IMPACT OF MINIMUM WAGES ON WAGES, EMPLOYMENT, POVERTY AND INEQUALITY

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Outline of the Presentation

- Minimum wage effects on employment and wages
- Potential of minimum wages in reducing poverty and inequality
- Some conclusions and recommendations

Effects of minimum wages on employment

- Mixed effects in China for the period 2000 to 2005 – negative effects in one region and positive effects in two regions (Ni, Wang and Yao, 2011)
- Net increase in employment in Indonesia, increase in informal sector employment compared to formal sector (Chun and Khor, 2010; Comola and de Mello, 2009)
- No employment effects in the number of jobs or hours worked In Brazil for the period 1982 to 2004 (Lemos, 2007)
- Effects varied by the size of the enterprise, larger firms actually showed positive employment effects compared to smaller firms in Indonesia (Rama, 2001).
- No impact on Mexico's employment in 1990, but it had a negative impact on employment in Colombia (Bell, 1997)
- There is actually no consensus within the literature on the employment effects, even according to recent meta studies

Effects of minimum wages on employment

Impact of minimum wages on employment, 2005 to 2010

Countries	Employment effects
Brazil	1.720 (2.02)
India	-0.620 (0.58)

Note: Standard errors are in parentheses, * $p < 0.05$

Source: Rani,U., Belser, P., Ranjbar , S. (2013) 'Role of minimum wages in rebalancing the economy' in World of work Report 2013 Repairing the economic and social fabric, ILO Geneva

Effects of minimum wages on inequality

Wage inequality indices, change in inequality between mid-2000s and late 2000s

Countries	P50/P10	P90/P50	P75/P25	Gini
Brazil	0.15	-0.37	-0.48	-0.02
India	-0.13	0.25	-0.07	-0-01

Source: Rani,U., Belser, P., Ranjbar , S. (2013) 'Role of minimum wages in rebalancing the economy' in World of work Report 2013 Repairing the economic and social fabric, ILO Geneva

Effects of minimum wages on wage quantiles

Methodology: Use the following mincerian equation in a Quantile regression approach

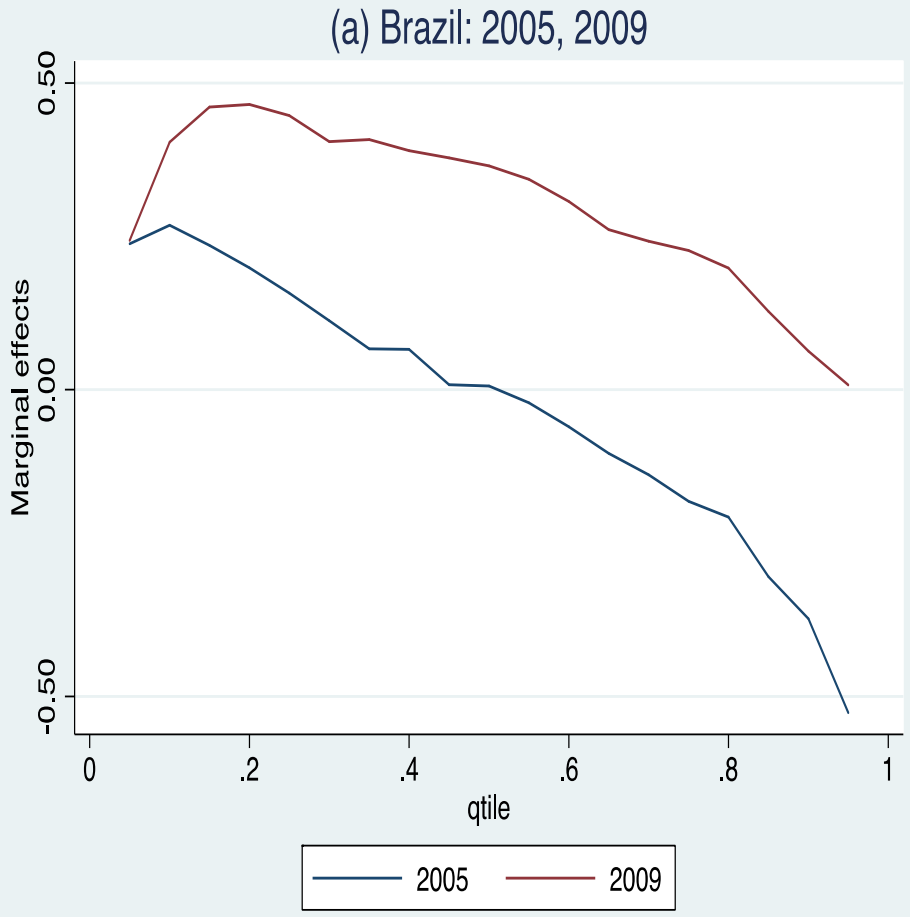
$$Quant_{\theta}(ln(w_i) \mid X_i) = \beta_0^{\theta} + \beta_1^{\theta} X_i + \beta_2^{\theta}(MWindicator_i)$$

