

Minimum Wages in the Asia Pacific Region

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Abstract

Modern minimum wage systems have operated for more than a century. Some Pacific countries were among the pioneers in establishing minimum wages. Minimum wage systems are used to achieve many aims, some of which conflict. These aims include promoting social justice, alleviating poverty, promoting economic development, setting benchmarks for other wages and social security payments, and controlling inflation. The Asia Pacific region has only a small number of countries with adequate minimum wage systems. There are many deficiencies in the various systems. They often do not cover all workers, are often set at unrealistically low levels, or are enforced inadequately.

Introduction

Minimum wage laws are a common feature of industrial relations systems in many countries. The main ILO convention on minimum wages, ILO Convention 26, has one of the highest ratifications by national governments. When this convention was adopted in 1928, the ILO's concern was to provide 'fair wages' and ensure that global trade was not based on cheap labour. These are still key reasons for being concerned with maintaining adequate minimum wage systems, but other concerns have been addressed through minimum wage machinery too. These aims sometimes come into conflict with one another, which puts minimum wage systems in most countries under strain. The forces of globalization put further pressure on the minimum wage systems in both the developing countries and the advanced countries.

This paper examines some of these issues within the context of the Asia Pacific region. The main sections of the paper deal in turn with the history of minimum wage systems, the position of minimum wage systems within international law, the different objectives loaded onto minimum wage systems, the different forms of minimum wage system in practice, and a brief overview of minimum wages in the Asia Pacific region. The longest section of the paper addresses the problems of implementing effective systems: the issues of coverage, level, compliance, the pressures of globalization, and the role of the social actors, particularly government.

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Origins and Early History

The concept of a fair wage or a minimum rate for particular occupations is not new. Mesopotamia's Hammurabi Code of 2000 BC (Starr, 1981) is probably the earliest intervention of this kind. The Statute of Apprentices introduced a system of minimum wages in England in 1563 and the guilds which operated in China, Korea and Europe also set wages in earlier periods. Modern laws providing for systems of minimum wages were first enacted in New Zealand in 1894 when the Industrial Conciliation and Arbitration Act provided for the system of industrial and occupational awards that set minimum rates of pay and bound all employers in the relevant industries. Similar systems were set up in Australia shortly afterwards.

Other Pacific-rim countries were pioneers in minimum wage fixing too. The state of Massachusetts introduced a statutory minimum in 1912. This legislation gave protection to minors and females. Nine other US states followed suit over the next decade, as did most of the Canadian provinces. A federal minimum wage was introduced in the USA in 1938, although coverage was limited initially. European countries introduced minimum wage legislation in the first decades of the twentieth century, mainly to protect homeworkers (Starr, 1981). These experiments, in common with the systems established in New Zealand and Australia, guaranteed minimum wages for the workers covered, but fell short of being national systems of minimum wages. Minimum wage laws with broad coverage were implemented much later. For example, New Zealand did not introduce a national minimum wage until 1945, 51 years after it had introduced industrial and occupational minima. Although European countries were notably active in legislating for minimum wages, a remarkable spread of other countries acted. Australia still has an incomplete coverage; there is no federal universal minimum wage, but all the states except NSW and Tasmania legislated in the last decade or so to guarantee minimum rates of pay. European colonies in Africa and the Caribbean had minimum wage laws introduced by the colonial powers. Latin American countries, influenced at least in part by papal pronouncements on the rights of working people (Starr, 1981), were among the first to legislate for a statutory minimum wage. Peru introduced minimum wage legislation in 1916 and Mexico introduced a statutory minimum wage in 1937 to reflect a guarantee of the 1917 Constitution provide state-wide guaranteed minimums.

Australia still has an incomplete coverage; there is no federal universal minimum wage, but all the states except NSW and Tasmania legislated in the last decade or so to guarantee minimum rates of pay. Today about 180 countries have some form of minimum wage. A minimum wage tends to be a correlate of economic development. Minimum wage systems are less common in very small countries such as the micro states of Oceania and in less developed regions. Minimum wage legislation is most common in Africa where 48 out of the 57 countries have a minimum wage. Europe also has a large proportion of countries with minimum wages, but countries such as Italy, Germany and Norway have no statutory minima. Instead they have extensive collective bargaining and a system whereby collective agreements are automatically extended to other firms in the same sector, thus most workers have a guaranteed legal minimum despite their being no general minimum system in place.

