and the likelihood of positive or negative spin offs or perverse effects.

Coverage

Both equal pay policies and minimum wage policies can make claims to universality; the first covers all women, the latter covers all low paid workers. If pay inequality is felt most intensively by the low paid then minimum wage policies may be said to provide a more targeted and comprehensive policy. If gender pay inequality is found throughout the skill hierarchy, minimum wage policy will only provide assistance to those at the bottom. However, while equal pay policies in principle apply to all women, in practical terms their application is much more limited as claims are often limited to workplaces where there is a male comparator; moreover action usually needs to be taken workplace by workplace. Voluntary action may be easier to achieve among employers of relatively well-paid and skilled women. Employers of the lowest paid may be less willing or able to participate in re-evaluating pay structures to eliminate discrimination.

Problems of universality also apply to minimum wage policies for, although in principle the minimum wage can be used to cover all forms of wage work, including non standard work and homework, in practice this may be difficult to enforce and minimum wages may be restricted to either workers on standard employment contracts and/or those in the formal sector. The issue then becomes the potential size and composition of the excluded sectors. This issue is likely to take on greater importance in developing than developed economies, although it is not absent in the latter. One of the arguments made against minimum wage policy in developing countries is that it is not relevant for the working poor most of whom are

self-employed. However, these objections apply with even greater force to equal pay policies. At least the minimum wage has the merit of setting an understandable earnings target, against which the working poor, whether self-employed or employed, can compare their own earnings. We return later to the question whether minimum wage legislation has indirect effects on earnings in the informal sector and/or among the self-employed. If the objective is to extend help to disadvantaged groups other than women, then minimum wage policy has the edge, although policies to re-evaluate the skills and pay associated with feminised jobs may also help some other disadvantaged groups if they also tend to find jobs in these sectors.

Effectiveness

Minimum wage policies have both more immediate and universal effects than equal pay policies; the latter usually depend on specific actions at the workplace or sector level. Moreover, minimum wage policies can provide a means of ensuring regular upgrading of pay for low wage workers while equal pay policies are more concerned with providing a restructuring of pay, with the issue of future wage increases left to collective bargaining or management decision. Minimum wage policy may also be integrated into social security policy; if set at an appropriate level, it can be used to reduce poverty traps and prevent employers seeking subsidies from the state through in-work benefits. As such it represents a permanent feature of employment and welfare policy and not a one-off strategy to reduce gender pay inequalities. Moreover pension entitlements may be linked to minimum wages and as such an improvement in the minimum wage for wage workers may have beneficial effects for other groups of women, such as pensioners. Yet it is in this feature of minimum wages as a regular tool of economic and social policy that some of the dangers of minimum wage policy lie. It may be set at a very low level for fear of the employment or inflation effects; it may not be subject to regular uprating as the state wishes to have the freedom to send appropriate signals to the whole economy over wages; and its links to social security can be a reason why the real value of minimum wages may be allowed to erode, as an indirect way of reducing the costs of social security (see below section 5). As with any policy tool, the actual effects depend on the context in which the policy is implemented and the political will and agenda behind the implementation. Using minimum wages as a means of promoting pay equity could be considered an example of gender mainstreaming of pay policies (Almond and Rubery 1998). If pay equity considerations were incorporated into minimum wage policy, this could provide protection against the erosion of minimum wages for general economic policy reasons.

One of the problems of implementing minimum wages is that these policies primarily affect the least good employers in the country; its effectiveness depends on methods and success of enforcement. In comparison equal pay policies can mobilise the better employers into action. In practical terms, however, there may be problems in promoting equal pay policies within individual organisations if the external labour market wage for women remains unchanged. The minimum wage has the advantage of acting directly to reduce the incentives for organisations to take advantage of the cheap price of female labour in the labour market. As such, it addresses the issue of the embeddedness of discrimination in the overall structure of wages and does not treat gender differences as the only form of deviation from a neutral market norm. Equal pay policies have such incremental effects on wages and labour market structures that those in the forefront of making changes will not observe significant labour market effects for some time and this may reduce the momentum to eliminate gender pay inequity. Much of the improvement in women's pay when equal pay legislation was introduced in developed countries came from the equalisation of minimum rates between

women and men in sector level collective agreements (Zabalza and Tzannatos 1985). The impact of individual workplace policies has been much less evident particularly in a context of decentralised wage bargaining as found both in Canada (Baker and Fortin 2000) and in the UK. In the latter context Sloane and Theodossiou (1996) comment:

‘Rather than dealing with poverty issues, therefore, minimum wage legislation appears to be a device for reducing the male-female earnings differential. In this respect it may be a more effective tool for advancing the relative position of women who retain their jobs in the labour market than equal pay and equal opportunities legislation’ (1996:665).

Nevertheless the effectiveness of equal pay policies in reducing gender pay equity is increased by its potential impact on all women.

Costs

Minimum wages are relatively simple tools to design and implement. Administrative costs depend on the form and method by which the minimum wages is enforced. The cheapest method of enforcement and possibly the most effective is through social expectations based on widespread knowledge of what the minimum rate is and clear social expectations that wages should not fall below this level. These conditions are more difficult to achieve if there is an employment shortage and strong employer power (for example with illegal migrants). In contrast equal pay policies can be very costly of time for managers, trade unions and workers and may also involve high legal costs. Their implementation requires a fairly high degree of sophistication within the personnel departments of companies and the availability of expertise on the trade union and worker sides. The policies are not readily understood by employers and are therefore not enforced by employees; policies to make wage structures transparent could, however, help the policing of equal pay policies and make employers more wary of deliberately flouting equal pay principles. Elson (1999) makes a strong case for a set of clear simple standards covering the whole economy in preference to more ambitious standards covering only a small sector. In particular she comments that: ‘for most countries basic standards on health and safety, minimum pay and rights of the labour force to organize and bargain collectively, are more important for improving the employment standards of most women, than complex standards relating to equal pay for work of equal value’. However, the costs of job evaluation may be at least in part recouped if the process makes hidden skills more visible to employers. Once visible employers may be able to improve productivity through the reorganization of work and the development of their female ‘human capital’.

The administrative costs of the tools are different from the question of who bears the cost of what are essentially redistributive policies. Equal pay policies tend to be focused at the individual organisation or sector; there is, therefore, a danger that the costs of redistribution will be borne only by those working within the organisation. Men in sectors where significant numbers of women are employed and equal pay claims are likely, may be more at risk of bearing the redistributive burden than men employed in male-dominated sectors where there are few women and low chances of equal pay claims. The cost of minimum wage increases may also be borne by those paid close to the minimum wage if management decides to squeeze differentials; this will have more impact on the relative size of skill differentials at the bottom of the pay hierarchy. In general minimum wage costs can be expected to be spread more widely where the increase in the total wage bill in the affected organizations leads either to lower profits or higher prices. In the first case the cost is borne by employers, in the

second by consumers and these may include many relatively wealthy consumers (Freeman 1996). However, there is also a danger that the increase in prices will be resisted, leading to compensating wage claims. In this case the increase in the minimum wage may be nullified by compensating wage increases up the hierarchy.

Spin off and perverse effects

Decisions to intervene in established practices and norms, even if the objective is to change these in the interests of a fairer and less discriminatory system carry with them both risks and opportunities. Equal pay policies can, if pursued in an appropriate climate, set in train a re-evaluation of values within the economy which can open up the prospect of moving to a more equitable, fair and rational system, compatible with changes in women's and many men's aspirations for a less gendered division of labour within the home and the labour market. It could also act to upgrade the quality of jobs; compatibility between wages and productivity can be achieved as much by upgrading of jobs and training as by variations in wage levels (OECD 1997, De Fraja 1999). However, as the debates on the introduction of equal pay legislation in the US made clear, the objective of achieving equal pay for work of comparable value – that is challenging the whole structure of pay and its associated gender values – also opens up the possibility that employers will use such challenges to question the basis of men's pay and to move away from providing living wages for all groups of workers (Kessler-Harris 1990). Recent experience with the implementation of comparable worth policies in the US has shown the validity of these concerns. As Acker (1989) summarised the situation, in the state of Oregon, the pursuit of comparable worth foundered on the mutual incompatibilities of the objectives of the state, the feminists and the unions.

'Oregon's true comparable worth plan could not gain political support, and thus its downfall was assured. Two problems were primary: First, the goal of a new classification system gained precedence over pay equity and the resulting classification plan had serious defects; second, true comparable worth included implementation and maintenance procedures that organized labour perceived as contrary to its interests, but that management welcomed. Conflicts over these issues divided one union from another and one feminist from another, while management attempted to use the conflicts for its own advantage' (1989:167)

The argument here is not that these challenges must always be avoided but that the dangers as well as the opportunities must be recognised. Minimum wages provide perhaps a very simple start in the process of establishing comparable wages across dissimilar and often sex-segregated workplaces, provided the wage is set at a level above that prevailing in female-dominated segments. It thus initiates the development of a more gender-integrated pay structure without perhaps opening up the Pandora's box of job evaluation in a context in which both feminists and unions are not sufficiently well organised or do not share sufficiently similar goals to ensure that the outcome promotes rather than undermines labour standards and decent work objectives.

Minimum wage policies can complement equal pay policies by promoting a narrower pay dispersion – and the penalties to being employed low down the wages hierarchy are less in more egalitarian societies (Blau and Kahn 1992, 2001). However, a minimum wage implemented to assist the low paid may over time become hijacked by those engaged in macro economic management or controlling public expenditure and instead become a tool for eroding social entitlement and widening pay dispersion. On a more positive note the implementation of a common minimum wage can reduce incentives towards fragmentation of

organisations and subcontracting, as all organisations must face the same minimum wage costs. It can also indirectly reduce levels of work stress if it allows individuals and households to supply less labour to meet minimum subsistence needs. On the other side employers may seek to offset the costs of the minimum wage by increasing work intensity; this may be achieved by cutting working hours without reductions in work load for those employed part-time. Minimum wages are increasingly identified in policymaking circles as an essential complement in welfare states systems to a ‘make work pay’ strategy; without a minimum wage in-work benefits could result in high subsidies to low paying employers (OECD 1997, 1998b, Freeman 1994). Finally, the setting of a common minimum for all workers may help in the establishment of a more egalitarian ideology, where differences according to type of workers are no longer legitimised.

Box 1: Equal opportunities versus minimum wages: an empirical assessment of their potential impact

Only one study, as far as we are aware, has attempted to assess, via a simulation exercise the relative merits of equal pay versus minimum wage policies for promoting gender pay equity (Dex et al. 2000). The study was undertaken in the context of the introduction of a national minimum wage in the UK. The simulation recorded a much larger gain for women if either they received the same wage within an occupation as men (equal pay policy) or if they were distributed across occupational groups in the same proportion as men (job desegregation policy). However, this simulation did not necessarily suggest that equal pay policies should be favoured as the minimum wage was an easier policy to implement. To a large extent the analysis of equal pay policies remained at the level of simulation as there is no country where equality of earnings within occupational groups all the way up the pay ladder has actually been achieved. In contrast the estimation of the minimum wage effects are closer to actual likely outcomes of the policy, except for problems of enforcement. Moreover, the predicted benefit from the minimum wage was limited by the low level at which the minimum wage was pitched. The article concludes:

This article has examined a range of policies and their likely effects on female relative hourly earnings. Adopting a statutory minimum wage of £3.60 was found to produce small increases in the female/male hourly rates, particularly for manual workers and part-time female employees in comparison with all men. Whilst extending the scope of equal pay or reducing occupational segregation may in principle each lead to much greater improvements in hourly ratios for women as a whole, the problems of implementing such policies are also much greater than those associated with minimum wages. Two major policy issues remain. The first is the level of the minimum wage; a higher minimum has the potential to have a greater effect on gender wage equality. The second issue concerns the development of policies that may – indirectly if not directly – impinge on occupational segregation and the pay of part-time workers.

Table 3: Advantages and disadvantages of specific equal pay policies for promoting gender pay equity

Targeted equal pay policies	Coverage	Effectiveness	Costs of implementation	Side effects/spin offs
<i>Advantages</i>	Applies to all women, not just those who are low paid	‘Good employers’ may be mobilised to take action	Costs of job evaluation may be offset by productivity gains from process of making hidden skills visible	Promote new evaluation of women’s skills, abilities, training provision etc.
		Affects whole of the pay hierarchy; more difficult for men to make compensating claims		
<i>Disadvantages</i>	In practice employers may focus on higher paid women	Many policies are targeted at single workplace/organisations – limited labour market effects	Job evaluation schemes costly to administer	May be used to undermine collective bargaining
	Depends on the existence of male comparators.	Difficult to encourage employers to implement equal pay if no effective floor to women’s wages on the labour market.	Costs may be borne disproportionately by men working in same establishment who may also be relatively disadvantaged	
	Limited assistance for other groups, except if they are also employed in feminised occupations.	Male comparators in female-dominated firms/occupations may be relatively low paid		

Table 4: Advantages and disadvantages of minimum wage policies for promoting gender pay equity

Minimum wage policies	Coverage	Effectiveness	Costs of implementation	Side effects/spin offs
<i>Advantages</i>	Covers all low paid women where costs of discrimination are highest	Changes external market wage for women	Simple to understand and can be enforced by employee awareness, even in informal sector	Reduces incentives to subcontracting
	Can extend to groups often not include within collective bargaining or organisations' internal pay hierarchies	Can provide a mechanism for regular increases in pay	Costs may be borne by whole community, through higher prices and may even be skewed towards the wealthier consumers of services; therefore acts as a good redistributive tool	Can complement and reinforce gender pay policies; reduces wage dispersion and gender pay gap lower where wage dispersion narrower.
	Applies to all disadvantaged groups, not just women	Can be used as a numeraire for social benefits, thereby integrating wage and social security policy		Can provide basis for reducing extensive hours of work necessary to achieve subsistence income
				By setting a universal norm could help to establish an ideology where pay differentiated by demographic/social group is no longer legitimised
<i>Disadvantages</i>	Some low paid women may be excluded for administrative and other reasons – homeworkers, part-timers, informal sector etc.	May be set at a very low level if not differentiated by sector or skill	Could cause wage inflation if leads to compensating claims	Hours of work may be adjusted to offset costs
		Effectiveness over time depends on mechanism for indexation	Underpaid workers may not have the power to complain	May be used as a tool of macro economic management; this objective may conflict with gender pay equity objective
		May either be difficult to enforce in small firms or may promote informal sector growth	Workers close to minimum may bear the cost if skill differentials squeezed	
		Link to social security may lead to erosion of real value of wage if there are public spending cuts		

3.2 What are the trade-offs of implementing a minimum wage policy?

So far we have argued that there are strong reasons, on a practical and ideological front, why minimum wage policy should be prioritised as a tool for promoting pay equity. However, minimum wages are often held to have negative impacts on desirable outcomes of other economic and social policies. It is, therefore, necessary to consider these potential trade-offs, to examine the validity of the arguments and to assess where the balance of the argument lies.

