

Minimum wage implementation in Latin America

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Minimum wages through time

- MWs have been introduced in LA a long time ago;
- Through the decades, MWs have suffered the impact of economic crises (high inflation, fiscal adjustments, competitive devaluations, etc.);
- Since early 2000, real MWs benefited from sustained economic growth;
- In practice, periodic adjustments follow certain inertia and take a short-term perspective;
- Policy makers forget to evaluate the main objective of MWs. (basic needs, protect lower wage earners).

Presentation contents

- MW structure:
 - Complexity/simplicity
 - Coverage
 - Periodicity of adjustments
 - Criteria for MW adjustments
- Basic needs/poverty and compliance

Countries with simple and complex systems

Countries with simple MWs

- Argentina
- Brazil
- Bolivia
- Chile
- Colombia
- Ecuador
- Peru
- Uruguay
- Venezuela

Countries with complex MWs

- Costa Rica*
- Dominican Republic
- El Salvador
- Guatemala
- Honduras
- Mexico*
- Panama
- Paraguay*

* System includes a general MW

Simple vs. complex MW systems

Simple MWs

- Determine a general floor, sometimes with a differentiated rate for a specific category
- Use macro indicators as reference to adjust MWs;
- Easy to inform to users and to verify;
- Require to be complemented by collective bargaining; if not high pressure on MW

Complex MWs

- Usually by sectors and occupations, but also regions, enterprise size and skills;
- Decentralized adjustments use specific information; centralized adjustments apply same % to all MWs;
- Implementation is more difficult;
- Complex systems sometimes substitute collective bargaining

Some pros and cons

- Simple systems only want to determine a basic floor for the wage structure, which should be enough to cover basic needs;
- Long implementation usually forgets basic needs;
- Complex systems determine a scale of relative wages;
- It is usually difficult to alter this relative scale and after many years the structure becomes outdated in relation to the labour market and economic structure.

Coverage

Private sector only

- Argentina
- Chile
- Colombia
- Costa Rica
- Dominican Republic
- Ecuador
- El Salvador
- Honduras
- Mexico
- Panama
- Paraguay
- Peru
- Uruguay

Public and private sector

- Brazil
- Bolivia
- Nicaragua
- Venezuela

MWs, social benefits and index

- Some countries relate MWs with minimum social protection benefits, with the idea of extending protection;
- This extends the impact of MW increases on fiscal accounts;
- In some countries MWs are used as an index for public and private prices;
- Brazil: minimum pensions and social benefits;
- Uruguay: link eliminated in 2004;
- Mexico: at present discussing reform eliminating link with social benefits and index

Periodicity of adjustments

- Inflation is a key variable for determining the periodicity of adjustments,
 - Countries with low and stable inflation may have fixed periodicity
 - Countries with high or variable inflation might require additional adjustments
- Fixed periodicity of adjustments does not guarantee a stable path of real MW increases;
- Variable periodicity leaves MW policy more exposed to high volatility.

Periodicity of adjustments

Fixed periodicity

- Foreseeable both for workers and employers
- Facilitate time comparisons and use of key economic variables
- More independent of electoral cycles
- Adapt slowly to large changes in inflation

Variable periodicity

- Unforeseeable
- Difficult comparisons and interpretation of data
- Can be related to electoral cycles
- Can adapt more easily to changes in inflation

Periodicity in Latin America

Fixed

- Bolivia
- Brazil
- Chile
- Costa Rica (every 6 months)
- Colombia
- Ecuador
- Guatemala
- Honduras
- México
- Uruguay
- Venezuela

Variable

- Argentina
- Dominican Republic
- El Salvador
- Nicaragua
- Panama
- Paraguay
- Peru

Countries with variable periodicity

Without specification

- Argentina
- Nicaragua
- Peru

With some specification

- Dominican Republic: min 12 months, max 2 years
- El Salvador: max 3 years
- Panama: max 2 years
- Paraguay: max 2 years or when CPI adds 10 % since last MW adjustment.

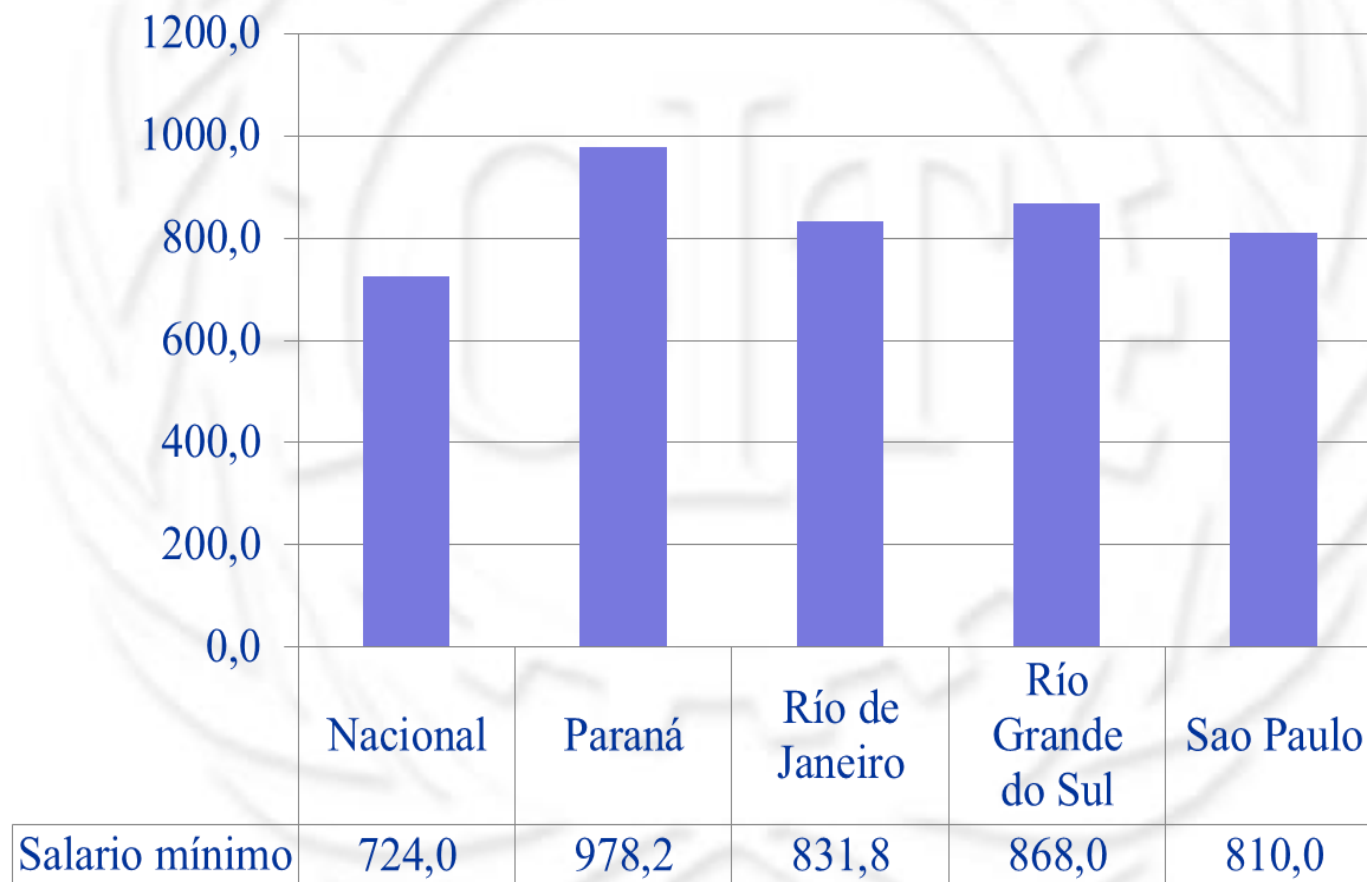
Variable periodicity: Argentina

- Argentina has a long history of high inflation, including a period of hyperinflation (monthly increases of MWs);
- Adoption of convertibility (1 peso = 1 US\$) stabilized prices;
- From 1992 to 2003 the MW was fixed at 200 pesos, no adjustments
- From 2004 to 2008, 2 to 3 adjustments per year, from 2009-2013, 1 or 2 adjustments
- MW Council only convened by government

Brazil: MW by region or national?

- Originally established 14 different levels by region (1940);
- By 1963, there were 39 regional levels;
- Progressive consolidation until 1984, when they converged to a unique national level;
- Since 2000, each regional state can determine autonomously their own MW above the national level, with the compromise to respect the fiscal responsibility law;
- Very few states made use of this option.

Brazil: National MW and by region, 2014



Brazil: Differences by region

- Differentials between national MW and the lowest category of the MW by state went from 12 % in Sao Paulo and 15 % in Río de Janeiro, to 20 % in Río Grande do Sul and 35 % in Paraná;
- In addition, each state determined additional levels for certain categories;
- Paraná, 4 levels: agricultural activities; trade and services; industrial production and semi-skilled technicians;
- Río de Janeiro 9 levels; Río Grande 4 y Sao Paulo 3.

Chile: National MW with two specific levels

MW below 18 and over 65 years old

- In 1997: 86 % of national level
- Between 1998 y 2002 the gap widened progressively
- In 2002 stabilized at 75 % of the general level

MW domestic service

- Introduced in 1994 at 75 % of the general level
- In 2008 it was decided to close the gap in 3 years
- In 2009: 83 % of the general level
- In 2010: 92 %
- In 2011 the MW for domestic service was equalled to the general MW.

