



Minimum Wages: The Chinese and Indian Experiences

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China: Objectives

China adopted a minimum wage in 1993, and revised it in 2004. The policy objective evolved:

- From: Safeguarding basic rights and interests of workers in the emerging private sector (1993/94) in the context of main policy objective to promote economic growth
- To: Contributing to the construction of a “harmonious society”, with more emphasis on social justice and narrowing of wage gaps (2004). More recently, increases in minimum wages have sought to reduce the incidence of wage-related industrial disputes (since 2010).

China: what architecture?

- In 2004, the scope of minimum wages was extended to all enterprises (both private and public), as well as non-enterprise units (NGOs). The minimum wage covers all workers who have an established employment relationship. An hourly minimum rate applies to employees not in full-time employment.
 - The minimum wage is set at Provincial level (31) and there is no national rate. It is up to the Provincial governments to set and adjust the rates for all areas within their jurisdiction. Because each provinces have 3 to 4 different rates, there are around 100 rates in China.
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China: the adjustment

- Rates must be adjusted at least every 2 years by the Provincial departments of human resources and social security, “in consultation with trade unions and enterprise confederations or associations”. Proposed rates are submitted to the Ministry and open to opinions from ACFTU and CEC/CEDA.
- The Regulations on Minimum Wages provides a list of criteria, as well as 2 possible technical formulas. The 12th Five Year Plan (2011-15) instructed that the average annual growth of minimum wages should reach 13%, and in most regions the minimum wage should reach 40% of the average wage of a local urban worker.

China: MW and CB

- According to the Ministry of Human Resources and Social Security “the development of collective bargaining facilitates the implementation of minimum wages, since ensuring the wage paid above minimum wage is a basic clause in all the collective contracts”.
 - The 1994 Labour Law laid down a system of “collective consultation contracts” to be negotiated at the enterprise, industry or enterprise level with ACFTU affiliates, with little effect on wages. Note that ACFTU and affiliates are considered the sole representatives of workers’ interest.
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China: enforcement

- Employers have an obligation to announce the rate to all employees within 10 days after the determination, and trade unions can report violations to local department of human resources and social security and demand that they deal with the case.
 - Overall, only a small proportion (3.5% according to one estimate) of full-time workers are paid less than the monthly minimum wage, but there is widespread violation of overtime pay regulation. And because implementation is left to Provincial level, there is a degree of unevenness in compliance.
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China: inequality & employment effects

- Minimum wages has contributed to lower inequality, but only to a limited extent. This can be linked to the fact that minimum wages in China are still low and have not kept pace with the more rapid increase in average wages. Among the main beneficiaries have been migrant workers.
 - Results from studies on employment effects are few and mixed, but according to the Ministry of Human Resources and Social Security in China “there is no evidence to indicate that the policy has any direct adverse effect on employment. It is believed that there is room for raising the minimum wage rates continuously”.
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China: The future