Minimum Wages and International Law

The obligation on governments to provide for a system of minimum wages is rooted in international law. *The Universal Declaration of Human Rights* (1948) asserts ‘the right to just and favourable remuneration’ (Article 32(2)) as does the UN’s *International Covenant on Economic Social and Cultural Rights* (1966) (Article 7). The *Declaration of Philadelphia* (1944) which redefined the aim and purpose of the International Labour Organization (ILO) identified the guarantee of adequate wages as a task of government.

ILO Conventions 26 (1928)¹, 99 (1951)² and 131 (1970)³ relate to minimum wages. Convention 26 obliges governments to create minimum wage fixing machinery where ‘no arrangements exist for the effective regulation of wages ... and wages are exceptionally low’ (Article 1, para 1). Convention 99 covers minimum wages in agriculture. Convention 131 is focussed on the ‘needs of developing countries’. While the Conventions do not specify the level at which minimum wages should be set, Recommendation 30, which is intended to be a guide to Convention 26, states that minimum wages should be set according to ‘the general level of wages in the country’ (Section III). Convention 131 states that the level of the minimum wages should be ‘appropriate in relation to national practice’ and include ‘(a) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; (b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment’ (Article 3).

Minimum Wage Systems in Operation

ILO Convention 26 was adopted only nine years after the ILO had been founded. The aim of the convention was twofold: one the one hand, to provide wages that were fair to the worker and which reduced the risk of poverty, and on the other hand, to make international trade fair by preventing economic dumping whereby a country used low wages to gain a cost advantage in trade. Today minimum wages play many and different roles in different countries. These different roles frequently conflict, and as we shall argue below, constitute one of the critical weaknesses of minimum wage systems. Minimum wage can be called upon to fill at least six different roles (a) to reduce poverty, (b) to improve equity, (c) to stimulate economic development, (d) to regulate wages in general, (e) to set rates for social security benefits, and (f) to fight inflation.

Combating Poverty

It is axiomatic that a higher minimum wage will mean less poverty. This was the motivation behind the Indonesian Government’s decision to introduce a minimum wage in the 1970s. The government, employers and unions had agreed that a minimum wage was needed to prevent a deterioration of the lowest wage level and to improve the standard of living (Ghellab, 1998)

Despite the unsurprising finding that that low pay is less common where there are minimum wage laws (Ioakimoglou and Soumeli, 2002) some argue that a minimum wage

does little to relieve poverty since many of the poor are not in regular employment (e.g. Johnston and Stark, 1991; Standing, 1999), or that some of the lower paid belong to well-off households. This latter observation, however, is not a reason to permit low pay. It is a consequence of low pay. One of the main reasons the US minimum wage is relatively ineffective in reducing poverty is just that it is set so low (Pollin and Luce, 1998).

It is true of course that a decent minimum wage is not the only way alleviate poverty. The effectiveness of a minimum wage in alleviating poverty will depend on the tax system and the availability of additional social security benefits. This implies that a minimum wage is more important in developing countries where low income families are less likely to have additional sources of income such as social security payments (Lustig and McLeod, 1997). Moreover, given the distribution of income, more workers are likely to benefit from an increase in the minimum wage in developing countries than in developed countries (Saget, 2001).

Promoting Justice

Low pay is a consequence of the way that labour markets are structured. Some jobs are socially constructed as deserving relatively low pay. At the same time, some categories of workers are less preferred by employers, or are in circumstances which prevent them applying for the better jobs. Thus, the preferred categories of worker get the better-paid jobs while the others have to compete for the jobs that are left – the poorer-paid jobs. Consequently ‘workers with ... equal skills and abilities are available at widely different prices’ (Wilkinson, 1984, p.422). The categories of worker who are less preferred tend to be women, racial or religious minorities, people with less education (even if education is irrelevant for the tasks to be performed) and other ‘socially disadvantaged’ groups. Foreign workers are particularly vulnerable; they are often driven to migrate on account of the low pay and high unemployment in their home country and are prepared to ‘work cheap’ in their new location. Their situation highlights the need for decent systems of minimum wages in all countries, so that people are not forced to migrate for economic reasons, and should they choose to migrate, they will receive an adequate wage in their new country.