Costa Rica: Simplification and change of focus

- MW system had more than 500 categories by occupation, in 9 sectors of activity (agriculture, mining, manufacture, construction, electricity, trade, transport, communications, services). In addition, determined specific MWs for professionals;
- In 1988, Ministry of Labour started a consolidation process, changing focus to skills;
- Now MWs are determined on the basis of qualifications: unskilled, semi-skilled, specialized workers (supervisors) and professionals (years of education).

Mexico: Elimination of regional differentials

- The MW system established 3 regions according to their development, and for each of them determined a general level and specific levels for 86 occupations;
- In 1990, the gap between regions A and C was 16.6 %;
- In 2000 was 13.7 %;
- In 2009, the differential between zones A and C was only 5 %. Practical trend towards unification;
- In 2012 levels of zones B and C were consolidated;
- In October 2015 zones A and B will be merged in a unique level.

Uruguay: NMW and Wage Councils

- Wage Councils were created in 1943 and worked until 1968, between 1985 and 1992, and since 2005;
- NMW was introduced in 1969, also linked to minimum pensions, eliminated in 2004;
- Tripartite councils organized in 22 groups and more than 200 subgroups;
- Councils are convened by government in bargaining rounds, with limited time for negotiations;
- Government issues orienting guidelines, they increasingly give space for sectorial differentiation;
- In 85 to 90 % of the cases consensus is reached, in the rest government determined result.

Guidelines for wage councils and NMW

- NMW increases since 2005 send a message regarding the wage increases for lower categories in wage councils, reinforced in guidelines;
- Guidelines consider expected inflation, a macro component (GDP/employee) and a sectorial component (linked to productivity or growth performance of the sector);
- Coordinated bargaining rounds at specific time:
- Exit clauses in case of recession, sudden jump in inflation over 15 %, deterioration in sector.

Criteria for adjusting MWs

- All countries make reference to inflation;
- Most countries add an additional percentage as a result of a more political bargaining;
- Few countries make explicit guiding variables for MW adjustment (Chile, inflation and productivity);
- Very few countries adopt a specific mathematic formula for MW adjustments (Costa Rica and Brazil)

Formula in Costa Rica since 2012

$\Delta MW = \text{expected inflation} + (0.2 - 0.4) * \text{GDP per capita}$

- If expected inflation differs from actual inflation, difference compensated following semester;
- GDP per capita moving average of last 5 years;
- Inflation component not automatic if inflation accelerates (1 % above CB upper target range);
- Production component not automatic if unemployment above 8 % or economic recession

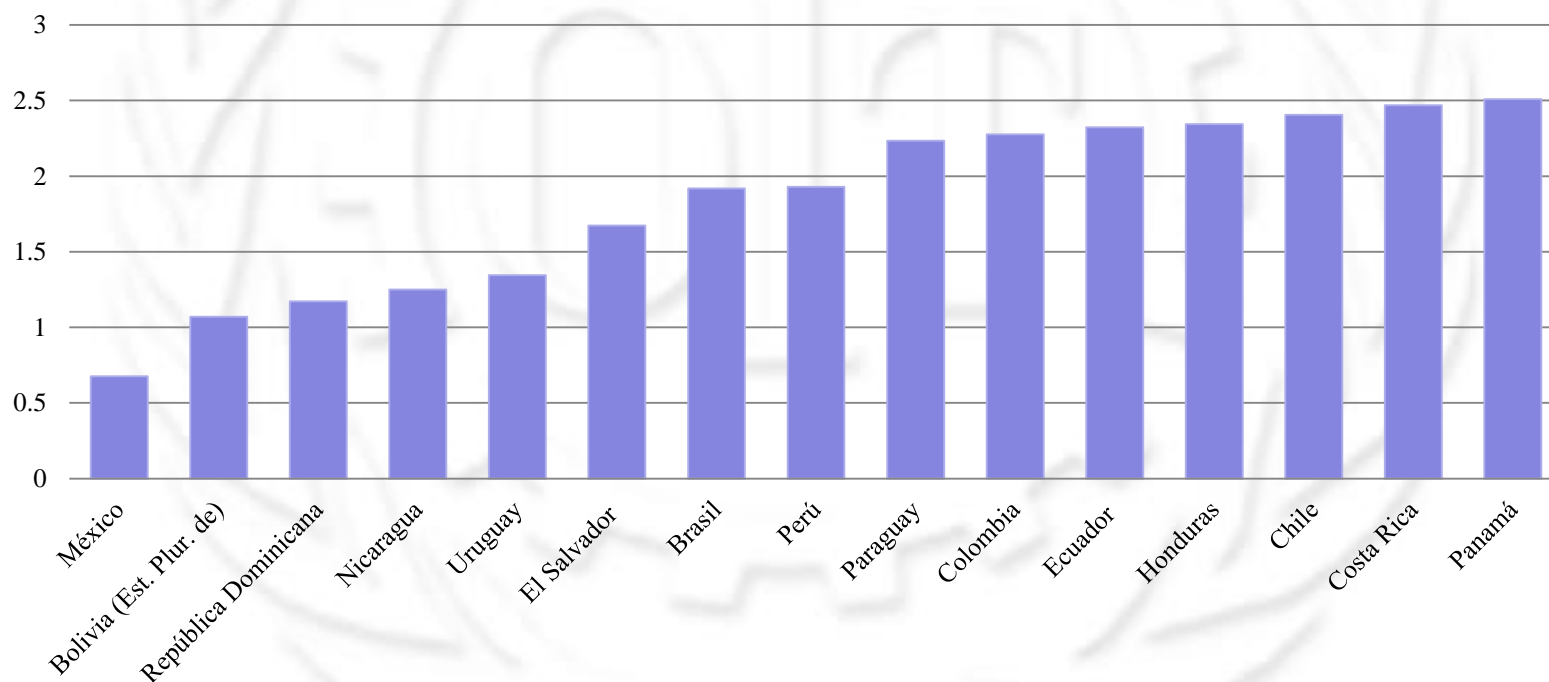
Formula or guiding variables?

- Formulas tend to be rigid, difficult to change;
- Even if the application of the formula is conditional to a number of situations (labour market and economy), the future can bring situations not previewed, putting the agreement into tension;
- A mathematic formula cannot replace / substitute social dialogue;
- It is useful to agree on basic variables that can guide future adjustments (range for bargaining)

Two main criteria to evaluate the effectiveness of MWs

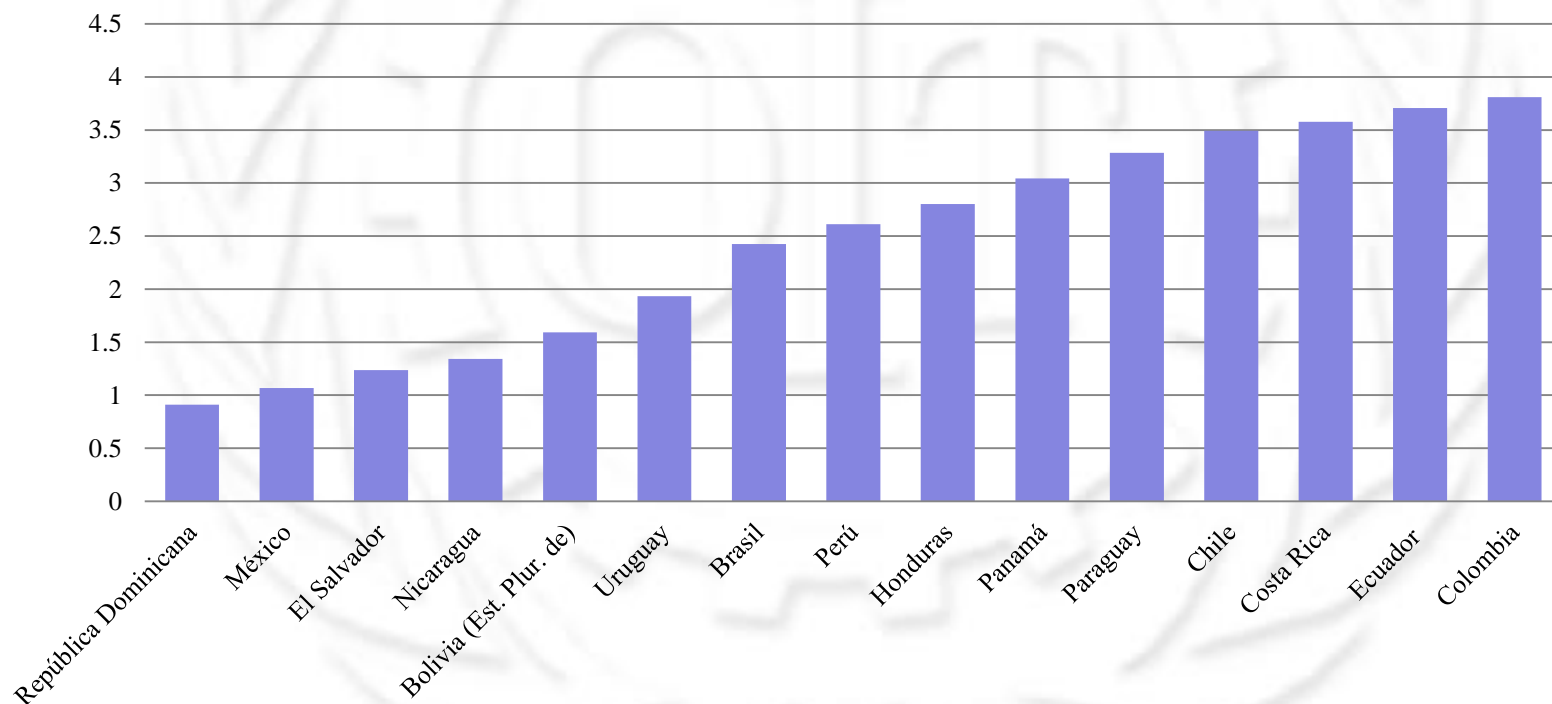
- Minimum wage and basic needs
 - Minimum wage in relation to the poverty line
 - Minimum wage in relation to the minimum living wage
- Minimum wage compliance
 - Estimate non-compliance on the basis of household surveys