Pay versus employment and growth

One of the main arguments made against minimum wages is that they are conventionally regarded as likely to lead to lower employment levels in the formal sector and either higher unemployment or expanded employment at lower wages in the informal economy. These problems are held to occur both at the point of implementation and over the business cycle, if the existence of a minimum wage prevents downwards adjustment of the wage level. Empirically these employment effects are often found to be weak or even reversed (see box and Katz and Krueger 1992, Card 1992a, 1992b, Card and Krueger 1994, 1995; Dickens et al. 1999). These results are not unchallenged: other authors or policy analysts have continued to find negative employment effects, particularly for youths (OECD 1998b, Neumark and Wascher 1992, 1999). However, the effects are generally recognised to be variable across countries and in most cases, in advanced countries at least, relatively small (Dolado et al. 1996, Neumark and Wascher 1999, Kennan 1995). Estimates which focus on the employment effects for one group may overestimate impacts as there may be substitution between groups (for example a high minimum wage could encourage use of more reliable female adult labour rather than youth labour (Dolado et al. 1996)).

The recent work on the employment effects within developed countries has been dominated by the rediscovery of monopsony in labour markets. As Dickens et al. (1994) comment, ‘all employers have some degree of monopsony power and the question the research should be addressing is the extent of this’. If there is neither perfect competition nor perfect knowledge within labour markets, the assumption of a negative relationship between minimum wage levels and employment may be broken. More generally, from a microeconomic perspective the expected negative impact of the minimum wage on employment levels can be modified or even reversed, the greater the extent of monopsony and the greater the ability of organisations to absorb increases through lower profits or through higher product prices. The admittance of monopsony leaves open the possibility that wage structures are set as much by social norms as by either ability to pay of organisations or by labour market supply and demand conditions. Moreover, if productivity levels are not independent of the wage level but also positively related to wages (Rebitzer and Taylor 1995, De Fraja 1999), the expected employment displacement effects will not occur.

These arguments, important and influential though they have been in breaking the almost universal condemnation of minimum wages by the mainstream economics profession, still focus on imperfections at a micro level. The assumption is still retained, in contradiction to the Keynesian macroeconomic approach, that lowering wage levels can be expected to generate higher levels of employment. A different critique of the assumption of a negative employment effect from minimum wages can be made from a macroeconomic perspective (Prabsch 1996). Falling real and relative minimum wages in many parts of the developing world in the 1980s were clearly not caused by falling productivity levels of labour but were a

consequence of the structural adjustment policies that developing countries were required to adopt. Here the main function of falling minimum wages was, it is argued, not to stimulate employment but to transfer purchasing power. There are contrasting views on how far flexible wages help or hinder the process of adjustment to recession; for some minimum wages if maintained in real and relative terms may protect consumption levels and thereby modify the downturn in demand, but for others flexible wages are a precondition for a stimulus to employment levels.

Furthermore, there is almost a perverseness in the refusal of economists concerned with the impact of minimum wages on employment and poverty rates not to link the analysis of low pay to gender pay discrimination. The same economists may be willing to engage in the measurement of gender pay discrimination, but the possibility or indeed likelihood that discrimination may be prevalent at the bottom of the labour market does not seem to be an issue that is addressed directly. Thus the OECD notes that not only are women more likely to be low paid but that they are also more likely to remain in low paid jobs, but there is no discussion of whether this hints at discrimination rather than a problem to be addressed by supply-side measures such as better training (OECD 1997). Thus, despite fairly widespread acceptance of the notion of gender pay discrimination, there is a belief that in the low wage labour markets, the wage on offer represents the actual productivity of female labour and that, therefore, to raise the wage risks employment loss. Moreover, women are implicitly assumed to always prefer more employment over higher wages per hour of labour, so that employment loss is always the outcome to be avoided.

These controversies are evident within the developed world but take on greater force within developing countries. The analysis by mainstream economists, including those working for or acting as consultants for the World Bank⁴, of the impact of minimum wages in developing countries has largely followed the same framework as that applied to developed countries and has traditionally been primarily concerned with estimating negative employment effects. Indeed one study supposedly concerned with ‘promoting women and protecting equality in the labor market’ (van der Meulden Rodgers 1999) takes as its starting point the assumption that minimum wages will cause distortions and job loss as ‘in a perfectly competitive labor market, an increase in a binding minimum wage causes an unambiguous decline in demand for labor’. No justification for the assumption of perfectly competitive labour markets in a developing country context is provided. It should perhaps be noted that, as it has become acceptable not to find a strong negative connection between minimum wages and employment levels in developed countries since the publication of the Card and Krueger work, empirical analyses of developing countries within a mainstream framework are also now suggesting that there are limited and indeed positive relationships between high minimum wages and economic performance/structural adjustment (Forteza and Rama 2001). This argument is made purely on empirical analysis and there is no fundamental questioning of the conventional economic framework.

According to this conventional framework, a minimum wage is assumed to reduce employment if it is set above the market-clearing wage. However, the notion of a market-clearing wage in a context of surplus labour is clearly problematic. This issue tends not to be

⁴ We are referring here to working papers available on the World Bank website. We acknowledge that it is stated on the website that the views expressed in the various working papers are those of the authors alone and not of the World Bank.

directly addressed; instead the existence of a large informal sector is taken as further evidence why a minimum wage policy could have dangerous and perverse effects. As we see below, the main difference between the modelling for developed and developing countries is that in the former the impact of a minimum wage increase is held to be an increase in unemployment, while for the latter the main effect is a rise in supply to and a lowering of the wage in the informal sector. Whether and how far wages should be allowed to fall towards zero to absorb surplus labour is an issue which economists tend not to consider directly; in the transition economies (see section 5, box 6 below) the lack of an understanding that wage reductions alone would not be sufficient to bring about a market economy functioning at full employment must in part explain how minimum wages were allowed to fall to extremely low levels, increasing the economic and social deprivations associated with the transition process (Standing and Vaughan-Whitehead 1995). The problem of how to interpret a wage contract in the context of labour surplus and extreme deprivation has been recognised in labour law in the US: after the so-called “Bakers’ case” in 1905, courts have recognized that ‘when basic needs are not met, bargaining power between freely contracting individuals is unevenly distributed (Prabsch 1996). The likelihood of coercion, duress and exploitation in the employment relationship must be recognized in surplus labour economies. Nevertheless economists tend to assume that the prevailing rate of wages reflects some notion of a market-clearing price unless there is evidence of direct intervention in the form of, for example, minimum wage policy or collective bargaining. However, it is in the context of surplus labour that social norms may take on even greater importance in fixing some kind of floor to the wage structure. These social norms are likely to vary for different groups and to reflect at least to some extent the social organisation of the economy, including the family economy.

For example, it has been argued that one reason for young women in China being employed as low wage labour in manufacturing is because tradition provides an alternative source of household labour in the form of daughters-in-law, thereby reducing the supply price of these women to very low levels (Hare 1999). In contrast young men are actively involved in non wage activities in the household and are therefore not constituted as surplus labour, available for component wages. These family economy influences may overwhelm any individual productivity issues in determining wage levels. This argument has been made explicitly through a formal model in Azam (1997). Here the concern is with the impact of shared consumption within a household where wage earners are employed by more than one employer. Without a minimum wage an employer may set a wage too low for the worker to provide optimum levels of effort, as the employer is hoping or assuming that the wage labourer will derive part of their consumption needs from subsidies from other household members employed by a different employer. This extends a similar argument made by Dasgupta and Ray (1986) with respect to labourers who own land who can subsidise their consumption needs. What is surprising is not the development of an argument about how household consumption and income sharing affects labour supply, but that this argument is not developed and extended to the most obvious case, that of female labour.

In the context of developing countries it is difficult to interpret the concept of minimum wages as lying above or below market-clearing rates. Moreover, it is in this type of context that there is even more scope for minimum wages to make a positive contribution to changing social norms with respect to wages. One study of Mexico (Bell 1996, 1997 see below) found that although minimum wages had been dismissed as too low to be having any effective impact on wages in the formal sector, a closer examination of the informal sector by gender found that most women and many men were paid at or close to the minimum wage. This

suggests that without this very low minimum wage earnings in the informal sector might have fallen even further. Other studies have also shown positive rather than negative relationships between movements in formal and informal sector wages (see box 3 below).

In developing countries there is a particular focus on the role of labour costs in trade; trade, according to a mainstream perspective is expected to help the abundant factor – in this case unskilled labour – by raising demand for the factor. The long term effect will be, according to economic theory a rise in both employment and wages. However, these benefits are not so straightforward where labour markets do not function according to the textbook analysis. As Kanbur (2001) puts it: ‘if local product and factor markets are segmented, because of poor infrastructure or because of the local monopoly power of middlemen or money lenders, the simple theory will not go through’.

Seguino (2000) has taken this argument further and has made the case theoretically and empirically that there may be a link between the gender pay gap and the export success of semi-industrialised economies. The wider the gender pay gap, the greater the export success; these exports are in turn used to import new technology and contribute to growth. This approach raises some fundamental issues with respect to the development process and the links between wages and the global economy. From this perspective the gender pay gap in the developing countries has been incorporated into the system of unequal distribution and exchange between the developed and the developing world. The fact that it has provided a means of comparative advantage, which has been sustained through the technological improvements that the process has generated, has disguised the effective exploitation of female labour, paid below their own subsistence costs, by advanced countries. Many would argue that this evidence supports a policy of not interfering with current structures as the pay discrimination has had economic benefits. However, this response ignores the rights of the women concerned and does not address how far these countries could make a transition to trade based on wage costs, which covered subsistence income. The example of Indonesia is instructive here (see box 7 below). Here minimum wages were raised threefold in nominal terms, resulting in a doubling in real terms in the early 1990s in response in part to pressure from US consumer groups concerned that multinationals were exploiting low minimum wage levels in countries such as Indonesia. Empirical evidence suggests that the main positive impact of this policy was felt by employees in large manufacturing firms (Rama 2001). The gender breakdown is not given but at least some female manufacturing workers will have benefited. This policy may therefore have had some effect in changing the exchange conditions between Indonesia and the multinationals and international consumers. Concern was expressed by some analysts that the long term effects could be more negative if the result was to discourage Foreign Direct Investment in Indonesia but this could be reinterpreted as an argument in favour of promoting a general policy of improving minimum wages in developing countries.

Box 2: Empirical studies of the effects of minimum wages on employment

Interest in measuring the employment effects of minimum wages increased considerably in the 1990s under the influence of the work associated with Card and others where ‘natural experiments’ were used to assess the impact of changes in minimum wage rates on employment empirically rather than theoretically. Most of this work originated in the US and the natural experiments included examples of changes in national minimum wage rates, changes in state level minimum wage rates and consideration of effects where minimum wages tended to bite most, that is in fast food restaurants, in states with high shares of low paid youth etc. The results of these natural experiments showed zero or positive employment effects and were used as the basis for an argument that employers have monopsony power in labour markets, such that policies to raise minimum wages could, within certain ranges, increase both wages and employment.

This work subsequently extended to the UK, where similar methods have been used to show the absence of employment effects from the wages councils that set minimum wages in low paid sectors up to the 1990s (Dickens et al. 1994). Machin and Manning (1997) report on employment effect estimates for four European countries – France, the Netherlands, Spain and the UK. In all four countries there were limited and sometimes positive employment effects, even in France often cited as a country with high minimum wages and low levels of employment. Even when a negative employment effect for young people was found in Spain, this was small and offset by a positive effect for older workers.

Some empirical studies have found a reduced employment effect of recent years: Benhayoun’s (1994) paper suggests that the impact of the minimum wage on employment for young people in France has become less strong over recent years. Addison and Blackburn (1999) and Wellington (1991) also point to less strong negative effects or even positive impacts. These observed changes in the relationship are not explained but are offered as a reason why the balance of the argument re the employment effect seems to have shifted.

Some studies continue to show negative employment effects, but most indicate relatively weak effects, primarily impacting on young people: for example the OECD (1998b) found a negative employment effect for young people associated with higher minimum wages but ‘hikes in the minimum, on their own, can explain only a small fraction of the large falls in teenage employment rates observed over the past two decades in almost all countries. The cross country evidence suggests that the minimum wage has no significant impact on overall adult employment’; and Neumark and Wascher (1999) stress both the continuation of negative employment effects for youth but the evidence of variable outcomes by country.

These new results have begun to influence investigations of minimum wage effects in developing countries (Forteza and Rama 2001). However, the introduction of concepts such as monopsony into developing countries requires mainstream economists to abandon the underlying assumptions of competitive markets that they use to analyse labour markets in these countries. Mainstream economists may be happy in developed countries to accept the need for some elements of policy intervention to offset some labour market imperfections affecting some specific groups, but in developing countries introducing employer power into the labour market analysis may be considered to question the whole framework of market-clearing wages.

Formal versus informal sector

A second trade-off is said to occur between the share of the economy found in the formal and the share found in the informal sector, in countries without social security support for the unemployed. The standard argument is that a minimum wage payable in the formal sector may push more activities into the informal sector (Todaro 1969; Agénor and Aizenman 1999) for two reasons: to pay a lower level of wages, and to reduce the increased risk associated with a commitment to a minimum hourly wage. If the informal sector uses self-employment/payment by task, earnings may be the same or higher than in the formal sector but the risk is shared with the workers. Minimum wages shift risks to employers and away from workers. If a higher minimum wage stimulates more rural to urban migration, there could be a third reason for the growth of the informal sector: the swelling of the underemployed urban labour supply.