These arrangements are clearly unjust in that many workers have to accept low wages. But it is also unjust in that the better paid within the same labour market benefit from the cheap labour of the low-paid. They benefit from cheaper services where they employ the low-paid directly. They also benefit if products or services they buy are ‘subsidized’ by low pay. Workers and other consumers in the advanced countries benefit too from the low pay of workers in the developing countries whose wages are much lower than theirs and whose products are priced correspondingly lower. Thus minimum wages are essential to reducing inequities within and between countries.

It has been suggested (Brosnan and Wilkinson, 1989) that groups that are most likely to be low-paid will be the principal beneficiaries from the introduction of a minimum wage or any increase in an established minimum. Thus improving minimum wages would assist in attaining equal pay for work of equal value. It changes the income of a

substantial proportion of women each time the minimum wage is increased. A realistic minimum wage should therefore be an integral part of any campaign for equal pay.

Stimulating the Economy

The advantages of a minimum wage system to the economy have been posited for at least a century (e.g. Webb and Webb, 1920). Wilkinson (1984) has argued that a realistic minimum wage alters the terms of trade between different productive systems, and making it more difficult for disadvantaged firms to rely on disadvantaged labour, thus forcing firms to become more efficient, by investing in better equipment, better methods and in the training of their workforces (Cahuc and Michel, 1996). At the international level, countries with higher minimum wages will have fewer inefficient firms and therefore be able to compete.

The other benefit is that the higher minimum boosts consumption spending. Workers on the minimum wage are likely to spend all of their wage (Borooah and Sharpe, 1986), and spend more of it on domestically produced products (Borooah, 1988). Thus an increase in the minimum wage would add more to domestic demand than an increase in pay at other points in the income distribution.⁴ This strategy was followed by the Mexican government in the period before 1976 but, as we shall see below, the approach fell foul of other policy objectives (Grimshaw and Miozzo, 2002).

Setting Social Welfare Levels

The minimum wage's role of providing an income that is both fair and sufficient to combat poverty leads to it being used as a numeraire for social welfare payments. Thus in some countries, again Mexico being an example, the minimum wage is used as basis for setting pensions. It is also used to set unemployment benefits and dismissal compensation (Grimshaw and Miozzo, 2002).

Giving a Lead to Other Wages

Our observation above that minimum wages are intended to provide a fair wage leads to employers using them as a benchmark for fair remuneration. The USA's minimum wage being increased so rarely, it provides an opportunity to see how other wages are affected by an increase in the minimum. In that country a rise in the minimum wage is followed by further rises in wage rates above the minima as employers reinterpret what they consider a fair wage. Maloney and Nuñez (2002) report on an even stronger case of this in Latin America - what they term the 'numeraire' effect. They note that in some Latin American countries some well-paid workers receive an exact number of minimum wages as their salary. They further note that the effect of an increase in the official minimum wage translates into wage increases at higher levels, in Latin America - at levels up to four times the minimum wage. This is considerably higher than the USA where the effect dies off more quickly.

Controlling Wages and Reducing Inflation etc

Grimshaw and Miozzo (2002) observe that direct state control of wage fixing has been a conspicuous policy in Latin America. Collective bargaining itself has been controlled and the growth in the minimum wage has been held back in an attempt to stabilize wages and prices. As a consequence, most Latin American countries experienced a decline in the real minimum wage over the 1980s and 1990s (Grimshaw and Miozzo, 2002). Their data indicate that of the Latin American countries that border the Pacific, only three - Chile, Ecuador and Panama - increased their real minimum wage during the period 1990-1995. In the last four years however, Guatemala, Honduras, Colombia and Chile have increased their minimums by more than 50 percent.