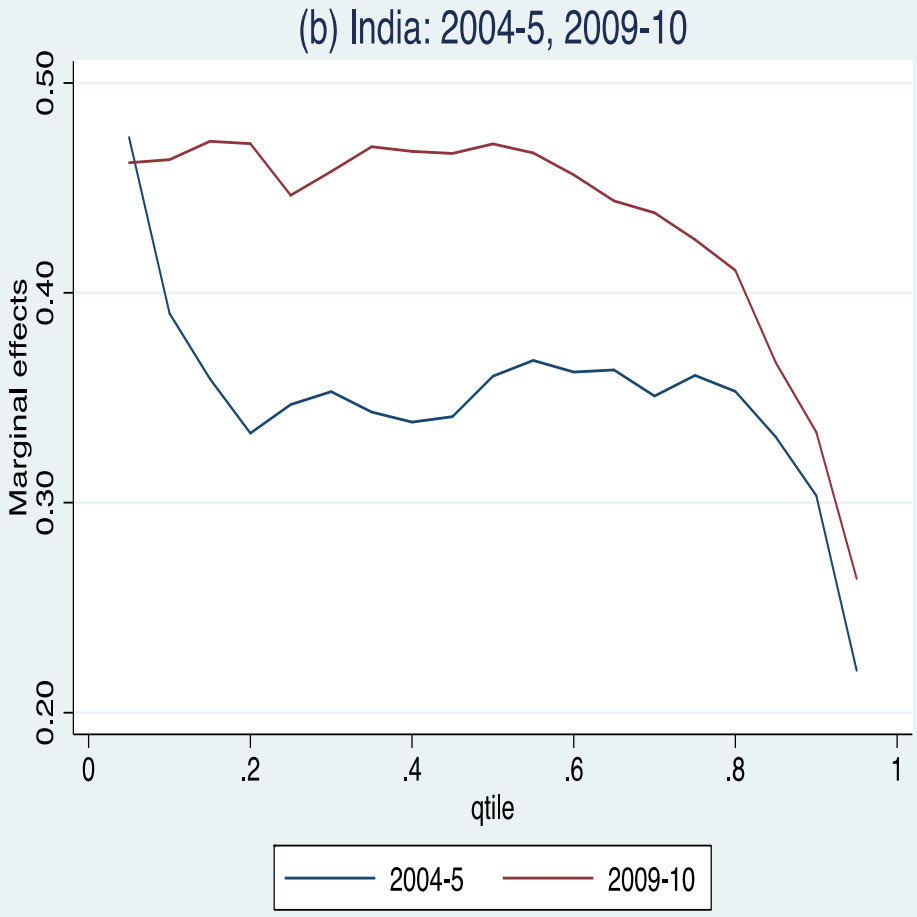
where $ln(w_i)$ indicates the log of hourly real wages. The β_j^{θ}'s are the coefficients of the wage regression at θth conditional quantile of $ln(w)$ given all explanatory variables.

$$MWindicator(\text{Effective Minimum wages}) = \ln(\frac{\text{Minimum wages}}{\text{Median of wages}})$$

- Vector of personal characteristics, X_i, comprises of age, gender, ethnic groups, education levels, marital status, regions (rural or urban), industry dummies, sector (formal or informal)