Minimum wages may even be seen by some as a major cause of labour market segmentation in developing countries (Todaro 1969, Harberger 1971 – see Fiszbein 1992 for a review). The story is further complicated by the presence of open unemployment, considered by many to represent in developing economies a queue for jobs in the formal sector; if the wage in the formal sector falls this could lead to a fall in unemployment as the benefit of formal sector employment reduces. Labour supply to the informal sector may increase, pushing wages down in this sector and reducing the convergence effect predicted from a fall in the minimum wage (Mincer 1976, Fields 1994). However, Fields (1994) argues that these effects are uncertain, particularly as the size of the mobility flows between sectors will be affected by the benefits of the mobility as well as by the elasticities of wages and employment.

These debates are found within the market-clearing approach to employment. This perspective presents a very stylised view of the division between the informal and the formal sector; it maybe more appropriate to consider there to be a spectrum of formal to informal activities, with considerable overlap and intermeshing of the sectors, rather than a rigid division. The ILO (2002:2) has recently revisited the concept and defined the informal economy to include ‘own-account workers in survival-type activities;... paid domestic workers employed by households; homeworkers and workers in sweatshops who are disguised wage workers in production chains; and the self-employed in micro enterprises operating on their own or with contributing family workers or sometimes apprentices/employees’. Formal and informal activities are increasingly interlinked through the growth of global supply chains and the development of more fragmented and flexible production systems.

Moreover the informal sector should be regarded not as a representation of a textbook notion of a perfect labour market but as a socially constituted market influenced both by demand patterns (Fiszbein 1992) and by social norms and expectations. Minimum wage legislation may affect norms and expectations, which are reflected in prevailing wage levels (even if not fully observed, or observed with respect to monthly wages not hours of work (Morrison 1994)). Some suggest there may be more willingness to conform to wage expectations but without providing the benefit levels expected or mandated in the formal sector (Maloney and Nuñez 2000). Indeed where minimum wages are dismissed as being too low to influence actual wages in the formal sector, more careful analysis may find that the main effect is felt in the informal sector and/or by female workers (Bell 1996, 1997). Similar arguments were made in the UK with respect to the wages council systems in the 1970s; unions dismissed the wages set as being too low to be worth worrying about, but this approach focused on the

interests of the organised workers in the sector and not on those in unorganised firms (Craig et al. 1982). There is further controversy, however, about how to interpret a positive linkage between wages in the formal and the informal sector; for some this means that the minimum wage is more effective in setting labour standards and providing protection; for others the positive linkage simply increases the employment destroying effects leading to more destitution (Maloney and Nuñez 2000).

Employment reductions are not always negative; if the returns to work in the informal sector improve this may reduce pressures on families to provide ever more labour hours, including those of children. However, if the rise in wages leads to displacement of adults, this could in theory lead to expansion of child labour as Basu points out (Basu 2000). Unless however the minimum wage is set at both an unrealistically high level and is also strictly enforced in the informal as well as the formal sector, the overall effect of raising returns to adult labour should protect children.

Box 3: Impact of minimum wages on the informal sector: empirical evidence

A study of the structure of earnings distribution in eight Latin American countries using kernel density plots suggests that there is a ‘lighthouse’ effect of the minimum wage on the level of wages in the informal sector. According to the authors, this ‘would seem to turn conventional conceptions of the relationship between the informal and formal sectors on their heads – the binding wage floor is now in the informal sector.’ (Maloney and Nuñez 2000). It is only the minimum wage that is observed in the informal sector, not benefits such as health care. The authors suggest that the informal sector may be used to avoid provision of benefits where these are not necessary (for example to young people covered by their father’s health care – similar arguments could presumably be extended to women’s concentration in the informal sector). The conclusions that the authors draw with respect to their findings, however, are not that the standard models are not useful for understanding wage relations but that the distortionary effects of minimum wages have been underestimated. Instead the employment effects are potentially that much more serious if wages also rise in the formal sector and as a consequence the informal sector is unable to absorb displaced labour.

According to Fiszbein (1992) ‘evidence on informal earnings is scarce. However, the available information appears to indicate that average earnings in the informal sector changed in the same direction as real minimum wages. Vivancos (1989), for example, found a reduction in average informal earnings in Venezuela. Lopez and Riveros (1989) found that during the 1980s, wages of informal workers fell in Argentina, Chile and Uruguay; and increased in Columbia. Their evidence for Columbia is confirmed by Reyes (1987) who found that informal wages increased with the minimum wages since the mid 1970s’ (1992:10-11). Fiszbein suggests that one factor that may explain the difference in behaviour from the standard model is that the two sectors are linked not only through the supply of labour but also through demand. If the income elasticity of demand for informal sector goods is high, reductions in the minimum wage in the formal sector could reduce demand in the informal sector. The results of his modelling of these two effects lead him to conclude that ‘governments and multilateral organizations should be cautious when following the advice of standard theories, which suggest that reductions in the minimum wage will benefit workers in the informal sector’ (p.39).

A study by Morrison et al. (1994 and see Shaheed 1995) of some seven developing countries found both that micro-enterprises were covered in principle by minimum wage regulations and that in five of the countries (Algeria, Ecuador, Jamaica, Thailand and Tunisia – with Niger and Swaziland, the two poorest countries the exception) there was evidence of compliance in some respects with the regulation; the level of wages provided was at a weekly or monthly level equal to the minimum but the hours of work were much greater than specified in

the regulations. The micro enterprise employers did not see the minimum wage as a barrier to their operation as the state had apparently decided not to police the minimum wage regulations too closely.

A study by Bell (1996, 1997) found that in Mexico there was a clear spike in the distribution of earnings for female workers in the informal sector around the minimum wage level, despite this wage level being so low as to be dismissed as having no economic impact (see box 7 below).

Employment versus productivity

Higher wage levels should induce higher productivity levels, but these higher productivity levels could still reduce the overall demand for labour, depending upon the elasticity of demand for goods and services by quality and price. Higher productivity could reduce price if it induces investment in higher productivity means of production and could also improve quality, leading to improved competitiveness within the international and national markets. Research for the UK Low Pay Commission (Bullock et al. 2001) found some support for the notion that organizations would seek to offset the increased costs through greater efficiency (more control of labour and non-labour costs) and by greater attention to quality and service issues, but there was little sign of more rapid innovation or the development of new products; in fact if anything organisations said they had postponed these developments.

Higher wages that raise income above basic subsistence levels also help to reduce problems of low productivity associated with poor nutrition (Riveros and Bouton 1991, Rodgers 1975; Stiglitz 1974 – all cited in Vaughan-Whitehead 1995). The higher wage costs are immediately offset by higher output and productivity, related to higher effort and lower absenteeism associated with workers seeking to make up their earnings to a subsistence minimum through second jobs. Problems of nutrition are thought to have affected productivity levels in some transition economies such as Romania (Zamfir 1992 cited in Vaughan-Whitehead 1995).

Minimum wage policy can also contribute to the productiveness of an economy by ensuring that both employers and consumers of goods produced by low paid labour pay the appropriate price for the labour consumed (see also Azam 1997). As Freeman (1994) comments:

If the minimum wage/mandated benefits reflect what society will, in fact, provide the low paid, this makes low-wage firms and, ultimately, the consumers of their products, bear the full cost of that labour, rather than having the body politic pay part of the cost through taxes and subsidies. In this sense, the minimum wage establishes the “right” social cost of labour in the market. It does not subsidize low-wage jobs, as do other forms of redistribution’ (Freeman 1994).

This argument needs to be expanded beyond that of state subsidies to include intra-family transfers and subsidies (McLaughlin 1995).

Poverty targeting versus fair wage for effort

One of the most frequent arguments made against a minimum wage is that it is not a well targeted anti-poverty policy. This argument in part depends upon the level of the minimum wage. In some developing countries, the minimum wage may be set at a high level, relative to

the earnings distribution, and may only be available to a relatively elite group of workers. However, empirical evidence, within both the developed (OECD 1997, Bazen 2000a) and the developing world finds a negative relationship between the real and relative level of the minimum wage and the incidence of poverty (Lustig and Macleod 1997; Saget 2001).

A different variant of this argument is that most of the recipients of the gains from minimum wages are from groups other than household heads. These include young people and working wives. In developed economies it is argued these groups may not come from low-income households and most of the poor are those without work (pensioners and the jobless). This argument is taken to its extreme by Burkhauser and Harrison (2000) who suggest that the lack of a relationship between low wages and household heads has rendered the minimum wage tool outdated⁵. Here they are in agreement with Stigler's objection to the minimum wage as an anti-poverty tool: 'Unless the minimum wage varies with the amount of employment, number of earners, non-wage income, family size and many other factors, it will be an inept device for combating poverty even for those who succeed in retaining employment' (Stigler 1946:363 quoted in Burkhauser and Harrison).

Several arguments can be made against this position. These include first that many low wage recipients are from low-income households and minimum wages do in fact redistribute income from high to low income households; given the ideological arguments against the use of taxation for redistribution, minimum wages may be an effective redistributive tool (see box 4). This argument, however, accepts the basic premise that household poverty reduction is the main objective and that the existence of multiple household earners who can be assumed available for below subsistence wages does not contribute to problems of poverty. These arguments can be challenged. The equal remuneration argument for women is not dependent on poverty targeting but is a social justice argument in its own right, for equal pay for equal work or work of equal value. Moreover, the composition of household is often unstable and those minimum wage recipients not currently in households in poverty might be less likely in the future to be in poverty if they establish their own independent access to employment income at reasonable levels. The OECD (1997) has acknowledged that household structure cannot be regarded as an exogenous given: young people may not be in poverty because they have postponed their formation of separate adult households due to lack of access to independent income. It has also been argued that redistributing income to women is particularly effective in fighting childhood poverty, as they are more likely to spend their incomes on children. However, this argument runs the risk of only seeing gender redistribution as a means to greater 'efficiency' in poverty reduction, without gender equality being seen as an objective in its own right (Jackson 1996).

This focus on who receives the minimum wage may also obscure the role and impact of low pay on the wider economy (Rubery 1998). The acceptance of below subsistence wages can also undermine the pay and conditions for those on slightly higher earnings, including, for example, some male household heads: the association of low wages with particular demographic groups should, according to these arguments, provide warning signals that the economic system is, as Recio suggests with respect to Spain, becoming non sustainable as it

⁵ Similar arguments are made by Even and McPherson (1996) whose list of people not likely to make much difference to poverty elimination include the 42 percent of recipients who are children living with their parents, 13 percent married women whose husbands are employed and 21 percent single men or women without children.

is basing much of its economic structure on jobs which cannot provide a living wage, even defined with respect to single person subsistence needs. Family redistribution mechanisms are at work, but they are not universal and many individuals have to provide for their own and/or dependants subsistence on the basis of ‘component’ wages. A further argument is that a minimum wage can facilitate other anti-poverty programmes such as in-work benefits by providing protection against employers shifting the cost of wages to the state (Freeman 1994, Sutherland 1997).

Box 4: Role of minimum wages in poverty reduction

Neumark et al.(1998) state that ‘the primary goal of a national minimum wage floor is to raise the incomes of poor or near-poor families with members in the workforce’. Thus issues such as pay equity appear not to enter into the equation here. According to their investigation of the primary goal, minimum wages actually are found to increase the proportion of families that are poor or near poor (as some previously non poor fall into poverty) although some poor families do benefit. Neumark has also argued (see for example Neumark et al. 1998) that while low income families may benefit in the short term, because employers first respond to higher minimum wages by adjusting upwards wages and prices, it is in the longer term that employers may feel the need to adjust by reducing employment, if the new price structure is not sustainable at current activity levels. It is when the adjustments are made via quantities of labour employed that low income families may feel the negative effects.

Freeman (1996, 2000) is even more explicit than Neumark et al. (see above) about the need to prioritise the goal of improving household income distribution. ‘The inability of the minimum wage to target persons from poor families is its prime weakness. When the minimum is very low, it largely benefits teenagers and secondary earner women. But as the minimum rises in value, it increasingly aids adult breadwinners.’ (2000 p.9). He comments (1996) explicitly that the redistributive case is weaker if beneficiaries are secondary earners of middle income families. Freeman pays no attention therefore to the goal of reducing earnings inequality at an individual level. However, in contrast to Neumark et al. (1998) he finds the empirical evidence supports the idea of minimum wages as a good redistributive tool, even at the household level.

There are differences in view as to whether poverty and low wages have become less or more associated. Burkhauser and Harrison (2000) have commented on the weakening relationship between minimum wages and poverty because of the spread of wage earners who are not adult breadwinners in the US. Dickens (1999) takes a different slant on this, in the context of the UK, drawing attention to the increasing proportion of low paid work and the increasing importance of the working poor. Thus 17 percent of the bottom income decile was affected by low pay in the UK in 1975 while the share had risen to 26 percent by 1996. Also the share of low paid workers found in the bottom two deciles had increased from 25 percent to 35 percent over the same period. Bernstein (2000) suggests that the effectiveness of minimum wage policy in redistributing income should be considered by reference to the ratio of the share of the benefits from minimum wage increases relative to the share of total income received by the group. According to this measure, the 1996/7 increase gave 6.5 times more benefits to the lowest quintile than if the benefits had been distributed according to share of national income.

By correlating changes in minimum wages with changes in the distribution of family income, Addison and Blackburn (1999) find evidence to support the poverty-reducing effects of minimum wages, even when the recipients are teenagers and high school drop outs. By focusing on actual outcomes, this analysis does not rely on making assumptions about either the employment effects of minimum wages or about the labour supply responses to changes in minimum wage rates. This is similar to a method used by Card and Krueger (1995), which also found poverty reducing effects but the time frame is longer and the effects larger as the effect is estimated for families with at least one earner, not all families. The study notes the positive

effects on poverty in the 1990s complementing the positive employment effects found by Card and Krueger and others. They note ‘it may be that we are seeing a continuation of a trend pointed out by Wellington (1991), who noted the dissipation through time of the negative employment effects of minimum wages’.