Forms of Minimum Wage Laws

A total of 104 countries have ratified ILO Convention 26. However, the convention allows for a wide variety of practices and few countries have a minimum wage system that applies to every worker. The various arrangements can be grouped into eight categories:

- (a) a statutory national minimum wage with full application (e.g. New Zealand),
- (b) a system of statutory regional minimum wages with full application within each region (e.g. Canada, Thailand),
- (c) a statutory national minimum wage with exemption for certain industries or workers (e.g. South Korea, USA),
- (d) a system of statutory regional minimum wages with exemption for certain industries or workers (e.g. Japan),
- (e) a national minimum wage negotiated through collective bargaining but with full, or near full, coverage (e.g. Greece, Belgium, Finland),
- (f) selective intervention with orders that provide for specific legal minima in certain industries or occupations (e.g. Australia),
- (g) reliance on collective bargaining but with extensions of collective agreements to other workers (e.g. Germany and Italy),
- (h) combinations of (a) to (g); e.g. a statutory minimum wage with full application which acts as a floor, but additional higher minima in certain industries or occupations (e.g. Mexico), or a national minimum with a higher minima in some regions (e.g. USA).
- (i) no official wage but a strong tradition which establishes a going rate (e.g. Kiribati)

Some countries also provide higher minima according to a workers experience or qualifications. A substantial number of countries have lower rates for young workers (e.g. Papua-New Guinea, New Zealand, USA), although these rates have become less common in recent years (*OECD Employment outlook 1998*)

Minimum Wages in the Asia Pacific Region

Table 1 sets out mean hourly minimum wage rates for the Asia Pacific region and the rest of the world, converted to New Zealand dollars at the average exchange rates for the 12 months up to the end of October 2006. The averages in Table 1 are computed only for those countries that have a positive minimum wage rate. The average for Asia Pacific, at NZ\$2.31, is only half the world average of NZ\$2.64. These average data, however, hide wide variations within them. Oceania has a higher average of NZ\$4.51, Asia's average is NZ\$1.10, while in the Latin America countries that border the Pacific, the average is only NZ\$1.14. These regional averages also hide variation. If we were to exclude Japan, the Asian average would fall to NZ\$0.84, not much more than Latin America's. The table includes data for Europe, and we can see the substantial difference between Asia Pacific and Europe: NZ\$2.31 compared to NZ\$10.78. If we exclude the 'rich' countries of Asia Pacific - Canada, USA, Japan, New Zealand and Australia - the remainder of Asia Pacific has an average minimum wage of NZ\$1.59.

We noted that these data are only for countries that have a positive minimum wage. Bearing in mind that Asia has a lower proportion of countries with a minimum wage, if we include the countries without a minimum in the average, the mean for all Asian Pacific countries reduces to NZ\$1.21, less than two-thirds the corresponding average for all countries, which stands at NZ\$2.07 .

Table 1: Average Minimum Wage^(a) by Region

Region	Minimum Hourly Wage Rate (NZ\$)
Mean Asia Pacific	2.31
Mean rest of world	2.81
Mean world	2.64
Mean Western Europe	10.78
Rest of world without Europe	1.67
Asia Pacific without Canada, USA, Japan, New Zealand, Australia	1.59

Source: Database held by second author. Details and primary sources available on request.

Notes: (a) Data current at 1 November 2006.

Problems in Implementing Minimum Wage Systems

There are many problems in managing a minimum wage system. To be effective the minimum wage must cover all the labour force, it must be adjusted to a level that ensures that no one is low-paid, and it must be enforced. While these requirements pose problems in their implementation, there are additional features that undermine the system: the pressures produced by globalization, lukewarm support from the social actors, and the conflicting objectives which governments impose on minimum wage systems.

Coverage

Minimum wage systems can only be effective if they cover the workers who are likely to be low-paid. Illegal workers usually lie outside the protection of the law. Thus if they are not entitled to work, they are not entitled to the minimum wage.

The arrangements vary substantially across nations. In some countries the minimum wage only applies to the private sector. Small firms may be excluded from coverage. Some countries have different rates for blue-and white-collar workers, some different rates for qualified and unqualified workers. Some countries have an experience requirement or different rates for trainees. Some countries exclude particular categories of worker or grant them a lower rate. Some countries exclude young workers. Regional variations within countries are not uncommon; Mexico, Canada and Japan have different minimum wages for different regions. Australia constitutes an unusual example within the Asia Pacific region; indeed within the world, in that four of the six states have statutory minimum wages while the federal territories, Tasmania and the largest state, New South Wales, have no minimum; instead workers in those regions have to rely on the extensive, but nonetheless piecemeal, system of awards.