MW as a proportion of urban poverty line, 2011



Note: poverty line per person, ECLAC

MW in relation to rural poverty line, 2011



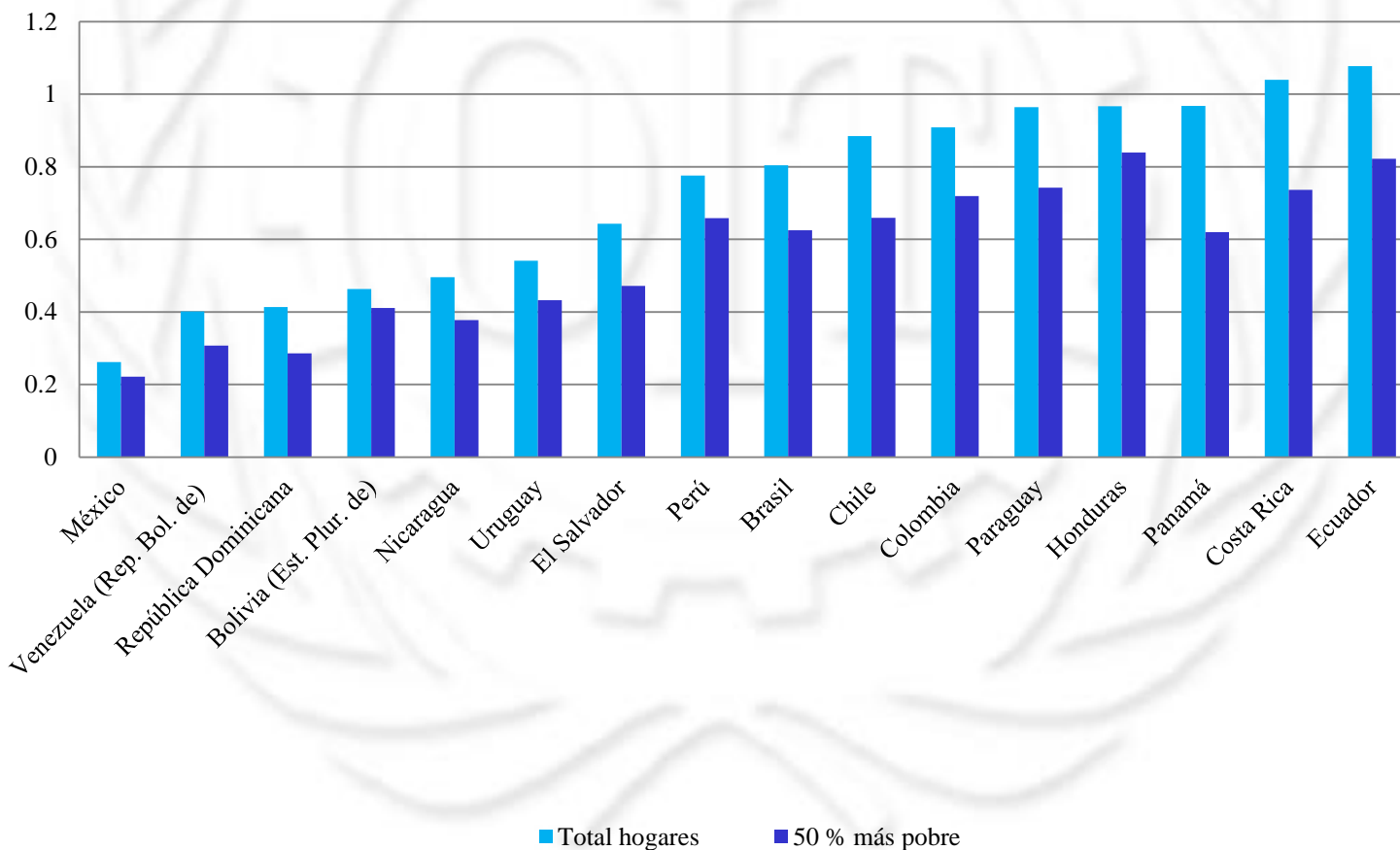
Note: poverty line per person, ECLAC

Minimum living wage

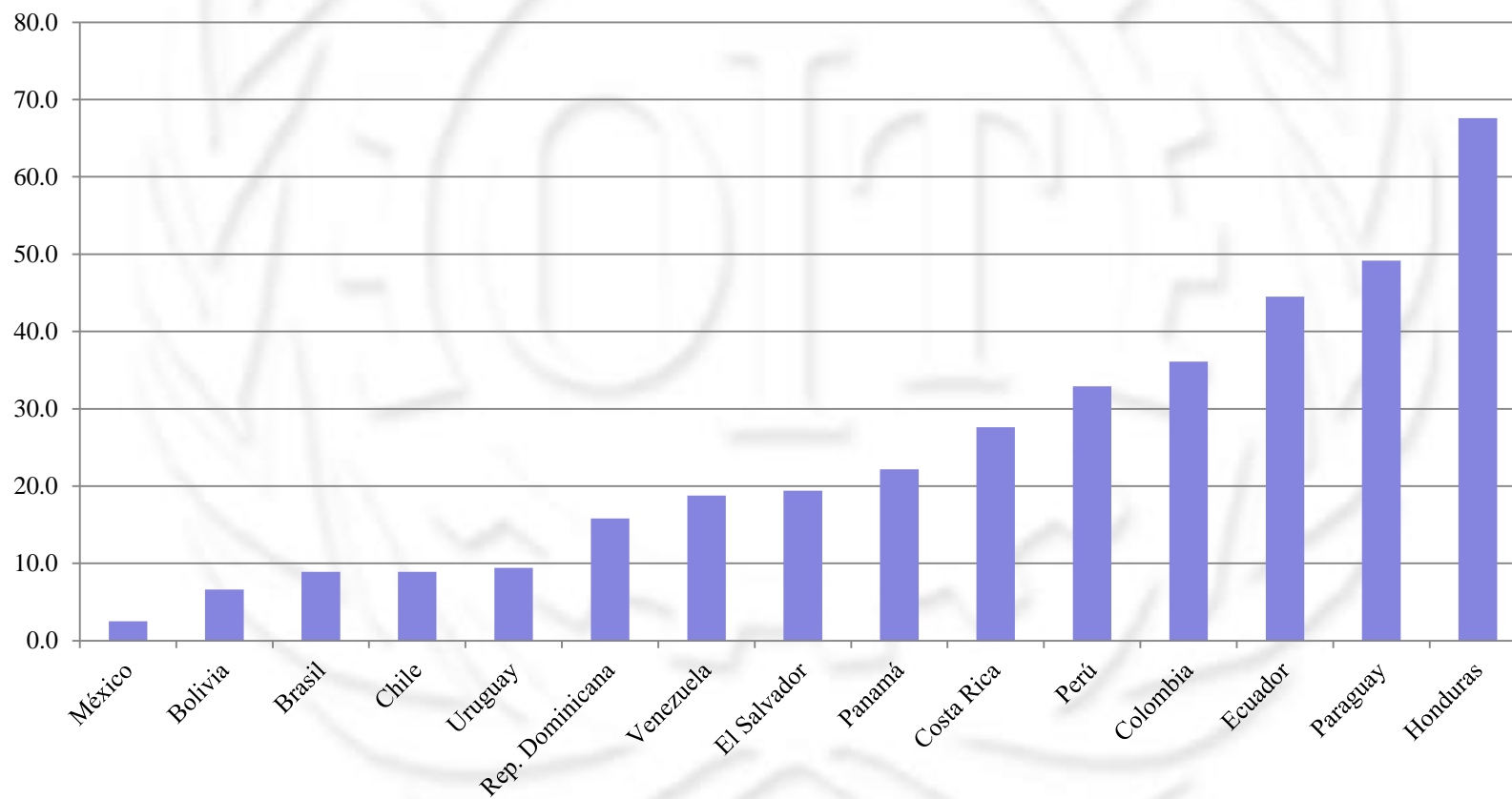
Definition: income required for an average household (considering size and employed members) to reach the poverty line

$$\frac{\text{poverty line} \times \text{size of household}}{\text{employees per household}}$$