Sutherland (1997) has conducted a simulation exercise for the UK economy to show the differences in results obtained when one focuses on individual incomes rather than household incomes. Such an approach is necessary, she argues, to make transparent the gender and individual dimensions to policy proposals. Assumptions of household stability and household income sharing cannot be made universally. One example she takes is the introduction of a minimum wage; 83 percent of the benefit from a minimum wage is felt in the bottom half of the individual income distribution compared to 55 percent when household distributions are considered. Moreover, it benefits 13 percent of women and only 6 percent of men. The simulation can also be used to track gainers and losers within households, the latter primarily being those who lose benefit entitlements as minimum wages rise.

Saget (2001), using the ILO databank on minimum wages, regressed the level of minimum wages expressed in dollars on various measures of the poverty line, including national poverty lines and the share of those living on less than \$1 and \$2 a day. The level of the minimum wage was found to have a significant impact in reducing the share found under the poverty line even after controlling for the average wage. Similar results were found by Lustig and McLeod (1997) for 22 Latin American countries, where the minimum wage was a better predictor of low poverty rates than the average wage (cited in Saget 2001). This fits with the findings for the OECD (1997, 1998b) that a high minimum wage levels is associated with a low poverty rate and vice versa. The OECD points out that this macro level correlation may reflect a general characteristic of the society – a preference for less inequality embedded in institutional arrangements – and does not necessarily indicate that a rise in the minimum wage would reduce poverty. However, it does indicate that alternative political choices with respect to inequality are possible and that individual income inequality and households income inequality may be more complementary than contradictory.

Equality versus inflation

An important consideration in implementing and setting the level of a minimum wage is its impact on inflation. There is a direct impact on the paybill as well as an indirect effect through a knock-on impact on differentials. The higher the proportion of low paid workers the larger the impact is likely to be. Efforts to raise the wage floor to compress the wage structure may conflict with the need to avoid inflation. But where minimum wages are associated with a spike in the wage distribution there is evidence that wage differentials are not fully restored. Many people receiving minimum wages are concentrated in specific companies or sectors and in many instances there is no clear basis for comparison. In some developing and transition countries minimum wages may act as a more significant numeraire in setting wages throughout the wage structure and evidence does suggest, for Colombia for example, that the impact of minimum wages is felt more strongly up the wage structure, than is the case, for example in the USA. The effect of minimum wages on inflation is not necessarily positive: according to Camargo and Garcia (1993) in Columbia and Costa Rica minimum wage policy in the 1980s contributed to price deceleration. By adjusting minimum wages by more than past inflation, real wages at the bottom of the labour market improved, contributing to poverty reduction despite falls in employment. Costa Rica had a more targeted policy, providing full adjustment only for the very lowest minimum wages and nominal adjustment was lower than past inflation for the average minimum wage. The policy ‘helped to protect the lowest paid and provided a signal for inflation reduction by decreasing average MW’ (Shaheed 1995:127). Chile also switched in the 1990s from a previous policy of using the minimum wage to reduce inflation by allowing falls in the minimum wage to a new policy of increasing the minimum wage based on an adjustment formula linked to expected rather than past inflation, and based around social dialogue. The result was a major reduction in poverty levels. In Guatemala, the fourth example, minimum wage levels were simply allowed to decline in real terms but this policy coexisted with rising problems of employment and re-emerging problems of inflation. The recommendations from Camargo and Garcia’s study for using the minimum wage in a macro economic context are to:

- signal a de-indexation from past inflation (and its replacement by expected inflation plus annual rise in productivity as the basis for uprating);
- develop incentives for increasing productivity, such that all would share in its benefits;
- develop a social safety net;
- strengthen social dialogue.

Trade-offs between groups

Another trade-off occurs when the minimum wage has differential impacts on disadvantaged groups. This occurs if first there are excluded groups, such as illegal immigrants. The impact of a rise in the minimum wage on such groups may be complex: on the one hand there could be a shift of demand from formal sector low wage workers to informal or illegal segments of the economy. On the other hand the effect of a rise in minimum wages could induce new human resource policies within the affected firms, leading to more selection in recruitment and training and the possible exclusion of some disadvantaged workers such as illegal

immigrants⁶. Other changes in relative demand may occur if the minimum wage brings together workers on the same wage rate with quite different levels of productivity. Obviously there could, for example, be major impacts on disabled workers unless subsidies for their employment are made available. A similar wage rate for youth and adult workers might lead to changes in demand, depending upon employers' assumptions about relative productivity or commitment levels. Some have argued that falls in minimum wages have caused increased demand for female labour, while having little impact on male labour (Feliciano 1998). The implication is that male productivity is always higher than the minimum wage while female productivity is close the minimum wage and therefore changes in its level induce employment change. The fact that only women might be willing to work for the lower wages is another interpretation of these effects. At the extreme, the employment displacement effects of adult minimum wages could lead to an increase in child labour if there was an added labour effect due to a rise in family poverty (Basu 2000). All these trade-off effects depend upon assumptions about employment elasticity of demand, about whether the wage structure reflects relative productivity or social disadvantage and about the household or family labour supply function.

Minimum wages have the advantage over equal pay policies in providing a more general redistributive mechanism; those most likely to bear the immediate costs of equal pay policies are those male workers employed in the same organisation, as this is the unit where equal pay claims can be made. However, if the claim is settled through a redistribution of profits or through price or productivity increases the only loss for the men may be in perceived status related to wage differentials (although productivity increases could reduce future employment opportunities where demand is constrained). Minimum wages are more likely to be either absorbed through a redistribution of rents or through changes to relative prices for goods and services produced using low wage labour. As such, consumers may be required to pay – wealthy consumers as well as poor consumers (Freeman 1996). However, if employers in organisations hard hit by the minimum wage seek to reduce the wage cost through reducing general pay increases to absorb the minimum wage increase, then again there may be negative impacts on some groups working alongside minimum wage earners, some of whom may also be relatively low paid or disadvantaged workers. Moreover, if the rise in the minimum wage raises relative and real pay levels for low paid workers, this is a better means of reducing the gender pay gap than if, for example, the gender pay gap is closed through a process of levelling down of male wages (Elson 1999)⁷

4. Attitudes towards minimum wage measures

The functioning of any policy tool must depend on its acceptability to key actors. This does not mean that the actors have to be ideologically in favour of the tool, but it must still be within the range of acceptable options if the tool is to be implemented and respected. There is often considerable voiced opposition to minimum wages by some actors, primarily employers

⁶ This has been a concern with respect to the effects of the living wage campaigns in the US. For example the extension of living wages to the security staff at SF airport involved a workforce that was 80 percent non citizen and also involved illegal immigrants. The increase in wages led to more training, lower turnover and other policies associated with upgraded human resource policies but the counterpart of this policy was stricter section. This outcome has been reinforced by the takeover of security by a Federal agency and the insistence by Congress that only citizens can now act as screeners.

⁷ Elson (1999) comments that Tzannatos (1999) in arguing for the efficiency effects of a declining gender pay gap fails to distinguish between a levelling up and a levelling down process.

but also governments and political parties, but this opposition is often not carried through in practice to the implementation stage. In advanced, but also in many developing countries there is a high degree of compliance and once a minimum wage level is applied, surveys often suggest that employers do not see the minimum wage as one of their main problems. Trade unions and governments also have to be involved in the implementation and maintenance of the minimum wage tool and their perceptions of its role and function are therefore also central to its actual operation. Finally, there is one group of actors that must not be overlooked in shaping attitudes towards minimum wages and that is the role played by academics and policymakers in shaping the debate, influencing the questions asked and the answers given.

Perceptions of employers

While it may be a general rule that employers tend to resist all forms of intervention in their employment practices as a principle, such opposition is not always carried through in their attitudes towards and compliance with labour standards, particularly once these have been in force for a while and are not subject to rapid change. With respect to minimum wages, some employers may even go further and express positive preferences for minimum wages as a means of reducing unfair competition, provided the wage is not set too high. For example, in Morocco (Azam 1997) agricultural employers were said to comply with minimum wages as it reduced their transaction costs, that it is the costs of finding wages consistent with both subsistence and with competition. The establishment of a minimum wage also enables each employer to control the others. In the UK much of the opposition to the minimum wage expressed before its implementation by employers has disappeared and some employers were even in favour of a reasonably high increase in the minimum wage in 2001 (up to £4 though not for the £4.10 rate that was actually set) (Low Pay Commission 2001). Of course, employers' attitudes towards minimum wages will depend on the role the tool plays in the particular economy; if it is used as a macroeconomic tool, to moderate wage increases or inflation, employers may regard it as beneficial. Opposition is likely to be greater in systems where there is considerable decentralisation of pay decisions such as the US and the UK. Conversely where there is a highly coordinated system of wage determination minimum wages may simply be accepted as a key feature of that system. There is no doubt that employers' attitudes towards compliance with a minimum wage will depend not just on economic but also on social and political forces. Where there are strong expectations of compliance, employers are less likely to resist. This applies even in developing countries; for example in Indonesia negative publicity in newspapers about non complying organisations and public blacklisting of those organisations had apparently more impact on compliance rates than the wildcat strikes that led to the newspaper stories (Rama 2001).

At a micro level employers are more likely to resist a minimum wage where there is limited scope for passing on the increased costs in price increases as the likely outcome will be a reduction in profits. However, even where there is evidence that employers are in difficulty, the level of the minimum wage is not by any means the key problem that they face: for example surveys in Indonesia found small firms more concerned by other aspects of regulation such as export licences (Rosner 1995 cited in Rama 2001) or other costs factors such as raw materials (DEPNAKER 1995 cited in Rama 2001).

Perceptions of workers and trade unions

Increases in minimum wages tend to be popular among the population at large, much more popular than increases in welfare spending. In the US support for raising the minimum wage in the 1980s and 90s ran at around 75 to 80 percent and in 1989 75 percent were in favour of a minimum wage at a level sufficient to allow a full-time worker to support his or herself and their family (Freeman 1994; Waltman cited in Dell 2001). Minimum wages also tend to be popular measures among workers. Economists express concern that minimum wages will hurt those that the measure is supposed to help – the working poor – but there is little evidence that these perceptions are shared by the affected workforce. One reason for popularity is the simplicity of the measure: for example a survey of women workers in Indonesia found that ‘the regulation that most workers are knowledgeable about is the minimum wage’ (Pangestu and Hendytio 1996 – 41 percent of the 300 workers surveyed were knowledgeable).

Minimum wages also tend to be supported by trade unions, although attitudes have been more sceptical in countries where there are strong voluntarist traditions such as the UK. As Brosnan (2002) argues, union suspicion of minimum wage laws reflects a distrust of the state and the legal system, an attitude found particularly in the US and the UK. In the US minimum wage laws were originally seen as suitable only for protecting women because of their weakness due to their domestic roles (Kessler-Harris 1990, Brosnan 2002) and moves to establish a general minimum to cover men as well as women were originally opposed by the AFL on the basis that the minimum wage would soon become the maximum wage (Goulden, 1972). In the UK, trade unions up until the 1980s were not only wary of a national minimum wage but also opposed sectoral minimum wages in the form of wages councils for fear that these sapped the development of free collective bargaining. The weakening of the voluntary collective bargaining system in the 1980s led, however, to a widespread conversion to the need for statutory intervention. In the US trade unions at the local level have joined forces with other community groups to press for living wages, that is wages that ‘provide a modest, but decent standard of living, given social norms’ (Figart et al. 2002: 193). These campaigns have used notions of parasitic employers – dependent on labour whose subsistence costs have been met elsewhere – to make their arguments. Between 1994 and 2000 in over 50 local states or cities living wage ordinances were passed requiring contractors receiving public funds to pay living wages. There are two types of interpretations of union actions in this area: for some it is evidence of a new form of social movement unionism that involves a wider movement than the traditional trade union movement and includes groups previously excluded from campaigns associated with organized labour (Johnston 1994). Some academic economists have taken a more cynical view using an instrumental frame of reference; unions in the US are believed to support minimum wage and in particular living wage campaigns even when they affect mainly non union members as it strengthens the monopoly power of trade unions by protecting against a low paid reserve army (Neumark 2001). This approach fits with the way in which unions are introduced into economic models as maximisers of benefits for their members. This ignores the role of trade unions as promoters of the rights of workers in general: building upon protection for union members by extending protection to non-members may be considered a multi-pronged strategy to promote worker rights and decent work.

Nevertheless, there may be concerns about the attitude of trade unions if the promotion of union members’ rights takes precedence over the protection of non-members on minimum wages; for example if they neglect to press for increases in minimum wages simply because

their members have already achieved higher rates. It must also be recognised that women workers' voices are often inadequately represented within the trade union movement, that the link between minimum wage regulations and the objective of equal pay is often not made and that trade unions have often not played an active role in promoting compliance with the minimum wage in female-dominated areas. Such problems have not beset the living wage campaigns in the US where the benefits for gender equality have been recognised and even the definition of a living wage has been modernised to take account of the change in household structure: the goal is for a wage which would enable a single earner to support a family whether the earner is single or married, male or female (Figart et al. 2002).

Governments

Governments have difficulty in not treating minimum wages as a general tool of economic management rather than as an instrument to reduce wage inequality and to protect against poverty. Even when the minimum wage is introduced for the latter reasons, changes in economic conditions or in governments can lead to the objectives of minimum wage regulation being hijacked by those in government concerned with financial management and regulation. This applies particularly strongly where the minimum wage is used as a basic numeraire of either the wage structure or the system of social benefits (see section five below). Partly in recognition of these dangers some governments have either ceded control of the minimum wage to social partners, to reduce charges of interference and to distance themselves from the outcomes, or have adopted systems of indexation, which are automatic. However, even when governments have given over the authority to change the minimum wage to other groups or to formulae, circumstances may still lead them to intervene (for example in the Netherlands the government intervened in 1983 to reduce and then freeze the minimum wage; when it restored an indexation mechanism in 1992 it introduced a condition that it could block increases in future only when the ratio of benefit recipients to wage earners exceeded the ratio in 1992). These interventions are not always related to reductions in the minimum wage; because rises in the minimum wage are popular, governments or presidents – for example in the US or in France (see section 5) – have used increases in the minimum wage to boost their popularity in the polls.