In the developing countries of Asia, the group that most needs a guaranteed minimum wage is persons employed in the informal sector. Conditions in the informal sector are difficult to police. Furthermore, informal sector workers may work outside established legal frameworks and may not be entitled to statutory minima. While the informal sector in the advanced countries employs between 2 and 15% of the labour force (Standing, 1999 p.112), the ILO (1997) estimated the share in developing countries at between 30% and 80% of the labour force. It further estimated that the informal sector employs 61% of the urban labour force in Africa and will have generated 93% of new jobs in the 1990s. The proportion is lower in Asia, at around 40-50%, but ranges from 10% in the most developed countries of Asia to comparable figures to Africa in India and Bangladesh (ILO, 1997).

Level

Most countries that have a minimum wage have it set at levels that are inadequate for meeting basic consumption needs. Of the 178 countries that have some form of

minimum wage, only 52 have a minimum which is greater than NZ\$2.00 an hour. Some 89 have a minimum of less than NZ\$1.00 an hour.

Although the ILO has adopted three conventions on minimum wages, they offer little guide as to what is a reasonable level. The associated Recommendations do make reference to living standards, prevailing wages etc, but the wording is deliberately vague. The intention is that minimum wages must meet the cost of living but it is often the case that the minimum wage comes nowhere close to that objective. As an example, the minimum wage in Nicaragua meets only one third of the cost of living (Tabb, 2002).

A crucial issue is whether or not the minimum wage is adjusted regularly. There are many different ways that governments adjust their minima:

- (a) legislation or decision of the Executive (e.g. Canada, New Zealand, USA),
- (b) government on the recommendation of an independent review body (e.g. Japan, South Korea),
- (c) independent authority (e.g. Australia, Mexico),
- (d) indexation to the CPI (e.g. France),
- (e) indexation to average wages (e.g. Netherlands),
- (f) other formulae (e.g. Poland).

The minimum wage is unstable in many of the developing Asia-Pacific countries because of the irregularity of the review process or the conflation of the needs of the working poor with other considerations. Some countries in the region have regular review processes in place, e.g. Costa Rica and Colombia, although the effects on employment and on 'competitiveness' are often considerations. Consequently, the value of the minimum wage can fall easily into the range where it fails to meet basic consumption needs. Saget (2001) reports that minimum wages in Latin American countries lost 30% of their value between 1980 and 1990.

The instability of minimum wages in Latin America result from policy see-saws whereby the minimum wage is adjusted upwards at one time to combat poverty, and held back at others to attempt to control inflation. This is particularly noticeable in Mexico whereby the minimum wage was used as an instrument to redistribute income and stimulate demand before 1976, but used as a tool to fight inflation in the period that has followed (Grimshaw and Miozzo, 2002). The Mexican minimum wage decreased 45% during the 1980s. On the other hand, it increased in Colombia by about the same percentage (Saget, 2001).

Minimum wages fell in some Asian countries too. The Philippines experienced a continuous decline in the real value of minimum wages in the 1980s and into the 1990s. On the other hand, Thailand increased its minimum in real terms from the 1980s in to the 1990s (Saget, 2001).

The more advanced countries of the region with more stable economies suffer declines too, especially when conservative governments choose not to adjust the minimum. The US minimum wage buys no more than two-thirds what it did in 1968, and it was not adjusted at all between January 1981 and April 1990. Lee (1999) attributed most of the growth in inequality that occurred in the United States during the 1980s to the decline in the real value of the minimum wage during the Reagan years. Similarly in New Zealand, National Party governments' neglect of the minimum wage allowed it to decline by almost a half between 1954 and 1984 (Brosnan and Wilkinson, 1989).

One final consideration in relation to the level of the minimum wage, is the period to which it applies. Given that minimum wages are usually intended to guarantee minimum levels of consumption, they are usually set as a minimum per pay period (weekly or monthly according to country tradition) or as a minimum per hour. The disadvantage of this latter approach is that it may not provide for part-time workers (Saget, 2001), who are becoming an increasing proportion of the labour force in some countries, and who also need an adequate wage to maintain the consumption levels of their household.

Compliance/enforcement

No matter how high the minimum wage rate is, nor how extensive its coverage, it will be ineffective if employers offer wages less than the minimum. Compliance is a serious problem in all countries. Possibly no country has a large enough inspectorate to enforce the minimum wage, and many countries have no inspectorate at all, relying on complaints from workers or trade unions. The problem of enforcement is compounded where unionism is banned or severely curtailed. The pressures of globalization, which we highlight below, are another factor that weakens unionism and potentially reduces the degree of compliance.

