

LABOR MARKET REGULATIONS

Minimum Wages

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PURPOSE OF MINIMUM WAGE

- Allow workers to maintain a minimum standard of living.
 - Ensure that workers earn a *living* wage so they don't fall below the poverty line.

DISADVANTAGES

- Can serve as a disincentive to employment (especially the poorest of the poor)
 - Employers may not be willing or able to bear the cost of hiring workers at the set minimum wage.
 - They maintain their cost level by reducing the level of employment.
- Does not protect those who are unemployed or work in informal sector

MINIMUM WAGE STRUCTURES

- National
 - Set up by government order or by agreement between employers and employees
- Sectoral
 - Set up through agreement between employers and workers in the sector
- Regional
 - Set up by local government

NATIONAL MINIMUM WAGE

- Pro:

 - Fair - an equal wage is paid to all

 - Simple to administer

- Con

 - Does not consider differences in economic situations within a country and can be too high in some regions

SECTORAL WAGE

- Pro

Reflects sector's effectiveness as the wage can be pegged closer to what the market will easily tolerate

- Con

Sector inequality

LOCAL

- Pro

Reflects region's differentiation as differences in the cost of living are considered

- Con

Is sometimes considered discriminatory as not all workers receive the same wage

ISSUES

- If minimum wage is set too high it leads to an increase in unemployment
- If it is set too low, no protection is provided for workers
- To be effective, enforcement mechanism has to be in place and operational. If there is no enforcement mechanism, a minimum wage is not viable.

MINIMUM WAGE? -YES

- If a country decides on a minimum wage as a viable intervention, the most effective way of setting the wage needs to be determined.

The minimum wage should be based on consultation and agreement between employers and employees and legislated by the government

MINIMUM WAGE? -NO

- If a country decides that the establishment of a minimum wage is not appropriate, alternative strategies need to be implemented
- *Targeted (means tested) social assistance can ensure that minimum living standards are maintained*
- *Programs which incorporate public works and training can also provide the employment and training for future sustainable employment*