Academics/policy analysts/ international organisations

There is no doubt that the economic profession – both academic economists and those working in international agencies – have shaped debates over the minimum wage and influenced perceptions of governments of the impact of minimum wages. The fundamental question which economists ask is what is the impact of minimum wages on employment. Almost every academic article on the subject addresses this issue, even though the most sceptical academics have found relatively weak employment effects. Equally pertinent issues would include an investigation of who works for minimum wages; how they are able to do so when most minimum wage levels fail to provide for minimum subsistence levels. Where do minimum wage workers derive the rest of their subsistence costs, who is subsidising the minimum wage employers and what are the factors keeping down prices and costs in minimum wage sectors?

The dominance of the employment question in the minimum wage debate has paradoxically become even clearer as a result of the work by Card and colleagues, which has provided empirical and theoretical explanations for why employment effects may be small and even positive as a result of an increase in the minimum wage. This focus on monopsonistic

explanations has in some sense lifted the self-imposed constraint on economists who felt unable professionally to support increases in the minimum wage even when politically, in the context of the US, they felt that a rise in the minimum wage was well overdue. Thus support for an uprating of the minimum wage under Clinton included 7 past presidents of the American Economics Association (Bernstein 2000).

...thanks to the empirical research of the last decade, professional economists can no longer be counted on to mount a united front against the minimum wage' (Bernstein 2000:61)

A similar change of direction was found in the OECD which in the 1994 Job Study identified too high minimum wages as a major cause of Eurosclerosis but by 1997, its position had modified, such that high minimum wages were not necessarily identified as a problem as they could stimulate improvements in training and skills to match the higher standards (OECD 1997). The debate among economists still remains couched within the same framework – the minimum wage may not have negative effects provided it is set close to the market-clearing wage, sufficient to overcome monopsonistic effects. Economists working within developing countries have recently shown more interest in how regulations, such as the minimum wage, may also affect the informal sector. However, where institutional factors are found to be operative in the informal sector, instead of seeing institutions as perhaps present in all labour markets, the inference drawn is that their distortionary effects are even greater than anticipated.

Economists have been equally influential in shaping the debate over minimum wages and inequality. The often explicit argument in academic and policy circles is that the objective of reducing wage inequality is only socially justifiable if it reduces inequality at the household level; individual rights to a fair wage are supposedly addressed by market forces and it is only in seeking remedies to reduce the negative impacts of market forces on people's living standards that there could be an argument for intervening in the operation of the market. Economists looking at Western societies are beginning to see gender inequality as an alternative justification for minimum wage policy (Dickens 1999, Sloane and Theodossiou 1996) but gender pay inequality is not a target recognised by many economists working in developing economies, except as an indirect means of reducing poverty.

5. Impact of minimum wage policies: experience in different countries

Ratification of the ILO conventions with respect to minimum wages are relatively widespread: 103 countries have ratified ILO Convention concerning the Creation of a Minimum Wage-fixing Machinery (No. 26), 1928; 53 countries have ratified ILO Convention concerning the Creation of Minimum Wage-fixing Machinery in Agriculture (No. 99), 1951, and 45 countries have ratified ILO Convention concerning Minimum Wage-fixing with Special Reference to Developing Countries (No. 131), 1970. However there is limited monitoring of the modes of implementation, the level of minimum wages and their effectiveness in protecting low wage and disadvantaged workers. Moreover many countries have minimum wage systems even though they have not ratified the conventions. In this section we seek to explore the meaning of these minimum wage systems in specific country contexts.

The minimum wage is a potential policy tool, which could be used to promote pay equity; however the impact of all policy tools depends on the context in which they are implemented. Minimum wages as a policy tool can be used for many other purposes other than promoting

pay equity. These other objectives may interfere with and even negate the pay equity potential. The empirical evidence on the actual impact of minimum wages on pay equity is not in itself a test of the potential use of this tool for these purposes, particularly as few governments and just as few academics and policy advisors have grasped the potential of the minimum wage in this regard. It could indeed be plausibly argued that the minimum wage should not be seen as a tool for promoting pay equity, unless this is a factor that is embedded in the development and implementation of the tool; otherwise alternative objectives may intervene and lead to negative effects. However, this might be too strong an interpretation; unless minimum wages are set at very low levels, below the levels that might prevail in the absence of the policy tool, there is still a likelihood of positive spin off effects for pay equity even if the policymakers do not articulate this objective.

5.1 Factors influencing promotion of wage equality

From the theoretical discussion of the potential role of minimum wages in promoting pay equity we can begin to identify the key features of a minimum wage system that are most likely to promote pay equity in general and gender pay equity in particular as well as unfavourable situations. These conditions relate to the level of the minimum wage and its evolution; the coverage and enforcement; the impact on employment and the informal sector.

(i) Key features of a minimum wage system most likely to promote pay equity

The level of the minimum wage and its evolution

- The minimum wage needs to be set at a level relative to the average/median wage (for all workers and relative to men's earnings) such that it is likely to reduce pay inequality and the gender pay gap. More specifically the minimum wage is likely to be having an impact on low pay if it results in a spike in the earnings distribution instead of a more continuous curve. This implies that it has set a floor to wages that might not otherwise apply and that the impact of the floor has not been nullified by compensating increases throughout the earnings distribution. Ideally the minimum wage should also have some linkage to the minimum income needs of a single adult, possibly with some dependants, in order to underpin the notion of wages as the basis for standards of living.
- Minimum wages are maintained or improved in real and relative terms. Such developments are more likely if there are guaranteed mechanisms in place for uprating the minimum wage in line with prices and/or earnings.
- Increases in the minimum wage are not mirrored in wage changes all the way up the wage hierarchy (as suggested above, a spike in the earnings distribution indicates that wage differentials have not been re-established at a higher monetary value).
- Minimum wage increases are set with respect to the need to promote pay equity, not to control inflation. As such minimum wage increases should not be used to provide a leading signal for general collective agreements.
- Where the minimum wage level is set at a low level to allow space for collective bargaining to set higher minimum rates, pay equity considerations require collective bargaining to be reasonably universal, covering the disadvantaged as well as the advantaged groups.

The coverage and enforcement of the minimum wage

- The more universal the coverage of the minimum wage law, the more likely it is to capture the employment of discriminated against groups, including women.
- The minimum wage will obviously be more effective in promoting pay equity the more it is effectively enforced.

Employment and informal sector effects

- The employment effects, if they are significant, should not be concentrated on those groups that the pay equity policy is trying to assist and should not be so large as to offset the redistributive effects of the minimum wage policy. These effects need to be assessed over the medium to longer term, taking into account the productivity enhancement potential of minimum wage policies.
- Pay equity will be enhanced if the establishment of a minimum wage has spill over effects, resulting in improved wages in the informal sector.

(ii) Situations in which minimum wages may not promote pay equity

The level of the minimum wage and its evolution

- The level of the minimum wage is set too low to affect the wages of disadvantaged groups or when it is set at such a high level that it only applies to a very privileged minority in the formal sector, most of whom are men and/or other advantaged groups
- The real and relative value of the minimum wage deteriorates over time. Such problems may be more likely where minimum wages are used as tools of public expenditure or macro economic policy, designed to keep down the rate of wage inflation or to reduce the cost of social security.
- Increases in the minimum wage trigger wage rises all the way up the wage hierarchy, giving rise to wage and price inflation.
- Minimum wages are used as a substitute for collective bargaining, thereby undermining other forms of protection and perhaps contributing to maintaining wages at low real values.
- The coverage and enforcement of the minimum wage
- Those jobs where the majority of the disadvantaged groups and women are concentrated are excluded or paid at a different and lower rate.
- The minimum wage is either generally not enforced or not enforced for those in disadvantaged groups and among women.
- Employment and informal sector effects
- There is no impact of the minimum wage in raising income in the informal sector.
- The impact of the minimum wage is to swell the informal sector, as jobs are transferred from the formal to the informal sector and as the rise in the minimum wage stimulates the expansion of the labour supply to the wage economy.
- There are significant employment effects, concentrated on those groups that the pay equity policy is trying to protect.
- Minimum wage increases are funded through reductions in hours and increases in work intensity.

The relevance of some of these conditions is likely to vary between types of country. For developed economies the key issues are likely to be the level of the minimum wage, its

evolution and relationship to collective bargaining rates. For developing economies the interaction between the size of the formal and informal sectors and the impact of the minimum wage on incomes in the informal economy may take on most relevance. For transition economies, the links between minimum wages and public expenditure, through the social security systems may be the most salient issues. To identify potential differences between types of economies we organise our survey of the literature on the actual experience of minimum wage policies according to these three types of economies⁸.

⁸ Within these economies there are likely to be major differences in the role of the minimum wage according to its relationship to other aspects of the wage determination system. Not all these differences can be explored here. Brosnan (2002) has suggested that the countries operating minimum wage systems can be divided into six main types: 'Within the diversity of international experience with minimum wage arrangements, there are six broad strategies: (a) reliance on collective bargaining but with extensions of collective agreements to other workers (e.g. Germany, Italy); (b) selective intervention with orders that provide for specific legal minima in certain industries or occupations (e.g. Australia, Fiji, Sri Lanka); (c) a statutory national minimum wage with exemption for certain industries or workers (Canada, Korea, USA); (d) a national minimum wage negotiated through collective bargaining but with full, or near full, cover (Belgium, Greece); (e) a statutory national minimum wage with full application (e.g. Brazil, France, Hungary, Luxembourg, Netherlands, New Zealand, Portugal, Spain, UK, Ireland); (f) a combination of (e) and (b); i.e. a statutory minimum wage with full application which acts as a floor, but additional higher minima in certain industries or occupations (e.g. Kenya, Malta, Mexico, Tanzania, Zambia)'.²

Box 5: Minimum wages and pay equity in developed economies

France

The SMIC (growth determined minimum wage) which replaced the SMIG (minimum income guarantee) in 1968 as part of the political settlement following the unrest of that year, has been deliberately designed to provide those at the bottom of the labour market with a stake in the growth or prosperity of the nation (Bazen 2000b). The increase in the SMIC is guaranteed according to a formula which provides complete protection against price increases and an automatic increase equivalent to half the overall increase in wages; in addition the government can decide to increase the level by more than the automatic upgrades and both left and right wing governments have chosen to exercise this discretion positively. The result has been to provide an effective and relatively high floor to the minimum wage structure in France. This approach can be seen as providing a political resolution of the so-called cost disease; that is that some sectors cannot increase productivity at the same rate as the average and this may lead to widening wage inequality or to higher costs. The French solution reflects an inclusionary philosophy, which has spin off benefits for women by providing an effective safety net or wage floor. The SMIC remains a popular measures in France; the main issue has been whether there should be a lower rate for young people (they reach adult rates at 18) but this was rejected in 1993 and the main 'solution' to the problem of youth unemployment has been the development of schemes which are deemed not to be employment and which therefore can be paid at rates below the SMIC (Martin 2000).

For adults, the main means of resolving unemployment problems has been through changes to hours of work, either through reductions in standard work weeks or through the growth of part-time jobs. In France, the main focus of the gender pay issue has therefore been around the issue of whether women continue to have access to full-time jobs paying full subsistence wages. The SMIC was seen to provide a subsistence floor to the wage structure such that it was unnecessary to provide in-work benefits to generate incentives to work. However, part-timers were by definition in receipt of less than subsistence wages. There are now moves to introduce in-work benefits, possibly in response to the growth in part-time work but also to reduce the risk of inflationary wage settlements (Economist 2001). Nevertheless, the overall approach in France is to guarantee each adult in full-time work a wage which covers their subsistence needs, defined according to the average earnings in the economy. Single or two person households where both receive the SMIC do not fall within the tax system. Problems were encountered when the 35 hours week was introduced as the government guaranteed no reduction in monthly income for those on the SMIC; this implied an 11 percent increase in the hourly SMIC, so a solution was found to operate two SMICs, one for those in jobs before the law and one for those newly hired (Martin 2000). This has moved the system somewhat further away from subsistence for newly hired workers. In general there is relatively limited discussion of the role of the SMIC in reducing employment in France and the favoured approach, when considering cutting labour costs to stimulated employment, is to reduce the social security contributions not the level of the minimum wage. While the SMIC has provided women and other disadvantaged groups in France with an effective wage floor, it has not necessarily succeeded in providing a means of integrating those workers into the overall wage and career structures. Many workers, including many women, remain on the SMIC and do not experience wage progression; this occurs particularly where collective agreements have failed to set rates above the SMIC or indeed fall below the SMIC (in which case the SMIC is the operative floor to the wage structure). In 1989 40 percent of SMIC workers had been on that rate for over 5 years and 20 percent for over 10 years. The impact of the SMIC on the wage structure is very evident; for women it is the modal wage and the median wage is only 33 percent higher (Bazen 2000b).

The Netherlands

The Netherlands first introduced a national minimum wage in 1969; from then until 1983 the minimum wage increased in real and relative terms. In 1983 there was a decision, in the light of the poor economic climate to reduce the minimum wage by 3 percent and to freeze it. It was only in 1991 that the minimum wage was allowed to rise again and in 1992 a new indexation formula, linked to the rate of change in contractual wages was introduced (Low Pay Commission 2001, appendix 6). The Netherlands has a relatively comprehensive system of collective bargaining, which builds upon the

minimum wage system and sets legally enforceable wage rates and conditions in many sectors where women are employed. Moreover, the minimum wage is fixed with respect to weekly earnings so that there are a range of effective minimum hourly rates, dependent upon the standard working week fixed in the sector (Roorda 2000). As such the minimum wage can be considered to have relatively less direct impact on many low paid groups of women than is the case in more deregulated economies. Nevertheless, it provides the foundation to the system of minimum wages established through collective bargaining.