There are regimes that are unwilling, or incapable of enforcing workers' rights, whatever the law may say. Many countries seem to have a minimum wage which is mere window dressing; they are unable to provide information about the minimum wage - the proportion of workers covered, the degree of compliance, or its impact on particular population sub-groups such as youth, women etc.

Even in Colombia, which stands out as a Latin American country where the real minimum wage has increased in recent decades, 25% of workers are paid less than the minimum (Maloney and Nuñez, 2002). The reason for this is that 'a high share of new jobs in the developing world are nowadays created in the informal sector where the minimum wage is weakly ... enforced' (Saget, 2001, p.1). Studies indicate high levels of non-compliance in many Asia Pacific countries: 54% in Guatemala, 9% in Chile, and 15% in Indonesia, with low levels of compliance in the Philippines which has no penalties for underpayment. Non-compliance is a particular problem in small firms. A Latin American study quoted by Saget (2001) reports that 63% of workers in 'micro-enterprises' in Costa Rica were paid below the minimum wage. The corresponding percentages were 46% in Panama, 28% in Chile and, 19% in Mexico and 16% in Colombia.

There is a relationship between the level of the minimum wage and degree of compliance in that a lower minimum wage makes compliance more likely (Lustig and McLeod, 1997). For that reason, it may be politic to introduce minimum wages initially at lower levels then gradually increase them to more realistic levels so that the concept becomes accepted and then compliance becomes more likely when a realistic level is attained.

Pressures of Globalization⁵

Of the many differences between developing and advanced countries, few are as spectacular as the differences in wages. Even within each of these groups, there are vast differences. Labour compensation costs in New Zealand are only a quarter of those in the US (US Department of Labor, 2002). The wages of a factory worker in Shenzhen is only half that of a worker in Bangkok (Bende-Nabende, 1997). Hidden behind these differences are further differences in productivity between enterprises, and differences in wages between categories of worker within enterprises. The minimum wage, globalization and local labour markets interact differently in the developing countries - particularly those in the Asia Pacific region - and the advanced countries.

Lack of Support from the Social Actors

The preceding sections give us some clues as to how the social actors might view minimum wage systems. Employers tend to be divided over the issue according to their own position within the pay structure. Employers in labour-intensive workplaces that rely on cheap labour for their survival and profitability tend to oppose minimum wages in general, and resist any increase in existing minima. On the other hand, employers in more capital-intensive firms that pay better wages may welcome minimum wage systems and, furthermore, see them as protection from competition from less efficient firms that rely on cheap labour.

Trade unions are often supportive of minimum wage systems. The minimum wage provides a floor for collective bargaining, and it meets the social objective of providing for workers with limited bargaining power and who are unable to organize. Thus trade unions generally lobby for minimum wage systems, and argue for higher levels of the minimum where one has been established. However this is not always the case. For example some trade unions resist the idea of a standard national minimum believing it undermines collective action.

Whatever the views of employers and unions, the government is the key player in effective minimum wage systems. Governments, directly or indirectly determine the level of the minimum wage, they determine whom it should cover, and they provide the resources for its enforcement. Given the number of ratifications of the ILO conventions on minimum wages, it could appear that governments in general agree with the concept. However, some governments whose countries have ratified the conventions, such as Fiji, have no minimum wage in place. Many have defective minimum wage systems or have even abolished minimum wage systems that had been set up. For example, Papua-New Guinea introduced minimum wage legislation in 1972, scrapped it in 1992, reinstated it but has kept rates low - currently 37.5 Kina per week (NZ\$20). During 2001, the Papua-

New Guinea Minimum Wage Board recommended a large increase, but the government blocked it, and no increase was implemented

There are several reasons why governments are reluctant to establish and maintain effective minimum wage systems: fear of inflation, concerns about the fiscal impact, and the unease over the possible employment effects, the latter often fuelled by international agencies. We have argued before that the possibility of general inflation following a minimum wage increase is not strong (Brosnan and Wilkinson, 1988). Inflationary effects may be offset by increased productivity (Hughes, 1976) or a reduction in profits. An important factor will be the extent to which higher paid workers successfully restore differentials disturbed by the higher minimum wage. However labour markets are segmented such that better paid workers are unlikely to be making comparisons with workers whose pay is so low to be on the minimum wage (Brosnan and Wilkinson, 1988). Perhaps most importantly, the globalization processes described above, have severely weakened the ability of trade unions to respond to changing differentials, should they wish to do so.