MW in relation to the minimum living wage, 2011



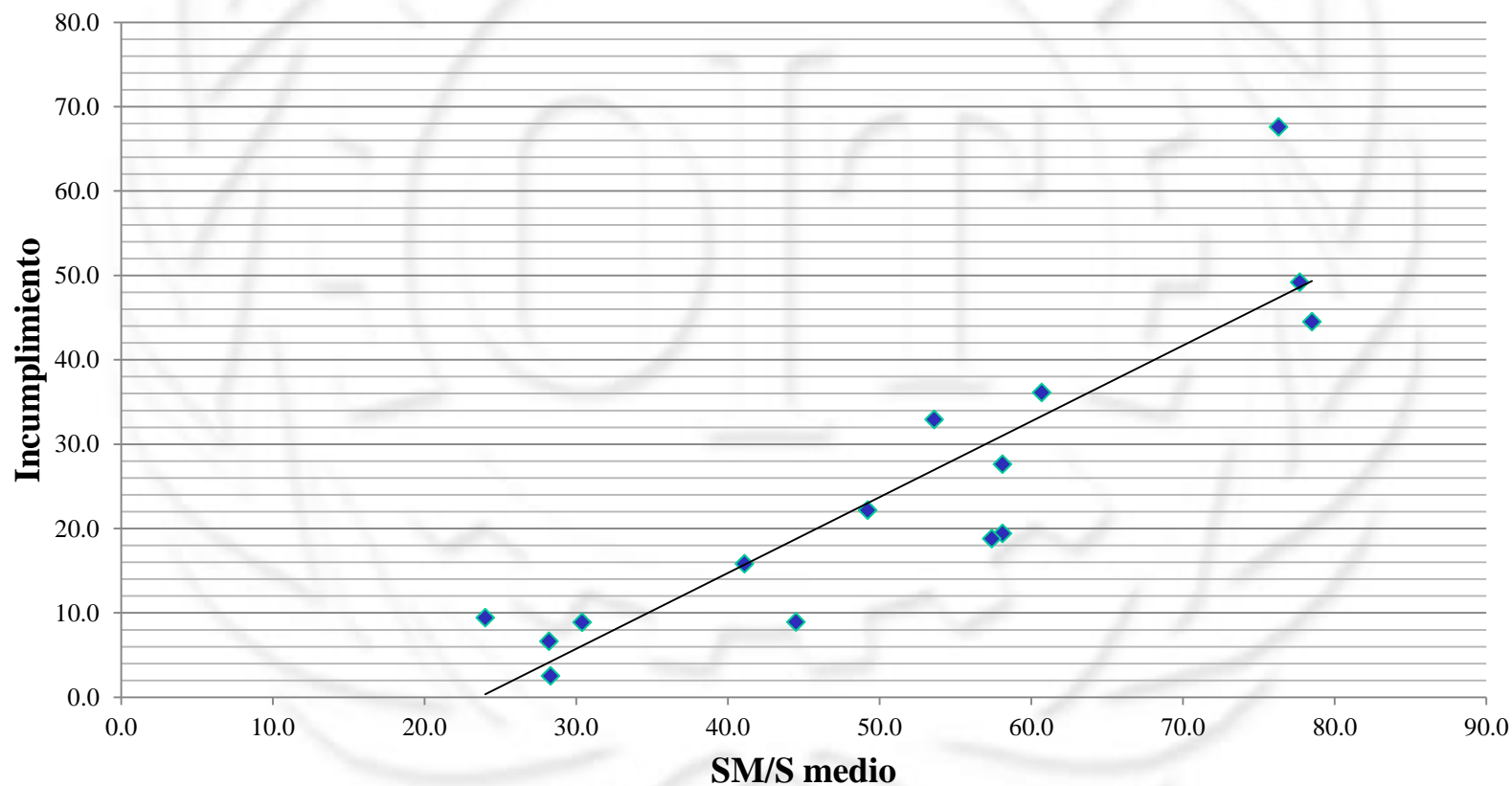
Non-compliance with the MW in private enterprises, national, 2011



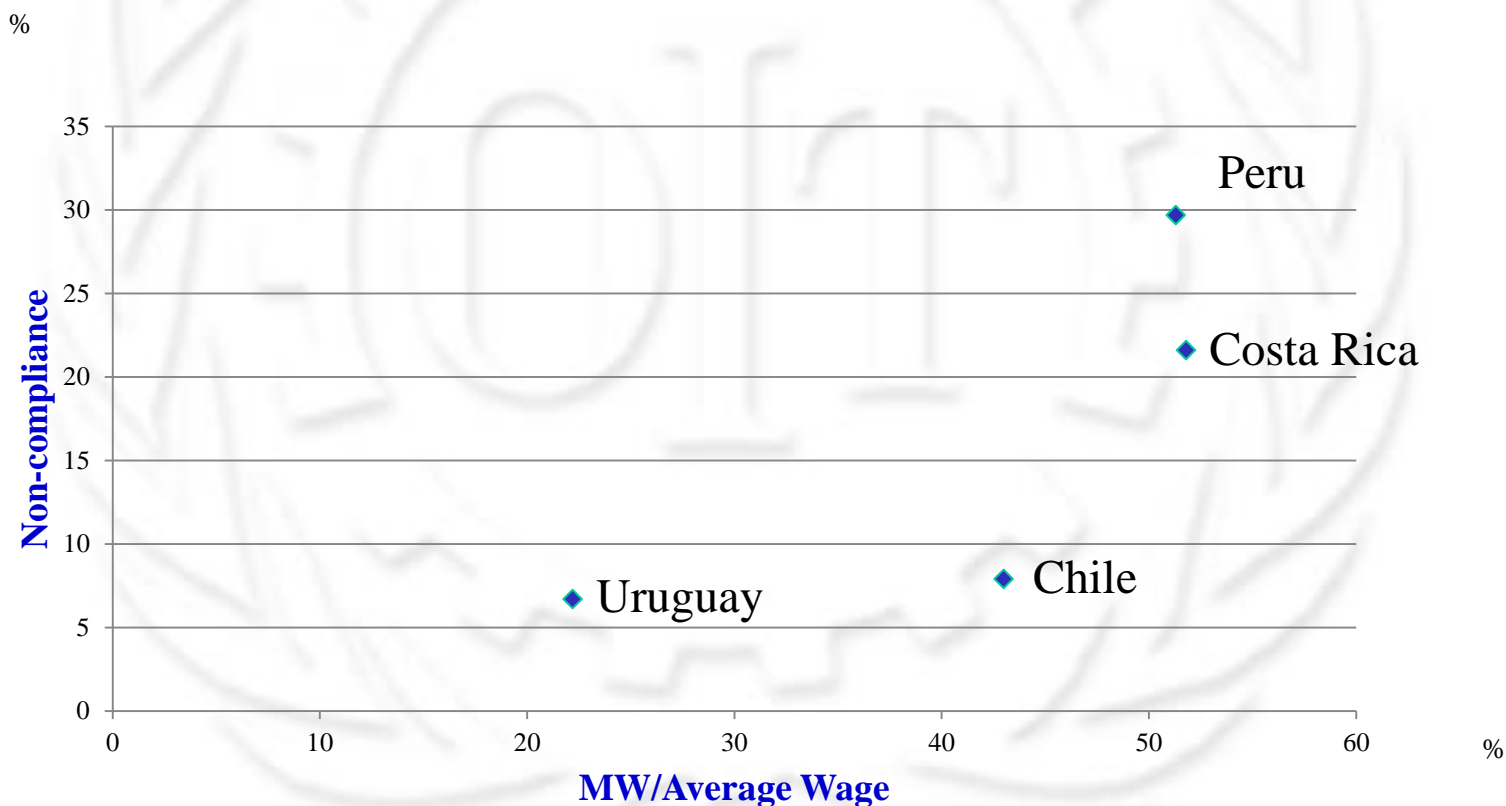
Preliminary conclusions on the implementation of MWs

- In many countries the MW is not enough to satisfy the basic needs of workers and their families;
- In some of the countries where the MW is close to satisfying the basic needs there is high level of non-compliance with the MW;

MW in relation to average wage and non-compliance, 2011



Minimum wage and non-compliance in urban sector, 2011



Non-compliance: ¿blame the level or the institutions?

- Discussions on MWs usually focus on its level, forgetting the daily management;
- While the level is very important for the MW to be effective, there is no optimal level, but a reasonable range (avoiding extremes);
- Within that reasonable level, the quality of the institutions in place to enforce the MW will determine the final result in compliance.

Institutions required to promote MW enforcement

- General knowledge of rights and obligations
- MW as a target of inspection
- Labour inspectors trained, with resources
- Inspections as a % of establishments
- Reactive and programmed inspections
- Fines (periodic adjustment), workers affected
- Effective application of fines
- Length of the whole procedure
- Develop adequate administrative registers