In 1993 the minimum wage was extended to include workers on short hours contracts, that is working for less than a third of the standard week who had previously been outside the scope of the regulation. This move did reduce the incidence of low pay among this group of workers (Plantenga et al. 1996; Rubery et al. 1999). It is perhaps reflective of the lack of interest in gender issues among labour economists that most of the work on the minimum wage in the Netherlands has focused on the impact of the complex structure of youth rates on employment levels (for a review of the studies see Salverda 2000) and has not addressed so much this extension to short hours workers, despite the high importance of this group within the Dutch economy. Perhaps one of the most striking features of the Dutch economy is both the high share of part-time work and the fact that part-time has been established on a less marginal basis than in some other countries (Fagan et al. 1995); indeed there is little or no difference in average hourly earnings between full and part-time wages for women, although there is a negative differential for male part-timers relative to male full-timers. This relatively equal treatment for part-timers, which also extends to benefits, cannot be entirely attributed to minimum wages but also depends on the action within collective agreements and on the fact that most experienced women workers are in fact part-time employees in high as well as lower level jobs. Nevertheless, it is notable that the Netherlands has a complex structure of regulation of the wages and conditions for part-timers, underpinned by a minimum wage, but has also experienced one of the fastest growth rates in part-time jobs in advanced countries. This suggests that there is no fundamental problem in providing employed protection for part-time workers, with respect to their job prospects.

The United Kingdom

The UK introduced a national minimum wage in April 1999. This was the first national minimum wage system and the previous sector based system – wages councils – had been abolished in 1993. The weakening of the wages council system and the collapse of industry level collective bargaining in the private sector had undermined the previous system of providing a floor to the labour market and this deregulation process had contributed to a severe widening of wage inequality in the UK in the 1980s and 1990s. This widening had had significant negative impacts on the gender pay gap, once part-timers were included in the picture. Conversely the establishment of the national minimum wage has had positive benefits for gender pay equity, particularly for part-timers, even at the relatively low levels of the minimum wage established in the first two years. A rise at above the inflation rate in 2001 should have further benefited women and part-timers. As the Low Pay Commission (2001) reports, the impact on the gender pay gap in the period 1999/2000 is evident in the rise of the ratio of female to male full-time average hourly earnings from 81 to 82 percent and more significantly in the rise in the ratio of female part-timers' hourly earnings to all male average hourly earnings from 81 to 89 percent. The impact of the minimum wage is also evident in a clear new spike in the earnings distribution, suggesting effective implementation without full compensation up the earnings structure. The national minimum wage has reduced sectoral dispersion, one cause of pay inequalities: pay at the lowest decile point in low paid sectors rose twice as fast as earnings at this point in all sectors (11 percent compared to 5.3 percent). Of those who benefited from the national minimum wage increase, 70 percent were women, and over two thirds part-timers. Other groups who were disproportionately affected were ethnic minority groups, particularly the Pakistani and Bangladeshi community and manual workers.

The evaluation of the national minimum wage by the Low Pay Commission provides information on how the minimum wage was absorbed as well as on employment effects; the latter were either zero or not significantly different to zero except in some sectors where there were difficulties in passing on prices, primarily textiles and clothing. The low paid sectors divided into two groups; textiles together with hospitality and hairdressing reacted to the increase in wages by reducing

staffing or hours levels while the social care and childcare sector reacted by increasing prices and reducing profits. Overall, according to the employers surveyed, 89 percent had reduced profits, 68 percent increased prices and 61 percent had tightened their control of costs. This evidence supports the view that there is scope to change the wage, price and profit structure and that not all changes in wages feed through directly into employment effects. Overall the Low Pay Commission concludes: 'In narrowing the gender pay gap, the minimum wage has had the greatest impact on women's pay since the Equal pay Act 1970' (2001:71). However, the long term prospects for the national minimum wage playing a role in promoting pay equity may be less good as the government has refused to establish a system of indexation and instead has retained complete discretion over when and by how much to raise the rate; it has set up the Low Pay Commission to provide advice and recommendations but does not regard itself as bound by these.

Spain

The minimum wage in Spain has not made a positive contribution to gender pay equity over recent years; instead the relative value of the minimum wage has been allowed to decline steadily, largely because the levels of welfare benefits are tied to the value of the minimum wage. The share of workers receiving the minimum wage has declined to only around 5 percent although a further 5 percent are found to be paid below the minimum wage, in the informal sector (Dolado et al. 1998). The minimum wage may still, therefore, have some positive impacts on the wage floor for the most disadvantaged groups. Moreover, although some trade unionists have recommended disassociating welfare payments from the minimum wage to allow the latter to rise further, this may be considered to place the level of benefits even more at risk (Recio 2001). The minimum wage is seen in Spain, as primarily affecting young people; as there is high youth unemployment a low minimum wage may be considered necessary to promote employment among this group. However, in practice the minimum wage primarily affects women (60 percent of minimum wage recipients) compared to youth who only account for 40 percent of minimum wage recipients (Dolado et al. 1998). Around two thirds of minimum wage recipients are also in part-time and/or temporary jobs, with the latter exceeding the former in the case of Spain. While the minimum wage is low, higher minimum rates are set by collective agreements covering 85 percent of workers. This applies even in sectors traditionally associated with low pay: for example the textile agreement sets minimum wage rates 30 percent above the minimum wage. Women and those on non-standard jobs are clearly over represented among the remaining 15 percent. According to Recio, the low level of the minimum wage reflects the presumption in Spain of income sharing among families: 'the family rhetoric so widespread in public life is linked to the legitimization of an employment model that is only feasible if part of the employment is regarded as supplementary' (2000: 333). The employment system is crucially dependent, according to Recio, on the intermediation of a non-market institution, the family. The results of this system are that grown-up children have to postpone their transition to adult independence (leading to declines in the birth rate), that women face problems of unequal pay and immigrant workers are being required to accept wages which reinforce the low standard of living to which they were accustomed before entering Spain. The increase in immigrant workers is said to reinforce the low wage culture as the cost of social reproduction of the immigrant workers are still borne by the immigrants' home country where the family remains.

The USA

The USA has had a Federal minimum wage since 1938; the coverage of this minimum wage was initially restricted to those engaged in inter-state commerce but its scope has been gradually extended. Nevertheless, all salaried workers and some retail workers are excluded, accounting for approximately one third of the labour force and rising. Most states have their own minimum wage laws, often set at the Federal level or slightly above but two – Louisiana and Arizona – have laws forbidding minimum wage laws (Figart 2001). The level of the Federal minimum wage peaked in real and relative terms in 1968 but has been allowed to decline since; during the 1980s it was frozen but it was raised again in the 1990s, most recently in 1996 and 1997. Nevertheless, the value remains well below its peak. The decline in the relative and real value of the minimum wage has coincided with a major increase in wage inequality. DiNardo et al. (1996) show declines in the minimum wage relative to average wages accounted for one third of the rise in male earnings inequality during 1980s. Blau and Kahn's work (1992, 2001) has shown that wider

wage inequality tends to widen the gender pay gap; this applied particularly to the USA where women, in international terms, have a relatively good position within the wage hierarchy but because of wider wage dispersion, the penalty for being in the bottom part of the wage hierarchy was greater thereby offsetting this positive effect. The rise in the minimum wage in the second half of the nineties did help to reduce wage inequality and benefited women disproportionately: women account for 65 percent of those on the so-called minimum wage contour, the segment directly or indirectly affected by minimum wage hikes (i.e. those earning below or close to the new minimum wage). Another estimate (Bernstein 2000) puts the share of women among those affected at 59 percent and that of black workers at 15.1 percent (compared to 11.6 percent workforce share) and the share of Hispanics 17.4 percent compared to a workforce share of 10.6 percent. The majority of those affected were part-time workers, but full-timers still accounted for 48 percent of those affected, suggesting that it does not just affect the types of jobs in which young people are concentrated. Moreover, according to Figart (2001), teenagers only accounted for 12 percent of beneficiaries, while 40 percent were the sole breadwinners in their families. However, Burkhauser and Harrison (2000) have a rather different interpretation; their argument is that minimum wages have become outdated as a means of redistribution and fighting poverty because over 60 percent of minimum wage recipients are not the main wage earner in their families and a further 16 percent are single people. This approach sees redistribution to second income earners as a badly targeted policy tool; the possibility that the low wages exist in part because the workers are assumed to receive subsidies from elsewhere is not considered. Nor is there any recognition of the benefits of providing for more equal rewards for effort, regardless of family position.

A more recent development has been the relative success of the living wage campaigns in a number of states, cities and counties; these aim to establish a minimum wage level that is based on decent but modest standards of living given current social norms. Ideally the Federal minimum wage should provide a living wage, but to achieve that objective campaigners have focused on local living wage campaigns designed to make those businesses that undertake work for or receive subsidies from the state or municipality pay living wage levels. The campaign for a living wage has taken the earned income needed to raise a family of four out of poverty as the basis for the living wage, although in practice the wage levels have been set somewhat lower than this level. In some cities, for example San Francisco, a higher minimum is set if health benefits are not provided. The living wage provisions affect only part of the labour market but are potentially again very beneficial to women as, according to Figart, 68 percent of women from poor families earn between the Federal minimum wage and the living wage level. Follow-up research on the impact of applying a major increase in wages through the application of living wage ordinances on a particular labour force group – airport screeners at San Francisco airport – indicated that the wage hike did have beneficial productivity impacts, lowering turnover and improving quality of service (Reich et al. 2001). The airport screening workers have subsequently been recognised by Federal government, post September 11th, as a group where high skill and responsibility is required, even though in the past they had been content for these jobs to be paid at ‘market wages’, close to the low Federal minimum.

Table 5: Minimum wages in selected OECD countries (excluding transition economies)

Country	Coverage and start date	Level relative to average male/female pay 1998	Universal or range of rates	Uprating mechanism	Evolution of real value of minimum wage	Link to social security	Link to collective bargaining	Enforcement mechanism/enforcement rates	Impact on informal sector	Actual or potential impact on pay equity
France	1950 Universal, except for those deemed to be on schemes, not in employment	64.4 percent of female full-time median earnings, 56.2 percent of male	16 – 80 percent and 17 year olds 90 percent 1993 plan to introduce under 25 rate rejected	Automatic: Linked to price increases and half real earnings growth: scope for additional increases	Indexed against price increases. 40 percent average earnings 1970s, 51 percent 1985, around 47 percent since	Links to taxation, health insurance contributions for non workers, employment scheme allowances, and benefit levels of unemployed (66 percent replacement rate single, 87 percent adult with spouse and two children 1999)	Tendency for SMIC to overtake basic wages in collective agreements over recent years	Labour inspectorate; strong public awareness	Creation of new segment of non employees on special schemes	Significant spike in female earnings distribution SMIC only 30 percent below median wage; also spikes for young people, unskilled percent affected by increases 60 percent women, 35 percent 25 and under, 60 percent manual
The Netherlands	1969 Universal since 1993 when short part-time work included	58.4 percent of female full-time median earnings, 45.4 percent of male	Rates vary with age up to age 22. Minimum wage relates to full-time work; hourly minimum depends on standard hours in sector.	Linked to increase reflecting contractual wage increases in market and government sectors. Can not be uprated if ratio of those on benefits to employed rises above 82.6 percent	Real value rose sharply in 1970s, nominal value of minimum wage reduced by 3 percent in 1984 and frozen until 1992, steep decline in real value, maintained at constant level since but continued decline relative to median earnings.	All types of benefits unemployment, disability, old age have a minimum level equal to minimum wage net of taxes. However the minimum wage is seen as covering two adults; single persons are only entitled to 70 percent with respect to benefits. This follows the old system of setting wages according to breadwinners needs prior to the minimum wage in 1964	Social partners have been forced by government to lower their minimum agreed rates since the indexation to contractual wage rates.	Labour inspectorate system but employee must make complaint to the court.	Minimum wage coverage extended in 1993 to include short hours jobs, previously paid below minimum wage	Women 56 percent of minimum wage workers; 12 percent full time permanent, compared to 44 percent part-time or flexible. The 44 percent male recipients include 19 percent full time permanent and 25 percent flexible/part-time. 7 percent of women affected cf 3.8 percent men; among full time permanent 5.1 percent women affected , 2.0 percent men; among part-time /flexible 7.8 percent women cf 10.9 percent men. Differences in hourly rates limit spike effects.

USA	1938 Some employees excluded from Federal rate but normally covered by state minimum wages	46.2 percent of female full-time median earnings, 34.9 percent of male	Adult rate payable at 16 (first 90 days may be paid at 80 percent if below 20)	Voted on by Congress intermittently	Declined from around 55 percent of average wage in 1950s and 1960s, to around 47 percent in 1970s to 38 percent in 1990. By the late 1990s had risen to 40/42 percent	Not linked to social security or very significant for the Earned Income Tax Credit system as set at a low level	No link, except through trade unions campaigns for state minimum wages and for living wages which seek to improve on the federal level.	Department of Labour investigates complaints and areas of likely non-compliance		59 percent of those affected by minimum wage are women. Black and Hispanic women also disproportionately affected.
UK	1999 Universal, including some workers e.g. homeworkers	55.6/49.4 percent of female full-time median earnings, 46.5/41.2 percent of male (LFS/NES hourly earnings estimates)	Adult rate payable at 22; under 18s exempt	Periodic reviews by low Pay Commission; decision at discretion of government	During its short history 1999-2002, minimum wage had first a decline in real/relative terms but increased by more than rate of inflation/average earnings in 2001; next increase 2002 will again not maintain real/relative value.	No institutionalised link to benefits systems but seen as important complement to in-work benefits.	No link to collective agreements	Inland Revenue	Share paid below minimum reducing.	Women account for over 70 percent of beneficiaries, part-timers over 2/3. Female full time hourly earnings increased from 81 to 82 percent of male full time hourly earnings, female part time hourly earnings increased from 81 to 89 percent of female hourly earnings between April 1999 and April 2000
Spain	1964 - universal	42.0 percent of female full-time median earnings, 29.9 percent of male	Adult at 18, lower for 16 and 17	Set by government in consultation with social partners	Minimum wages as percent average earnings has been steadily declining	Closely tied to social security system: unemployment benefits, minimum income benefits, access to public services, public housing	The most beneficial labour standard applies; in practice most covered by collective bargaining at higher rates - 15 percent not covered, but only 5-10 percent paid at or below minimum	Labour Inspectorate investigates complaints and undertakes investigations	5 percent paid below minimum rate; indicates informal sector but declining minimum wage so not caused by minimum wage	Nearly 20 percent of women paid at or below minimum wage compared to less than 7 percent of men. 60 percent of minimum wage recipients are women, 60-70 percent in part-time/ temporary jobs. Minimum wage not sufficient for adult subsistence (Recio 2001)

Sources: Bazen (2000a); Martin (2000); Low Pay Commission (2001); Roorda (2000); Salverda (2000); Bernstein (2000); Dolado et al. (1998), Recio (2000)

Box 6: Minimum wages in transition economies

The role of minimum wages in Eastern European and other previously centrally planned economies changed dramatically in the transition period. From providing an effective floor, close to average wages in relatively egalitarian societies, minimum wage levels were allowed to fall in real and relative terms, often by dramatic percentages. This changed role for the minimum wage was encouraged by the international community, either directly or through the pressure on the new transition economies to reduce public expenditure. From being a mechanism, which contributed to relatively high degrees of wage earning equality, including gender pay equality, minimum wages instead 'became a means by which their impoverishment was intensified' (Standing and Vaughan-Whitehead 1995:1). The main exception to this pattern was Poland and to some extent the Czech Republic and we return below to explore the benefits of developing a supportive and effective minimum wage in the transition period. The information provided here refers to the early phase of the transition period; the situation may have changed significantly since these studies were carried out.