Governments are not unaware of the effects of the minimum wage on their fiscal position, particularly where government employees are on minimum wage rates, or where the government employs contractors who pay minimum wage rates. A further concern is where social security benefits or pensions are linked into minimum wages. Concern with similar issues underlay the IMF's threat to Russia, that it would block a scheduled loan if the minimum wage were increased (Standing, 1999).

A prevailing unease on the part of governments is the relation between the minimum wage and unemployment. The argument, derived from simplistic economic theories, is that with higher minimum wage rates, fewer workers will be hired. (for discussion see Brosnan, 2002). A similar claim is made with respect to youth employment - imposing a minimum wage for youth (or a relatively higher one where one exists already) would lead to lower employment rates for youth to the benefit of non-youth workers. The story is told most strongly in the US, but has been critiqued even within the economics establishment (Card and Krueger, 1995). Although these propositions have been tested in various countries, the results are never conclusive. Regression coefficients are frequently not significant, or the predicted relationships are found not to exist. Where there does appear to be a relationship, other factors are frequently responsible (see Ghellab, 1998). Nonetheless, countries still hold wages down in fear of unemployment.⁶

Conclusion

Minimum wage systems are not particularly robust in the Asia Pacific region. The proportion of countries with a minimum wage is slightly below the world average, and the levels of minimum wages tend to be low as well. There is considerable diversity within the region, but even some of the 'rich' countries that have had a form of minimum wage for some time have histories of neglecting to adjust the minimum including, as mentioned, in New Zealand. In common with much of the world, minimum wages in the region are not well enforced.

There are particular problems in the region, the large informal sector in Asia make enforcement difficult, and provide little incentive for governments to legislate or to set the minimum wage at a realistic level. Moreover some of the less developed nations in Asia use low wages as a source of comparative advantage in attracting MNEs. In Latin America, despite a long history of having a minimum wage in many countries, more general economic problems have caused minimum wage to be put on the back burner. Even more, minimum wages have been deliberately held down in an attempt to control inflation. Japan and Australia have the highest minimum wages in the region but in Australia, coverage has not been universal since almost half the Australian labour force has had no statutory minimum wage, however many of those without access to a statutory minimum are covered by awards.

The lack of effective minima impact upon particular groups. These include women, racial or religious minorities, and migrants. Justice demands that these people have access to a decent income. The nation-state is the only organization currently capable of regulating wages where collective bargaining is poorly developed. However, as we noted above, pressures of globalization make governments cautious about, or even hostile to increases in minimum wages. Unfortunately some national trade union movements are reluctant to push for better minimum wage systems because they believe they may undermine collective bargaining and trade union organization. Nonetheless, governments and trade unions have an interest in there being adequate minimum wage systems in the countries with whom they trade or compete in trade.

The challenge for many Asia Pacific nations is to set minimum wage at a decent level, to devise ways that it can cover the informal sector, and to enforce it successfully. In some countries this may be an awesome task for it demands a sophisticated legal system, and must overcome the objections of employers who fear their ability to compete would be undermined. A sound minimum wage system can be a spur to a more efficient economy, one that does not rely on cheap labour for its success. A better minimum wage is not a full solution to the problems of poverty, inequality or uneven economic development - a successful policy on minimum wages must be nested in broader policies of labour regulation and economic development - nonetheless a sound minimum wage system must be an essential component of any package of policies to achieve these objectives.

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¹ Convention Concerning the Creation of Minimum Wage-fixing Machinery

² Convention Concerning the Creation of Minimum Wage-fixing Machinery in Agriculture.

³ Convention Concerning Minimum Wage-fixing with Special Reference to Developing Countries.

⁴ These arguments are spelt out more fully in Brosnan (2002).

⁵ This section is based on a portion of Brosnan (2003).

⁶ A further elaboration on this argument is in Brosnan (2003).