Final remarks

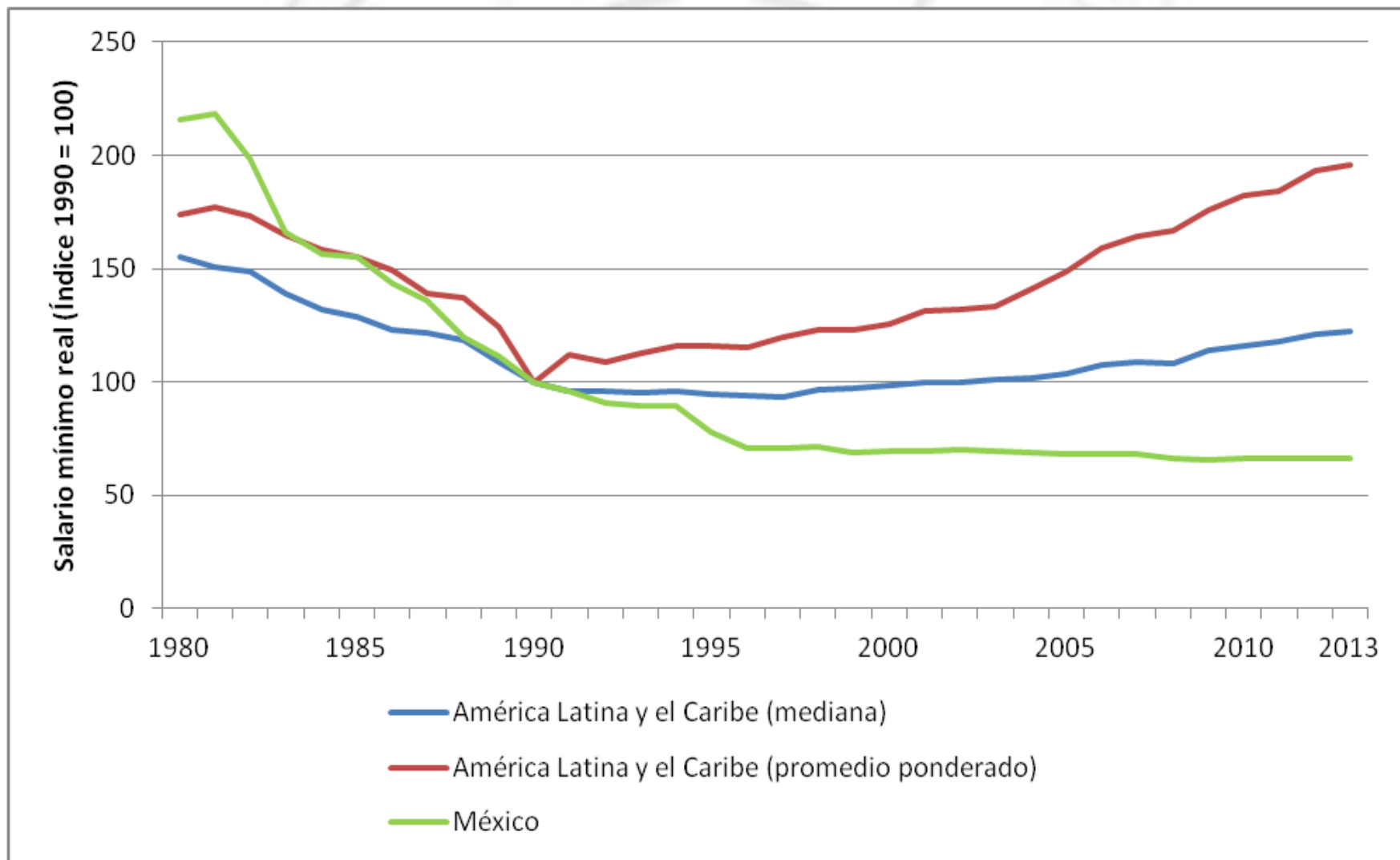
- LA countries have been implementing MWs for a long time;
- In recent years level has improved benefitting from economic growth;
- Some countries have been revising their institutional set up in order to improve results;
- Yearly adjustments seem to be adequate;
- Simple systems are easier to manage, but require complement of collective bargaining;
- General coverage, private sector, predominate

Final remarks

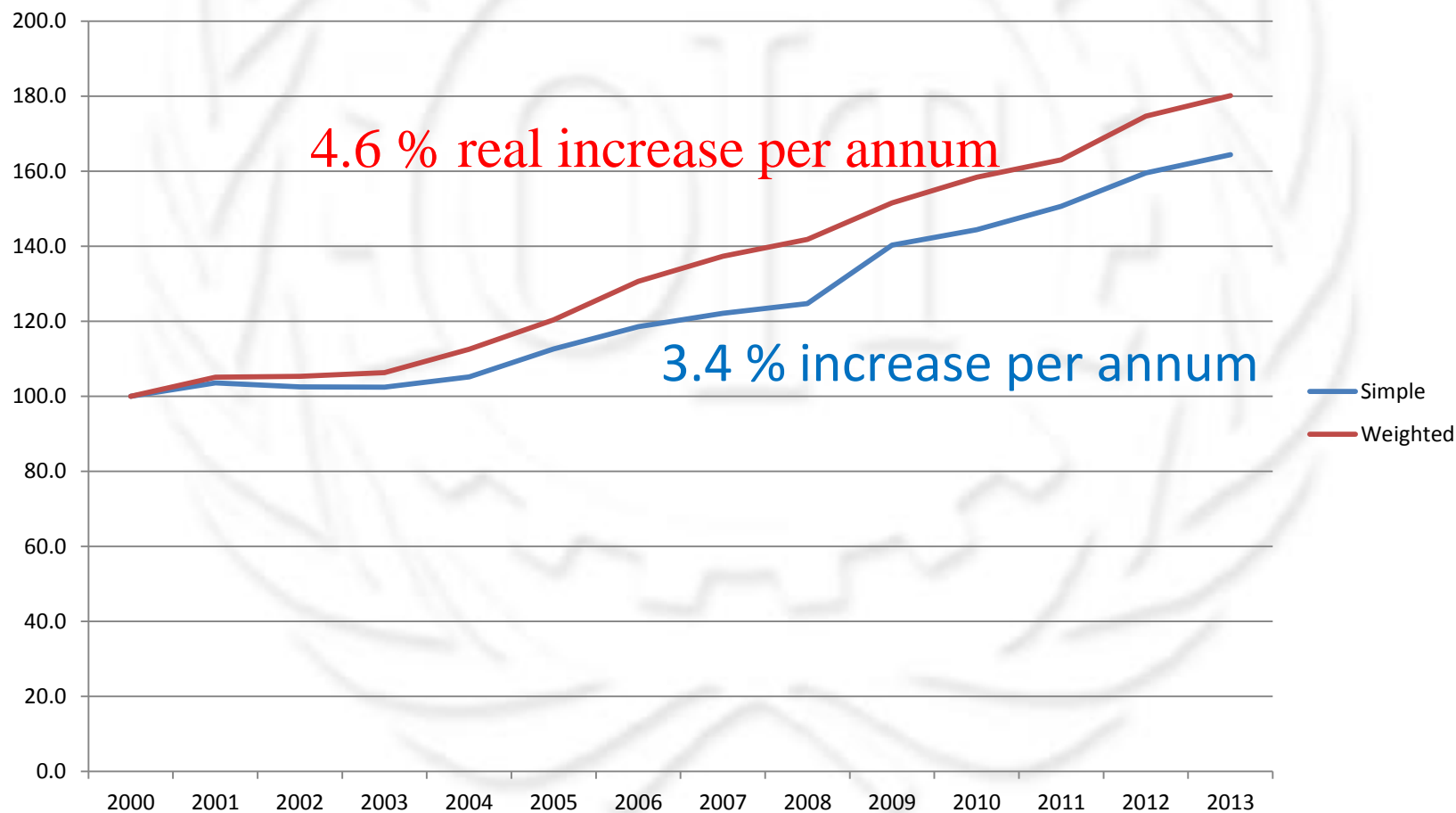
- Most countries present a gap between MWs and basic needs and some show high levels of non-compliance;
- Both features weaken impact on poverty;
- Gap with basic needs should be progressively reduced, especially in times of economic growth;
- Level of MW is a determinant factor for compliance;
- But institutions set up for promoting and guaranteeing enforcement are also crucial.