The erosion of the minimum wage in transition economies coincided with the collapse of the social wage benefits, thereby intensifying the immiserisation. Further problems arise where wages are simply not paid at all, as has been an apparently increasing problem, for example in Russia.

The factors that lay behind the erosion of the minimum wage were various, but all related to some aspect of macroeconomics. In **Russia** where the real value of the minimum wage fell by no less than 40 percent in 1990, a further 30 percent in 1991 and by nearly 60 percent again in 1992 (Vaughan-Whitehead 1995:16), the motivation was to control public expenditure: minimum wages were linked to both social benefits and public sector wages. By allowing the minimum wage to fall the cost of both these elements were reduced. In **Bulgaria and Romania**, the minimum wage was eroded by very high rates of inflation. In Bulgaria the government took advantage of a breakdown in negotiations on the minimum wage to keep it frozen for one year, to control the overall wage structure and keep down social security payments, which were linked to the minimum wage. Eventually this link to the minimum wage was broken but inflation continued to be a concern and in 1994 the uprating procedure was changed, from retrospective indexing of 90 percent of past inflation, to uprating in line with inflation forecasts, kept low to bring the rate of inflation down. Minimum wage policy thus became part of stabilisation policy. The minimum wage still retained a major influence on the wages of a significant share of the workforce, particularly in textiles, clothing, shoes and other manufacturing, with ratios affected up to 25 percent. The freezing of the minimum wage contributed to a rise in both wage inequality and in poverty (Radev 1995). In Romania, the minimum wage was linked to the whole of the wage scale through a system of coefficients and the government was thus concerned not to allow full inflation compensation: the minimum wage thus became a main instrument of national wage policy preventing it continuing to provide effective protection for the low paid (Pert and Popescu 1995). In **Moldavia** the problems were even more intense as the minimum wage fell to only 5 percent of the subsistence minimum. Again there were obstacles to raising the minimum associated with a rigid and long wage hierarchy based on minimum wage values (Postolcahi et al. 1995). In **Hungary** the minimum wage had lost its function even in the pre-transition period: it had only been adjusted 5 times in the period 1971 to 1988 (Koltay 1995). In the transition period the minimum wage in fact rose as a percentage of the average wage, but declined in real terms as the average wage has declined relative to the subsistence minimum. However there was evidence of embryonic systems of national collective bargaining emerging around fixing of the minimum wage which might have positive repercussions on labour standards in the longer term. The situations in the **Czech Republic and Poland** were somewhat more favourable: in the Czech republic the minimum wage was seen as the starting point for wage bargaining and has been fixed at a level above the subsistence minimum. Nevertheless there was erosion of its value in 1992/3 (Buchtikova 1995). In Poland the minimum wage was disconnected from social benefits, thereby breaking the cord that had dragged both systems down in Russia and elsewhere. Nevertheless the

minimum wage was still used as an instrument of general wage control (Hagemejer 1995).

What has been the impact of these changes on pay equity in general and gender pay equity in particular? Unfortunately the information provided is not generally adequate to reach conclusions on this matter. Where there were strong minimum wage systems in the past, this had undoubtedly contributed to gender pay equity even though inequalities remained. The erosion of the minimum wage was expected by Western economists to allow 'market rates' to re-establish themselves; but this could be interpreted from another perspective as allowing gender pay discrimination to re-emerge. However, where the traditions of gender equity in employment were perhaps higher, the expected effects on gender pay differentials were not always so evident; in many of the transition economies, women were relatively well placed to remain in employment because of the relative expansion of services relative to heavy manufacturing. Moreover they were often relatively well educated, sometimes better than the male workforce. What we observe, therefore, in the transition economies is a more gender equal process with the earnings of both men and women being dragged down well below any notion of subsistence levels. In practice the gender dimension took different forms in the different transition economies; for example in Bulgaria women accounted for no less than 75 percent of the 25 percent of the workforce on the minimum wage or below. In the Czech Republic women also accounted for the majority of low paid workers but the ratio was lower at 60 percent. Moreover, the share of women in employment in these countries tended to be higher than in the West and therefore their share of the low paid could be expected to be even higher. In Poland the maintenance of the minimum wage at a reasonable level seems to have contributed to maintaining relatively equal wages in the state sector and to reducing the incidence of low pay: in 1992 the share of men and women earning below 50 percent of the median wage in the private sector was 4.7 percent and 9.1 percent respectively, but in the public sector these ratios fell to 1.7 percent and 2.7 percent.

One of the issues that has emerged as a consequence of the move away from centrally planned economies based on full employment is what the appropriate subsistence basis for the minimum wage should be: should it be based on a single person or a single breadwinner with assumed dependants? The transition economies have come up with different and often confused solutions, even with respect to their ideal subsistence minimum, irrespective of whether they have been able to set minimum wages at that level. In Bulgaria the minimum wage in 1994 was set at 50 percent of the single person's minimum subsistence level. In Hungary there has been an ongoing debate as to whether the minimum wage should refer to a single person or to a single breadwinner in a family of two adults and two children. In Poland again there are alternative notions; either that the minimum wage should be based on the single person or on 50 percent of the income for a single earner within a two adults, two children family. These debates are unlikely to be resolved firstly while the impact of the transition on the dominant family structure and the overall level of employment remain unclear and, secondly, while the countries find it difficult to pay even a reasonable percentage of the single person's subsistence needs. The fact that there are confused and contradictory notions over the appropriate subsistence concept reinforces the fact that the links between the wage economy and family structures are still not considered to be a fundamental issue in the development of appropriate institutions for the transition to a modern industrialised economy. These are not 'women's issues' but key variables in the macroeconomic policy context.

Box 7: Minimum wages in developing countries

There are several factors that make minimum wage policy both potentially more and potentially less influential within developing economies. The factors that render it potentially more important or influential include:

- The greater importance of the working poor amongst those in poverty;
- The absence of a welfare system or effective taxation to provide an alternative system of redistribution and protection against exploitation;
- The need for simple and readily understandable regulations;
- The existence of excess labour and the consequent increased need for some mechanism to provide a floor to the wage structure;
- The potential for high inflation, requiring mechanisms to protect the vulnerable against rapid erosion of their real wages;
- The importance of minimum wage setting in stimulating social dialogue and the engagement of trade unions in wage setting.

The factors that make minimum wages potentially less influential or even problematic in a developing country context include:

- The small size of the formal sector and the large size of the informal economy;
- Problems of compliance;
- The high share of self-employed in the informal sector and among women, casting doubt upon the meaning of gender pay equity in developing countries;
- The possibility that minimum wage earners are not among the lowest earners in some developing countries

Nevertheless, the ILO has made clear that the aim of its decent work programme and its conventions is to extend employment rights to all workers, irrespective of whether they are in the formal or the informal sector. As such the argument that the informal sector reduces the relevance of minimum wages is misplaced; instead the debate needs to be refocused around how to implement minimum wage legislation in the informal economy.

The situation within developing economies will of course vary and indeed influence the relative importance of these two sets of factors. Two important differences have been identified by Saget (2001). First of all, the minimum wage in some developing countries has provided an element of stability in the wage and economic systems; in other countries the movement of the minimum wage has been highly volatile and has not provided a consistent floor to the wage structure. A second differentiating factor is the population at which the minimum wage is aimed, and by association the population that is excluded. In some countries the minimum wage is mainly relevant for those working in agriculture, with other groups either paid above or located in the informal sector. In others, the main groups affected are the formal sector workers in the public and service sectors, with those employed in manufacturing in export processing zones largely excluded. In other countries still, the minimum wage impacts on the manufacturing sectors, including those geared to exporting. The original target population for the minimum wage will not determine its long term effects; for example in Indonesia the minimum wage primarily affected the non-manufacturing sector, including the public sector, when it was first established but, as the manufacturing export sector grew, the regulations also covered this type of employment (Cox-Edwards 1996). Chile provides an example of a country where the minimum wage primarily affects agriculture and in this context male workers, as women's participation in this sector is low. In Mexico minimum wage regulations could potentially be important – if set at a higher level – for the largely female-dominated manufacturing sectors – maquiladoras – while in South Africa the minimum wage has little impact on manufacturing export sectors where wages tend to be much higher than the minimum wage level (Saget 2001).

The major differences played by minimum wages in different area of the world are indicated by the aggregate statistics by region collected by Forteza and Rama (2001). These data show that for developing countries as a whole the level of the minimum wage as a percentage of the average industrial wage tends to be somewhat lower than in developed countries but the real difference is found in the level of the minimum wage as a percentage of GDP per capita, which is much higher in developing than in developed countries, indicating the large share of the population outside the formal sector and the low income associated with the non-wage and the informal sectors.

There are relatively few developing countries where there is detailed empirical information on the impact of minimum wages. We focus here on those countries where there has been relevant recent research.

Indonesia

The case of Indonesia has attracted considerable attention as a consequence of the rapid rises in the nominal and real values of the minimum wage in the early 1990s. In the first half of the 1990s nominal minimum wages tripled in value and the real value of the minimum wage doubled. Interestingly it was apparently pressure from Western consumer groups, particularly in the US, relating to the very low levels of wages that were paid in the exporting companies owned by multinationals that led to the policy of raising minimum wages. The impact on real and relative earnings was significant as Rama (2001) estimates that average earnings rose by between 5 and 15 percent in consequence. The minimum wage relative to average wages for urban labourers and employees rose from 0.312 to 0.349 for men and from 0.495 to 0.562 for women between 1988 and 1992. The employment effects have also been estimated by Rama and found to be slight although negative (between 0 percent and 5 percent) and mainly concentrated among the small firm sectors. Indeed, according to Rama, the workers in the large firm sector have been the clear winners from this policy as employment here may even have increased, which was attributed by Rama to monopsony effects. These employment effect estimates have also been challenged by Islam and Suahasil (2000) who found little evidence to support the notion that employment had declined as a result of high minimum wages.

There is mixed information on compliance. The rate of compliance in the formal sector apparently increased following a campaign by newspapers of naming and shaming companies that did not implement the minimum wage, including some that faced as series of strikes over implementation in the early 1990s. A survey of managers in the footwear and garment trades cited by Rama (Rosner 1995) found general compliance, with men paid well above minimum wages and women paid at minimum wages. The view from management was also that minimum wages were not their most important problem; much more problematic, for example, was the red tape and bureaucracy associated with export licenses. Up to half the workforce in the urban areas are estimated to be in the informal sector. However some evidence suggests some compliance with the minimum wage even in small and medium-sized enterprises: one study of SMEs by the government (DEPNAKER 1995) cited in Rama found that in one area the increase in minimum wages was not associated with any declines in employment, while in the second area employments had declined but due to rising raw material prices. In other words again the minimum wage had not been the most important factor in shaping business success. Van Diermen (1997)'s research on remuneration in the informal sector in Indonesia also suggests that it is not always appropriate to associate the informal sector with low pay and the large firm sector with high pay. His survey of the garment and wood industries found that although minimum wage levels were observed in the large firm sectors, the pay in the small firm sector depended on family status (family labour receiving low wages), gender and skill. More skilled male workers were often found in the informal sector and less skilled female workers in the large firm sectors. The study by Islam and Suahasil (2000) suggested that the rate of compliance and the degree of acceptance of the minimum wage set in the regional provinces was quite high for two reasons; first there was a high level of consultation with main actors including employers and trade unions; second increases tended to be closely related to general changes in average wages,

suggesting they reflected rather than led labour market trends. According to these authors, the minimum wages were endogenously managed, not set by external administrative decisions and this contributed to the acceptability of the system.

A study of female workers only (Pangestu and Hendytio 1996) revealed very wide variations in compliance according to the size of firm; in small and medium sized firms the percentage paid at least the minimum wage was only 30 percent and 37 percent compared to around 80 percent for the whole survey. The survey also looked at a range of benefits and rights and found that the minimum wage was the employment right about which women workers had most knowledge (41 percent were aware of their right to a minimum wage).

Overall the minimum wage can be seen to have an impact on the wage structure in Indonesia as a clear spike is evident in the wage distribution at the minimum wage level. This does not prevent non-compliance, which affects one third of women workers and 15 percent of all workers. However, higher levels of non-compliance for women does not mean that they are less likely to benefit from minimum wages as it is clear that in complying firms the minimum wage is more likely to determine women's than men's wages. Furthermore there is evidence that the high levels of minimum wages set in Indonesia have been exaggerated; the levels are often argued to be set at two to three times the individual poverty rate in Indonesia but this finding ignores the fact that on average a household of 4 people only has 1.4 wage earners (Islam and Suahasil 2000).