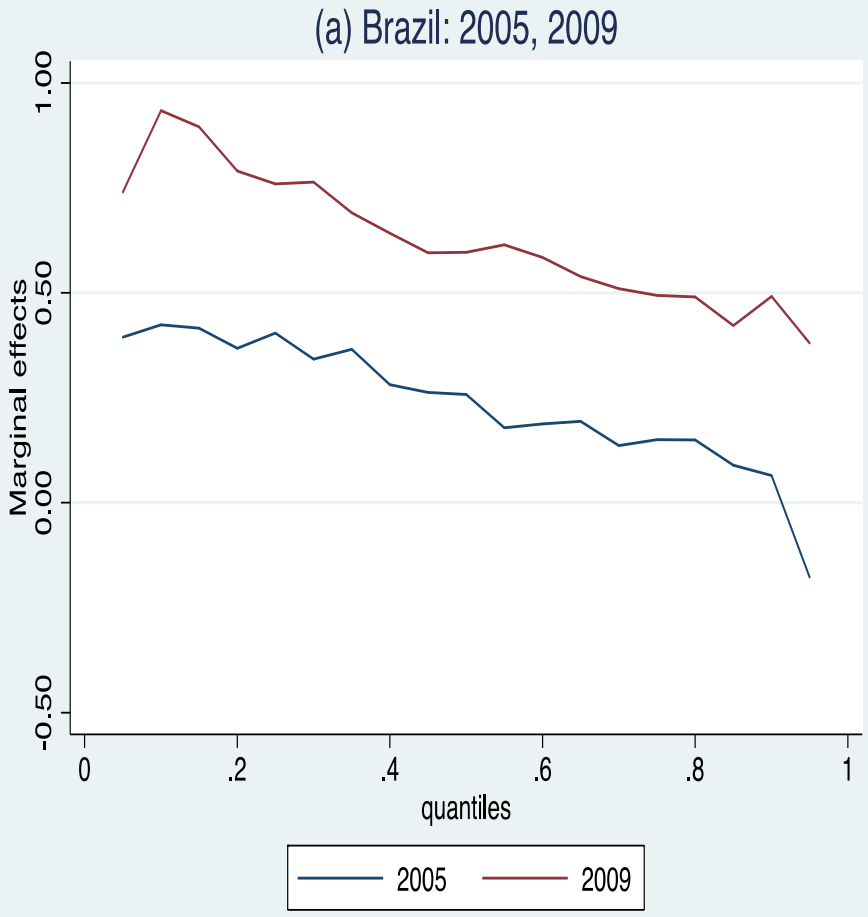
Effects of minimum wage on wage distribution: All wage workers covered by minimum wages





Source: Rani,U., Ranjbar , S. 'Impact of minimum wages on wage quantiles' Paper submitted to a Special Issue on Minimum wages, Journal of Labour and Development, March 2015.

Effects of minimum wage on quantiles: Informal workers covered by minimum wages



Source: Rani,U., Ranjbar , S. 'Impact of minimum wages on wage quantiles' Paper submitted to a Special Issue on Minimum wages, Journal of Labour and Development, March 2015

Effects of minimum wage on wage quantiles: India, All workers irrespective of the coverage

Source: Rani,U., Ranjbar , S. 'Impact of minimum wages on wage quantiles' Paper submitted to a Special Issue on Minimum wages, Journal of Labour and Development, March 2015

Simulation exercises

Potential of minimum wages in reducing poverty and inequality

Potential of a binding minimum wage to reduce inequality, India: Simulation exercise for 2004-5

Wage inequality by sector		
Sector	Actual wage	Adjusting for minimum wage
Rural	0.480	0.332
Urban	0.495	0.431
All	0.506	0.397
Wage inequality by Industry groups		
Industry groups	Actual wage	Adjusting for minimum wage
Agriculture	0.330	0.120
Manufacturing	0.456	0.359
Construction	0.299	0.221
Low productive services sector	0.413	0.248
High productive service sector	0.397	0.377

Source: Rani,U., Belser, P. (2011) 'Extending the coverage of minimum wages in India: Simulations from household data' in Economic and Political Weekly, Vol.57, No.22, p.47.55.

Potential of a binding minimum wage to reduce poverty, India: Simulation exercise for 2004-5

The Probit model with P (Below Poverty line = 1)

- For salaried workers not receiving minimum wages, and controlling for other variables, increases the probability of being poor by 9 - 10%

- For casual workers not receiving minimum wages, and controlling for other variables, increases the probability of being poor by 7 - 8%

Source: Rani,U., Belser, P. (2011) 'Extending the coverage of minimum wages in India: Simulations from household data' in Economic and Political Weekly, Vol.57, No.22, p.47.55.

Conclusions

- Despite imperfect compliance minimum wages has an impact on lower quantiles of the wage distribution
  - If set at the right level then it helps in reducing inequality by lifting those at lower quantiles and also depressing wages at the higher end (Brazil,2005)
  - Better enforcement could also help in increasing the impacts (India, 2009-10)
- Minimum wages do not lead to disemployment effects in developing countries (Rani et al, 2013) but leads to non-compliance in the informal sector

Recommendations

- Minimum wages can make a positive contribution to social justice – reducing poverty and inequality
  - If all wage workers are covered
  - If set at the right level, in consultation with social partners
  - If the system is not too complex
- Plea for a binding State level minimum wage for all workers irrespective of whether they are covered in the schedules of employment
- Compliance continues to remain a major challenge, which requires a coherent enforcement strategy
  - Provision of information, and improving awareness among both employers and workers
  - Effective labour inspection
  - Sanctions in case of violations
  - Involvement of social partners and civil society (NGOs) to ensure that the implementation machinery is effective