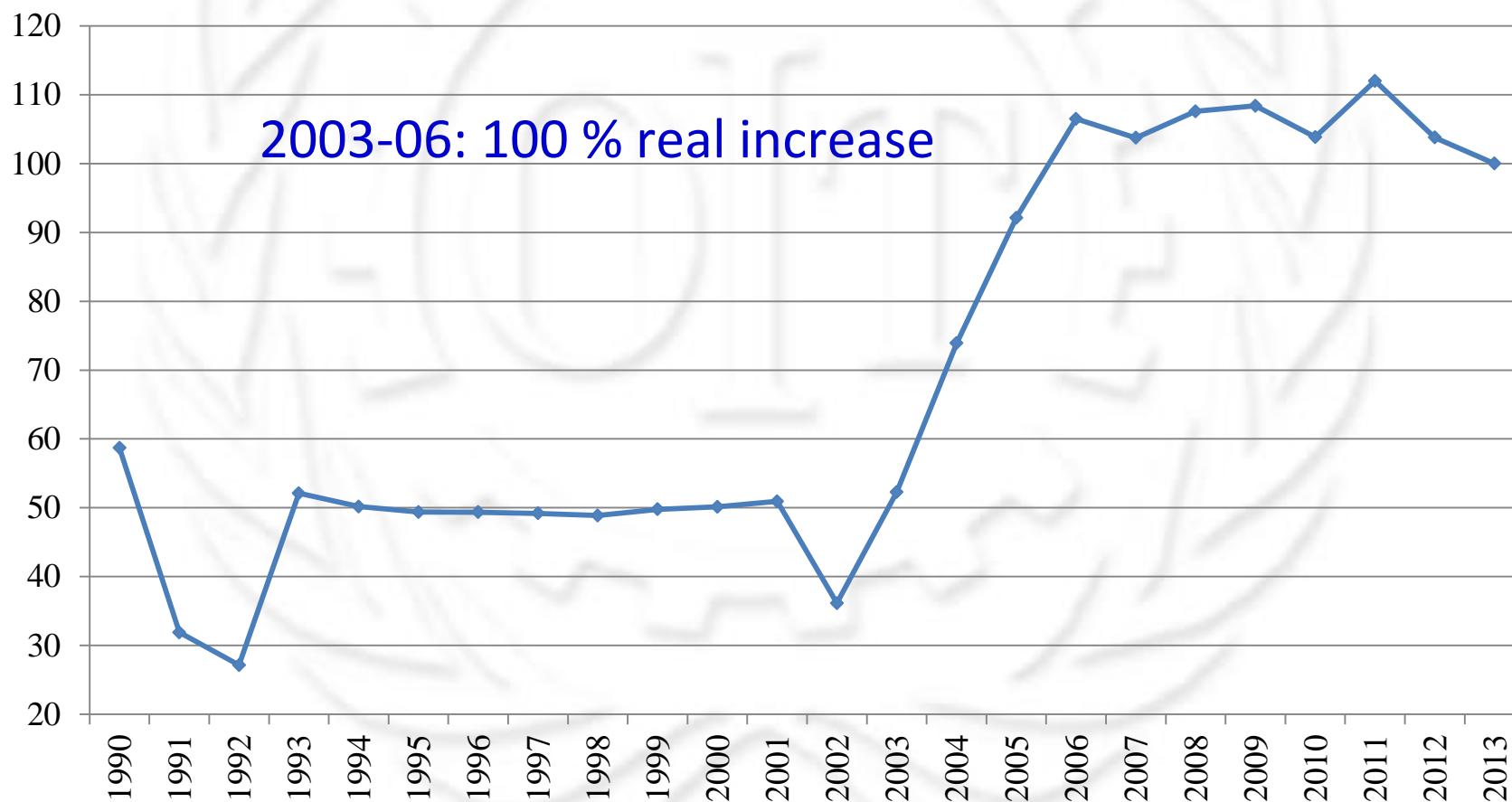
Real MWs in Latin America, 1990 = 100



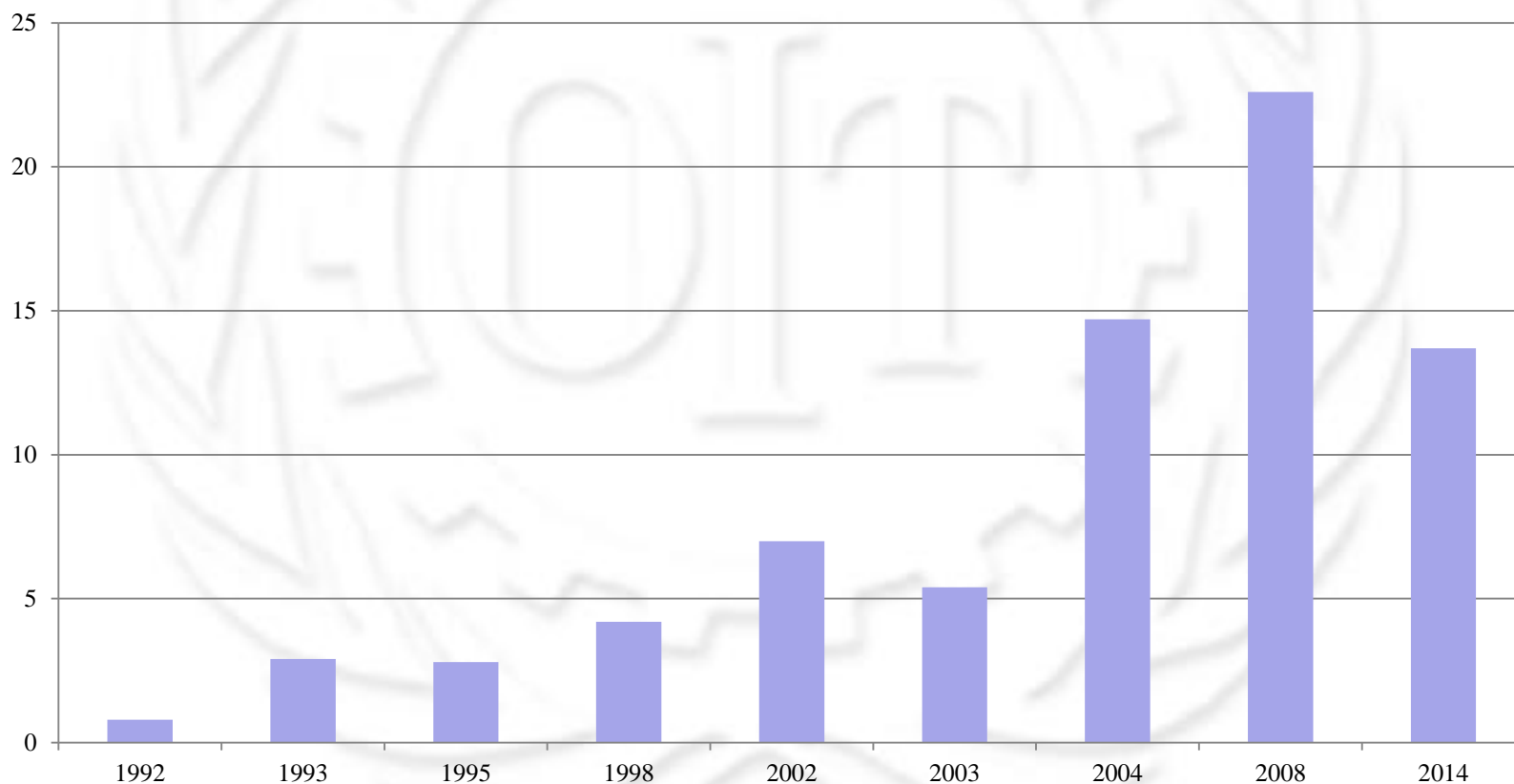
Latin America: average real MW



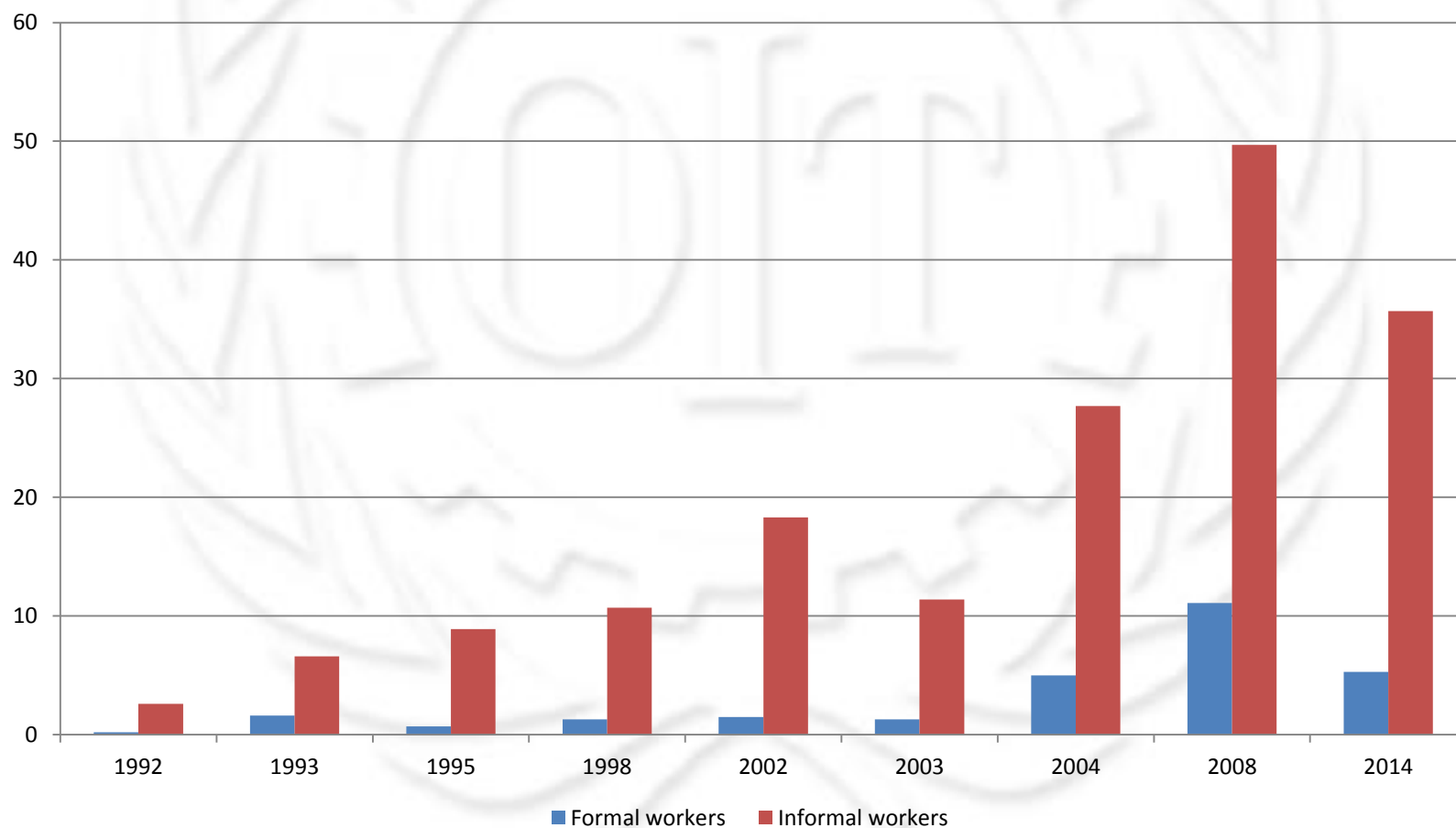