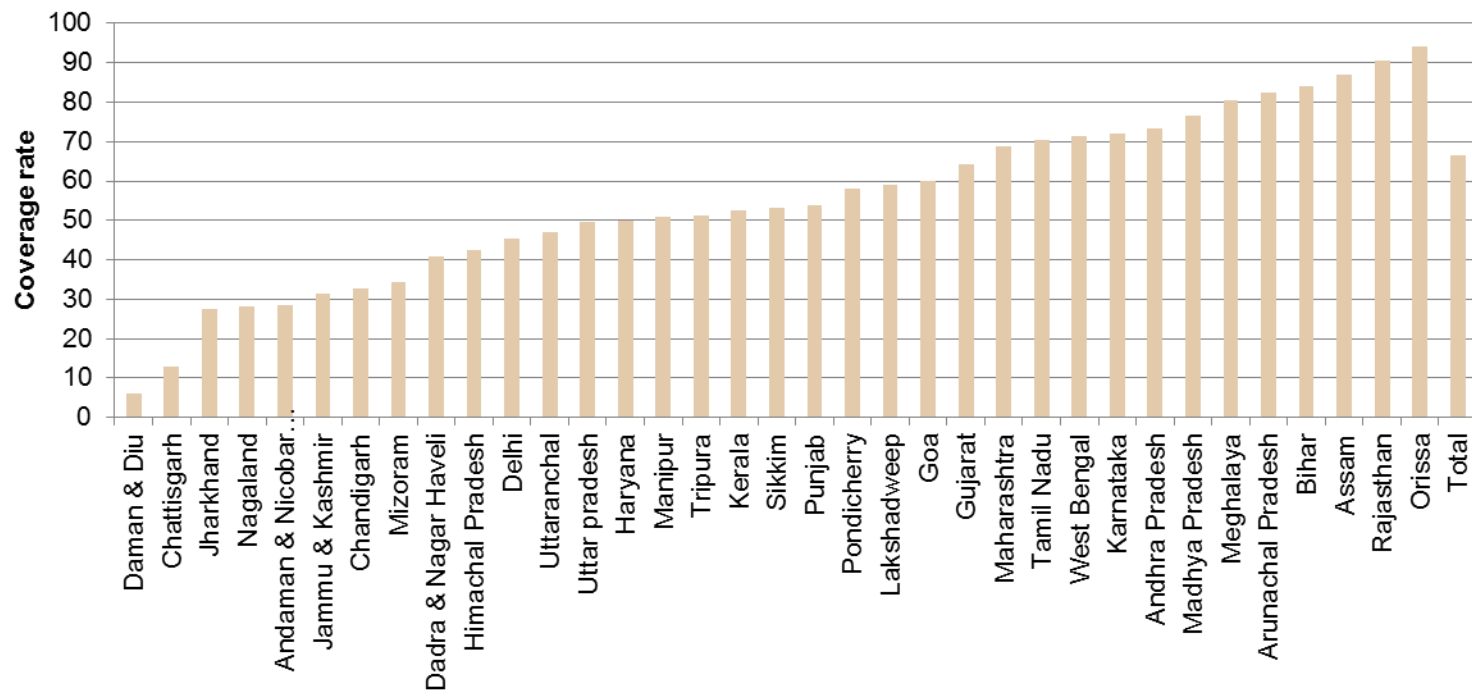
- China reaffirmed Ratification (1930) of ILO Minimum Wage Fixing Machinery Convention No.26 (1928), and will consider ratification of Minimum Wage Fixing Convention No.131 (1970) within next 5 years.
 - Will keep principle of stable and cautious adjustments
 - Will improve and standardize adjusting mechanisms
 - Will enhance monitoring and evaluation system
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India: Objectives and architecture

- Minimum Wage Act adopted in 1948 is considered one of the most important pieces of labour legislation. Its main objective is to safeguard the interests of workers mostly in the unorganised sector who are vulnerable due to illiteracy and lack of bargaining power.
- There is an indicative national floor level since 1991. But it is up to the “appropriate government” to set minimum wages in selected “employment schedules” under their jurisdiction. As a result, there are 1,724 different minimum wage rates in India. The system results in a “plethora of statutory minimum wages which vary across jobs within a state and across states in a same job” (Ghose, 1997)

India: Architecture

Percentage of paid workers in employment schedules covered by minimum wages (2009-10)



Source: ILO estimate based on Employment-Unemployment Survey

India: Adjustment

- “Appropriate governments” have set up Minimum Wage Advisory Boards, consisting of an equal number of representatives of employers and employees as well as independent members. They supervise the work of technical committees and make recommendations to the appropriate governments.
 - There is also a tripartite Central Advisory Board to advise and coordinate the work of Minimum Wage Advisory Boards. To bring more uniformity into the system, the Union Government has requested the States to form 5 Regional Minimum Wage Advisory Committees.
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India: Minimum wage and Collective bargaining

- The system of minimum wages in India is based on the idea that it should complement collective bargaining, covering workers in sectors where no arrangements exist for the regulation of wages by collective agreement and where wages are low. This idea is also reflected in ILO Convention No.26 (1928).
 - Estimates show that being part of trade union increases the probability of being paid more than the minimum wage by 5 per cent for salaried workers and by 13 per cent for casual workers. But in practice, collective bargaining is weak and covers only few workers.
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India: Enforcement

- Compliance is a major challenge: according to ILO estimates, 41% of those entitled to a minimum wage were actually paid less. Non-compliance was particularly high in rural areas and among casual workers in the informal economy. To some extent this may be due to the complexity of the current system
- NREGA (100 days of guaranteed employment at the minimum wage) has increased compliance. Murgai and Ravallion (2005): MW is only enforceable if the Government acts as the “employer of last resort” and commits to employ the entire excess supply of labour at the stipulated minimum wage rate.

India: poverty, inequality and employment

- Controlling for other variables, not receiving minimum wages, increases the probability of being poor by 7 to 10%. The poor are not just the self-employed and those outside of the labour market. About 35% of paid workers who earn less than the minimum wage live in poor families.
 - There are not enough studies on the employment effects of minimum wages in India that meet the contemporary standards in terms of methodology (Belman & Wolfson, ILO, forthcoming).
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India: the future

Consolidation of the Labour Code offers possibility:

- Clarify objectives of minimum wages
 - Extend the coverage of minimum wages
 - Simplification of the minimum wage structure
 - Measures towards better implementation
 - Strengthening the powers of labour inspectorates
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