Mexico

There are a number of studies relating to the minimum wage in Mexico. In contrast to Indonesia, the minimum wage has mainly moved downward and several studies have pointed to either the relative absence of effects of the minimum wage on employment trends because of its low level (Bell 1997) or to the apparently positive impact of this decline on female employment (Feliciano 1998) in contrast to the effect on male labour, which was argued to be limited because men are employed at levels above the minimum wage. This last argument takes it as axiomatic that the gender pay differential reflects real productivity differences and that only demand for female labour is likely to be influenced by reductions in the minimum wages as only female labour has such low productivity as to be negatively effected by too high a minimum wage. The possibility that men will not be affected as they would not have accepted jobs even at the previous wage level, for social, economic and status reasons is not explored.

The rise in wage inequality has been directly attributed by Cortez (2001) to the reduction in power of trade unions, even after controlling for changes in demand and supply for skilled workers. The erosion of trade union power, according to Cortez, has in fact led to the minimum wage system having a more binding effect on the labour market than was the case in the past. Agricultural workers have always been low paid and thereby subject to the influence of the minimum wage. However, the main changes have occurred in the other sectors, particularly services, where there has been a shift to the right in the earnings distribution. This is associated with rising wage inequality within non-agricultural sectors, with increasing gender differences between male and female workers. This analysis confirms other studies, which have also found that it may be premature to dismiss the impact of the minimum wage on the wage structure in general and for female workers and informal sector workers in particular without more detailed analysis. Bell (1996, 1997) in her own study, despite finding little impact of the minimum wage on formal sector wages, did find an astonishing rate of compliance with the minimum wage for female informal sector workers; there is a notable spike on the distribution of earnings at the minimum wage level and 60 percent of female full-timers are paid above the minimum wage level. This suggestion that the minimum wage, even at relatively low levels, bites for women in the informal sector fits with Maloney and Nuñez's (2000) finding that 'the influence seems far stronger on the informal sector than the formal in Brazil, Mexico, and in Argentina and Uruguay, countries where the wage appears irrelevant to the formal distribution.'(2000:9) These findings perhaps imply that the role of even declining minimum wages in setting some kind of floor to the labour market in the informal sector has been underestimated.

Columbia

Columbia presents an opposite case to Mexico, in that it is widely agreed that the minimum wage in Columbia has had a major impact on the formal wage structure of the economy. In Bell's (1996, 1997) comparative study of Mexico and Columbia she finds that the minimum wage has a strong impact on the structure of wages, indicated by a strong spike in the earnings distribution, by reducing inter-sectoral wage differentials and by increasing real wages for the lower skilled in a period of recession. These potentially positive effects, in as much as they reduced wage inequality and in fact helped to minimise the impact of the recession on poverty (Camargo and Garcia 1993) were, however, according to Bell accompanied by fairly strong negative employment effects. Thus the increase in relative value of the minimum wage by 15 percent over the period 1977 to 1987 had an estimated impact on manufacturing employment of -5 percent over the same time period. Maloney and Nuñez (2000) find that the effect of a minimum wage increase spreads much further up the wage hierarchy in Columbia than is the case in the USA: in Columbia a 0.38 coefficient effect can be found at levels of wages four times the minimum while Neumark found a coefficient of only 0.06 at 2-3 times the minimum wage in the USA. It is also the case that wages below the minimum wage are affected by increases in the minimum wage, again suggesting an impact from the minimum wage on the informal sector (see Fiszbein 1992 for a summary of evidence on the informal sector and Maloney and Nuñez (2000)). The interpretation of these effects by Maloney and Nuñez (2000) is not that the minimum wage is an effective means of setting a wage floor and offering wage protection, even to those in the informal sector, but that 'the minimum wage has impacts both in the higher reaches of the formal distribution and in the informal labour markets that magnify its distortionary effects beyond that previously thought' (2000:17).

Costa Rica

Costa Rica has a complex set of sector and occupation specific minimum wages. In the 1980s Costa Rica used these differences in minimum wages to follow a policy which both allowed for a reduction in inflationary pressure and for redistribution to the poor: the lowest minimum wages were allowed to rise in real terms while the average minimum wage fell (Shaheed 1995:127). Gindling and Terrell (1995), using a data set for 1976 to 1991, have tried to assess the effectiveness of minimum wages in Costa Rica by measuring the proportions of workers who receive below minimum wages in the covered and the non-covered sectors: in practice this was operationalised by comparing the share of underpaid full-time employees, in the covered group to three groups not covered: part-time employees, full-time self-employed and part-time self-employed. The ratios of underpayment were relatively similar at 33 percent for the covered group and 32 percent to 37 percent for the non-covered groups. The non-compliance rate is higher for women than men in both the formal sector (44.1 percent compared to 29.0 percent) and for self-employed workers in the informal sector (45.9 percent to 31.2 percent full-time, 36.1 percent to 31.7 percent part-time). Non-compliance for part-time employees is in fact somewhat higher for men, but the male incidence among this type of work is likely to be low.

This result showing no difference in low pay between the formal and informal sectors is much quoted as showing non-compliance; however it is not clear that it is appropriate to aggregate non-compliance with different levels of minimum wages in different sectors. The minimum wages considered for the most part take a value of over 4 (4.31 in agriculture to 4.99 in transport) but the lowest minimum wage is for personal services at 2.57. The problem here is that there is no national minimum wage and non-compliance may be increased by setting lower minimum wages in other sectors. The personal services minimum wage could, for example, by being set at such a low level, encourage non-compliance with higher minimum wages in other sectors, at least for women. Moreover, it is notable that the ratio of the minimum wage to average earnings tends to be lower for informal than for formal sector workers in Costa Rica; this suggests that the informal sector is by no means an area of uniform low wages and may include some relatively advantaged groups.

Morocco

Morocco has a minimum wage system influenced by the French system. It has a non-

agricultural minimum wage called the SMIG and an agricultural minimum wage called the SMAG. The former (according to Azam 1992, 1997) is not well enforced while the latter is relatively well respected. Azam has offered two alternative and potentially complementary explanations as to why employers are willing to comply with the agricultural minimum wage and why it provides a means of improving the operation of the labour market. His first explanation (1992 – cited in Azam 1997) focused on monopsony arguments. In the second article Azam focuses on the positive impact of minimum wages on productivity in a context where agricultural workers may suffer from poor nutrition. This is a variant of an efficiency wage argument. However, the reason why minimum wages may be important in promoting efficiency is that in their absence employers may be tempted to offer below efficiency wages in the hope that their labourers could obtain family-based income and consumption supplements. However, as all employers are likely to seek similar cost savings, the likely outcome is wages below optimum levels. Azam supports his theoretical case by showing a positive relationship between agricultural output and the real value of the minimum wage; employment data are not available and the theoretical case and the empirical data could be consistent with either increasing or decreasing employment. The impact of the higher efficiency on employment will depend on the relative size of the per hour productivity improvements together with market factors influencing scope for expansion.

The importance of this example is the development of the argument that shared family consumption and income can affect wage levels, an approach that could be extended to support the case for minimum wages precisely because many minimum wage earners are deemed to be second income earners in households. These assumptions about extra wage support result in an ineffective wage floor in the absence of regulation. Wages for those who need to meet their full consumption needs from their wages may be brought down by the assumption of general access to additional support for consumption.

6. Current gaps in knowledge and issues warranting further attention

The gaps in our knowledge and understanding of the potential role for minimum wages in promoting pay equity, broadly defined, arise from three different causes. First and most importantly, we have not asked the right questions with respect to the effects of minimum wages. Second, we have not collected the right data. And third, we are not able to generalise about the impact of a minimum wage when a minimum wage is a tool whose effects depend on the social, economic and political context in which it is implemented. We need therefore to work towards specifying the conditions at a general level under which a minimum wage could be expected to promote pay equity. It may be that some of these conditions may need to be included in ILO conventions if the minimum wage conventions are to have the effect of reducing pay discrimination.

The questions that we should be asking about minimum wages need to be rooted in the principles of decent work and not based on an assumption that employment under any conditions is the objective to be maximized. The starting point for most analyses has been to explore the impact of the minimum wage on employment, based on two key assumptions: first that the minimum wage is the key distortionary element in the employment system and second, that lower wages will lead to higher employment levels. If instead we focus on the characteristics of the low wage labour market we would find various factors that call these assumptions into question. We know, for example, that many of those in the low-wage labour market come from groups who are discriminated, yet there are few attempts to apply a theory of discrimination to explain wage and employment structures at the bottom of the labour market. We know too that, in a context of surplus labour, there can be no assumption of a market-clearing wage and that wages could fall to very low levels in the absence of any institution to support a decent level of wages. Such insights into how labour markets function underlie support for unemployment benefits in developed economies, but even here some groups are not eligible for support. In developing countries the danger of exploitation due to surplus labour is that much greater. Further distortions to the labour market may arise because low wage workers may be assumed to have access to alternative sources of income and consumption support; this allows the practice to develop of paying component wages, below minimum subsistence needs, leading to cross subsidisation between those employers who meet the full cost of labour and those that do not (by paying too low wages and/or by avoiding the social wage contributions that support the reproduction of the workforce). The types of questions we need therefore to ask are how do wages prevailing in the low wage sector relate to average and minimum consumption needs. Where wages fall below minimum needs, how do the workers survive in practice? Is it through, for example, accepting low living standards or through complex family or state-based systems of support? We also need to explore how segments of the labour market become institutionalised as low wage sectors, to question why some jobs are low paid and not simply to assume that because they are low paid they are low skilled. In short, we need to address how systems of power relations and competition between organisations and sectors institutionalise low wages and low prices within the labour market and not to regard the prevailing structure of wages and prices as reflective of inherent productivity levels. If we start with these types of questions we can begin to see how the low wage segment of the labour market operates and how we could improve the situation through the use of minimum wage and other policies. We also need to consider the wider picture when looking at minimum wage policy; too often economists attribute employment problems to a too high minimum wage, but do not question the global and country-specific macro conditions that appear to require major downward adjustments of the minimum wage just to restore employment levels, even though the skills of the labour

force have been rising. A microeconomic perspective to labour market adjustment may obscure the more important factors driving change within developing countries in particular.

To answer these questions we need also access to much better data, particularly with respect to developing countries and particularly with respect to the informal economy as well as the formal sector. The data need to be disaggregated by gender and by other social-demographic characteristics such as race and age. Studies too readily dismiss the relevance of minimum wages for being so much below average wages, but further investigation by gender, race or by informal versus formal sector, do reveal labour force groups where the minimum wage still bites. We need to understand the factors that shape earnings on both the demand and the supply side; for the demand side we need data relating to earnings by type of firm, occupation, contract, working time etc. On the supply side we need to look not only at individual skill characteristics and work histories but also at how they provide for their own and/or their dependants/ extended family consumption needs. Income distribution data needs to be collected both at the household and at the individual level.

The data needs are not confined, however, to large-scale datasets, necessary though these are to improve our knowledge of the pattern of income distribution and earnings. We also need more qualitative studies that explore and begin to provide information on how wage levels within the informal and formal sector are actually set. What role social norms and customs, including gender norms play in the process and how wages relate to the price of the contract, the skill level of the work or other principles? International comparisons of wage structures in developing countries could help to reveal the extent to which wage structures reflect social divisions rather than inherent skill or productivity characteristics of jobs. Qualitative studies are also needed on the supply side to understand the role of low-wage workers' earnings in determining access of individuals and families to resources and in shaping patterns of family formation. Information on the impact of minimum wages needs to look for long term as well as short term effects; these may include the negative longer term employment effects predicted by some economists, but could also include long term rise in productivity to match trend improvements in the minimum wage.

Better information is also required on the minimum wage as a policy tool; its coverage, its enforcement, its linkages to collective bargaining and social security systems. Currently only very limited information is collected by the ILO with respect to the minimum wage conventions. Information on enforcement needs to be both quantitative and qualitative. While we need to know what share of workers are paid below the minimum wage, we also need to investigate whether there is any form of compliance with the minimum wage in cases of underpayment. For example, firms may try to match the wage at a weekly level but expect staff in the informal sector to work more hours than those stipulated. Moreover informal sector workers may be willing to accept wages below the minimum but their expectations of wages may still be raised by the presence of a minimum wage. More information is needed on how it may be possible to regulate minimum wages in the more informal segments of the labour market, to extend coverage to homeworkers and sweatshop workers and indeed domestic workers and to apply existing minimum wage regulations within micro enterprises. This regulation needs to be effective but not to have perverse effects, such as driving the informal sector underground.

Finally, we need to develop our understanding of what types of minimum wage systems are likely to promote pay equity and which are not. Currently the only issues that the ILO is

concerned with, with respect to the ratification of the minimum wage conventions is whether the minimum wages are determined by some form of tripartite agreement and whether there is a mechanism for uprating. Both of these are important issues, but more attention perhaps needs to be paid to issues of which workers are excluded, what guarantees are built into the uprating system (for example to maintain the minimum wage in real or relative terms except perhaps under exceptional circumstances), what the mechanisms are for enforcement and what the rates of underpayment actually are. It may also be appropriate to suggest that the promotion of gender pay equity should be a criterion affecting the fixing of the minimum wage level. Currently the convention points to the needs of workers and their families but does not highlight the need also for equitable wages for men and women. We need to reintroduce the notion of a living wage into the minimum wage debates but modernise the notion to focus on meeting the needs of independent adults (plus some contribution for dependants), not reintroducing the notion of male breadwinners as the only recipients of living wages. Minimum wages in some countries are allowed to remain at very low levels in part because higher minimum wages are not deemed necessary for social justice reasons as many recipients are women who are not considered in need of a living wage. If wages are the main means by which people live, then the notion of equal pay must include an equal opportunity for women as well as men to provide for themselves a decent living through their labour. There is little consideration in the context of minimum wage fixing of the consequences for gender pay equity. What we are suggesting is that the principle of equal pay should not be regarded as a stand-alone policy but needs to be mainstreamed into the general pay conventions and policies.

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