Argentina: Real MW



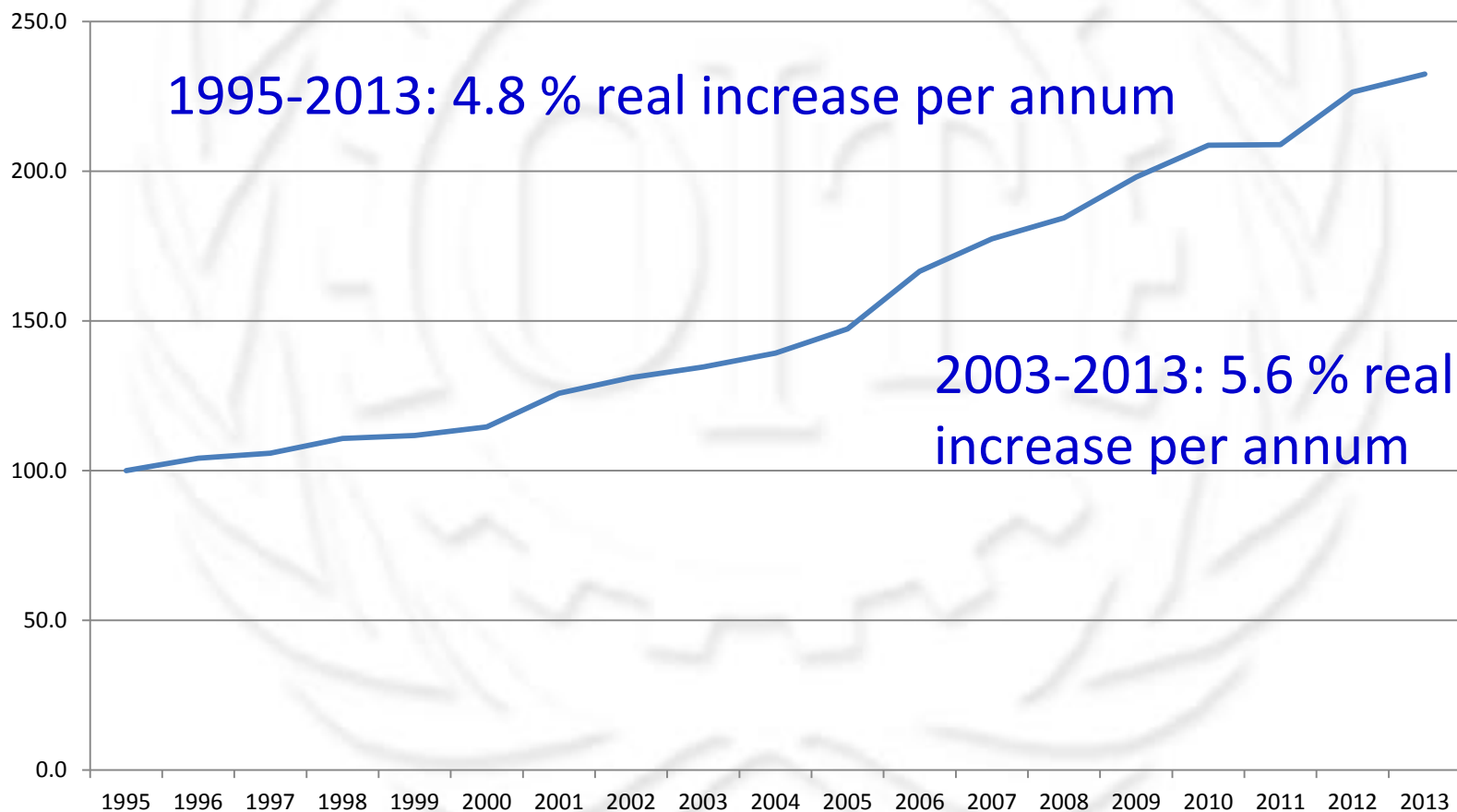
Argentina: Non-compliance with MW



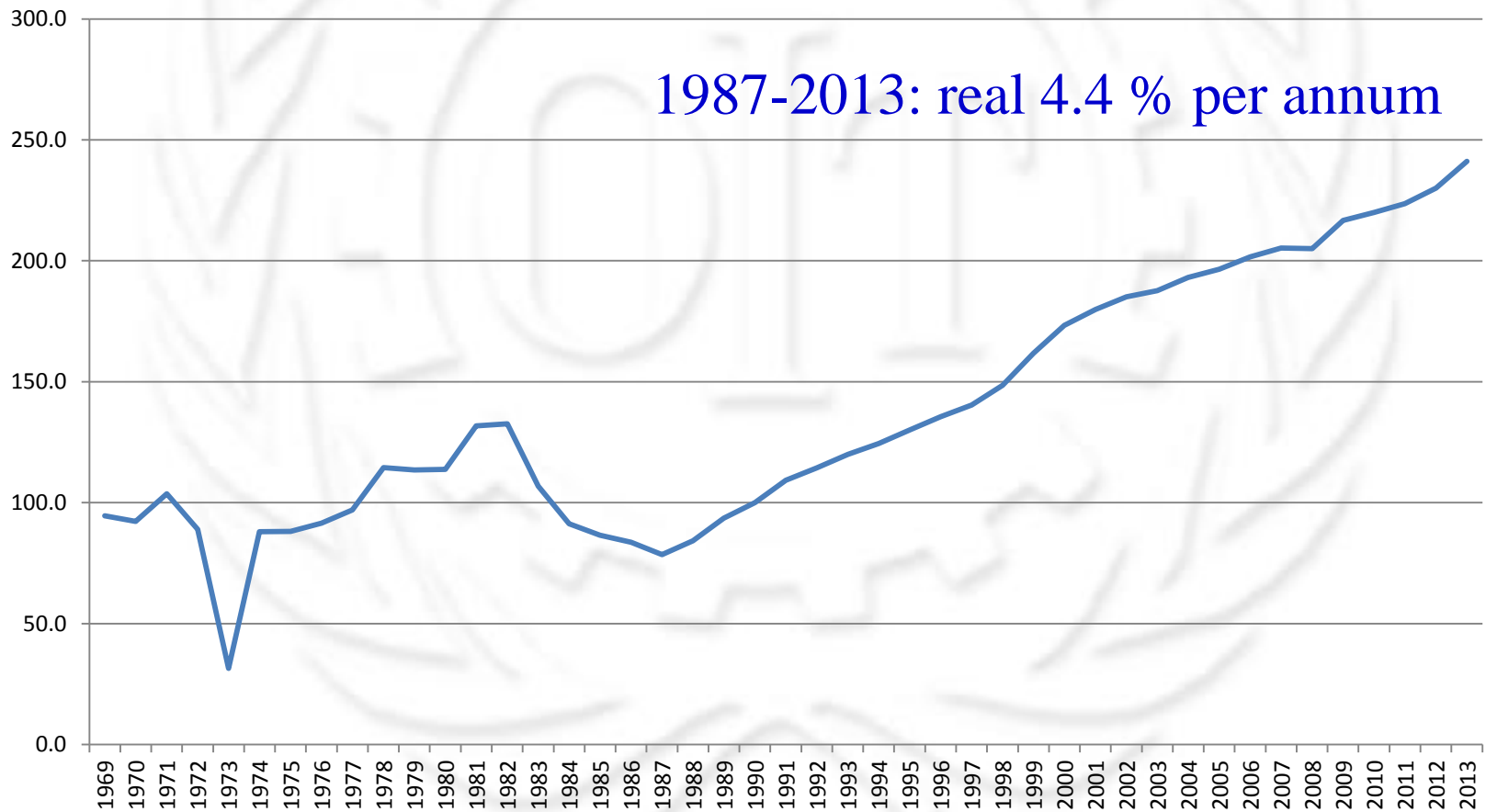
Argentina: Non-compliance among formal and informal workers



Brazil: real MW



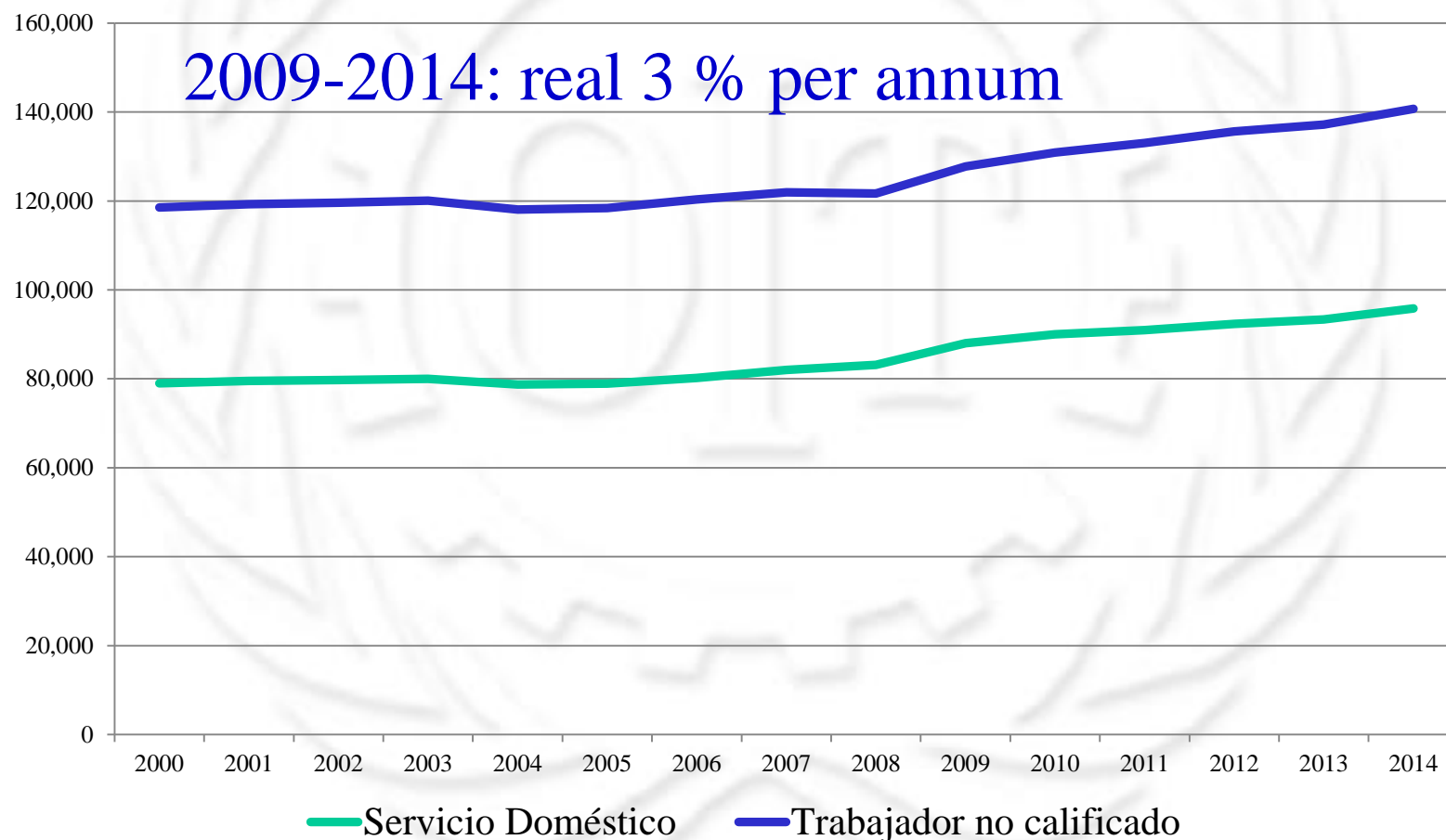
Chile, Real MW, 1990 = 100



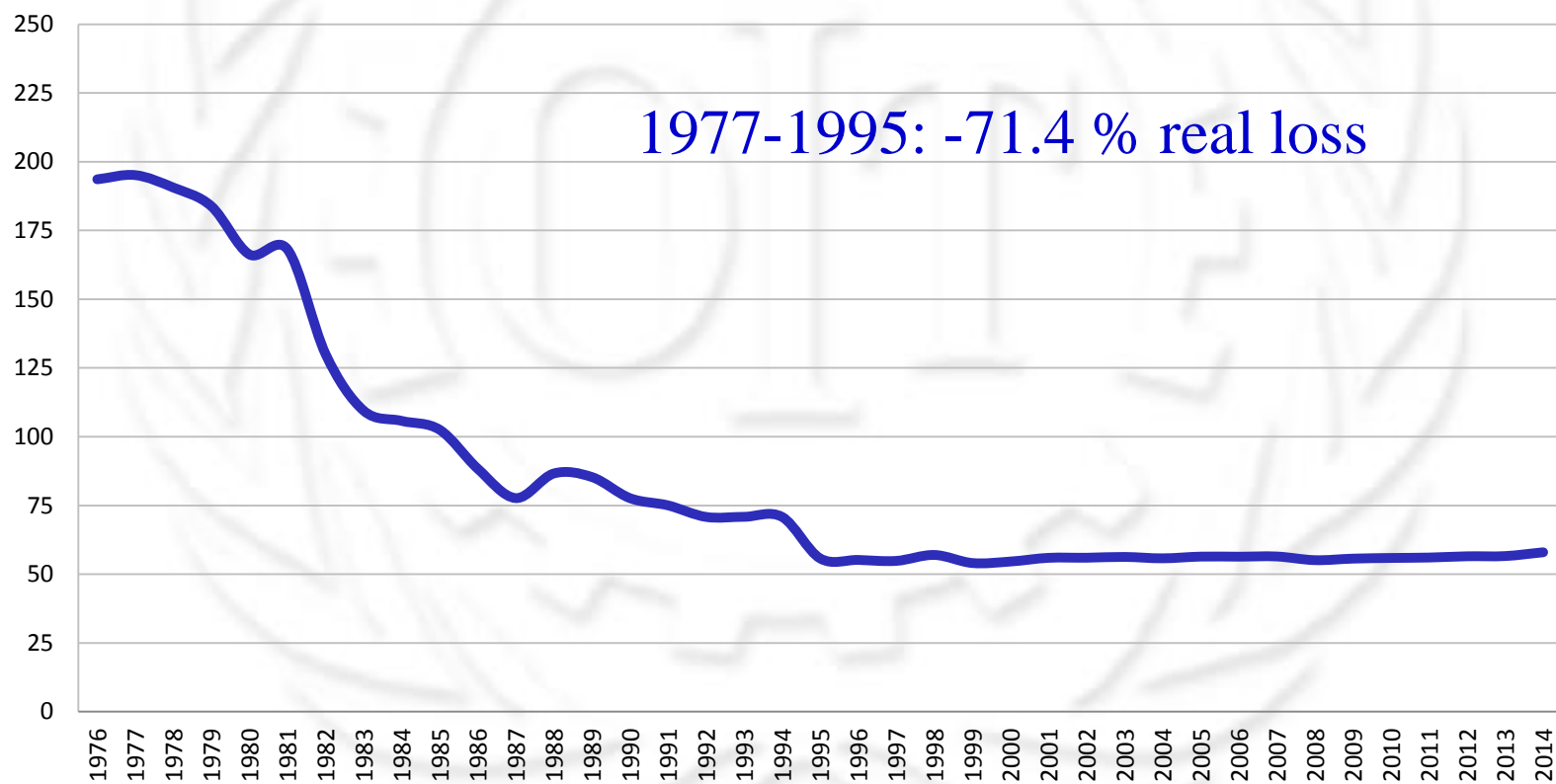
Chile: tri-annual MW adjustment

- In 1997 Chile programmed 3 year adjustments in the MW based on growth and inflation forecasts, plus an additional % to compensate for historical losses;
- The Asian crisis (1998) affected GDP growth which fell from 8 % in previous 10 years to 2 % between 1997-2000;
- Real MW increases over 7 % resulted in a high concentration of wage earners around MW level.

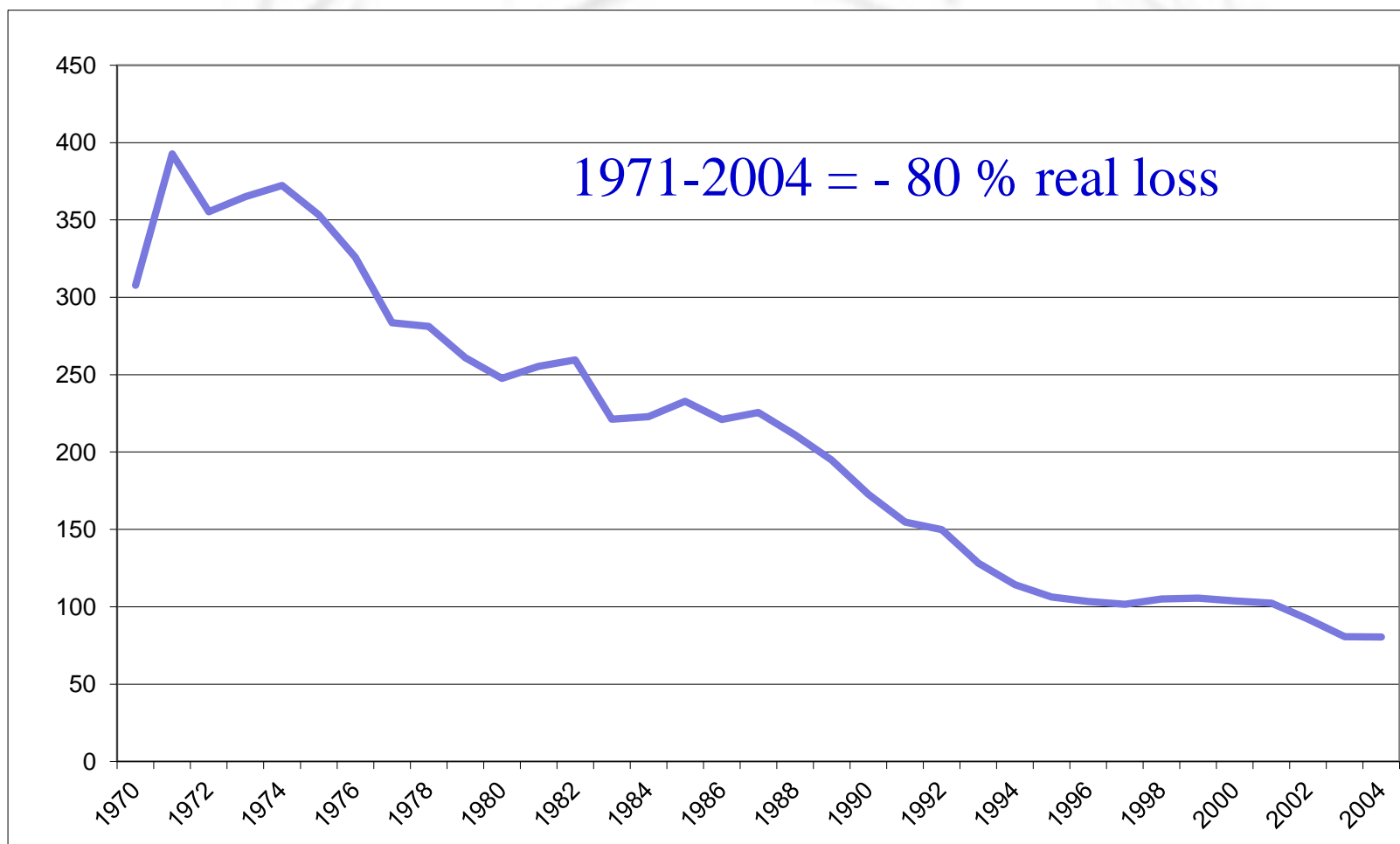
Costa Rica: real MW, 2006 colones



Mexico: real MW



Uruguay: real NMW, 1997 = 100



Uruguay: real NMW and wages

