

Special Feature: *The Tax Treatment of Minimum Wages*

1. Introduction

Binding wage floors can have a significant impact on the wage distribution and the costs faced by employers. International comparisons of minimum-wage levels have largely focused on the *gross* value of minimum wages, ignoring the effects of taxation on both labour costs and the net income of employees. This paper presents estimates of the tax burdens facing minimum-wage workers. These are used as a basis for cross-country comparisons of the net earnings of these workers as well as the cost of employing them. In addition, results show the evolution of net incomes and labour costs during the past six years and the relative importance of minimum-wage adjustments and tax reforms in driving these changes.

Information on the cost of employing minimum-wage workers is useful for comparing the potential effect of statutory minima on firms' hiring decisions. Despite intensive research, there exists, in fact, little agreement, either in theory or in the empirical literature, about the net employment effects of minimum wages (see Box 1). There is a broad consensus, however, that employment is likely to be reduced if minimum wages are set "too high". Excessively high wage floors act as employment barriers for low-productivity workers in particular, with young people being a group of particular concern.

With binding wage floors in place, taxes paid by the employer cannot be passed on to minimum-wage workers by lowering their pay (employers may nevertheless be able to shift taxes paid for minimum-wage workers to higher-paid workers by lowering their wages). To the extent that minimum wages cause labour costs and worker productivity to become misaligned, they will then result in lower employment for the groups concerned. To alleviate the costs of employing low-productivity workers, a number of countries have therefore implemented measures to restrain non-wage labour costs specifically for workers whose wages are at or close to the legal minimum. To understand whether the cost of employing low-wage labour has in fact gone down after these policies were implemented, it is necessary to analyse employer contributions and payroll taxes in conjunction with trends of minimum-wage levels.

Similarly, policies to "make work pay" have targeted low-wage workers with the aim of increasing their take-home pay. In addition to the redistributive properties of such measures, spending tax revenue on improving the work incentives of low-wage workers can be attractive from an efficiency point of view as their labour supply is known to be particularly elastic (Immervoll et al., 2007). In a number of countries, "make work pay" policies have taken the form of tax reliefs or so-called "in work" benefits. But governments also seek to increase the returns to work more directly by adjusting wage floors. Different types of policy interventions may be employed simultaneously. For instance with

Box 1. **Economic effects of minimum wages**

With unchanged out-of-work benefits, higher wages improve incentives to take up employment and may encourage employment in labour market segments where performance is inhibited by weak labour supply. And in a general equilibrium framework, additional wage income tends to increase consumption, notably among low-income households, which may have some positive effect on aggregate demand and, thus, employment.

But at the firm level, the imposition of a binding minimum wage increases labour costs leading to lower demand in a competitive labour market where firms can hire all the workers they need at a given wage. If this assumption is dropped, however, and replaced with one of an imperfect labour market where firms have to pay higher wages to recruit more workers, then it is possible that the minimum wage could actually increase employment – as well as output (Card and Krueger, 1995; Dolado et al., 1996; but already noted by Stigler, 1946). When set above a certain level (the workers' marginal product – which of course varies between employers and types of job), minimum wages will, however, reduce employers' demand for labour in this setting as well.

Empirical studies looking at the employment effects of altering minimum-wage levels report conflicting results (OECD, 1998, Chapter 2; OECD, 2006, Chapter 3). In part, this is because they focus on different country settings, regions or labour market segments. But disagreement exists also between studies where these are similar. In a comprehensive survey of the “new minimum wage” literature, Neumark and Wascher (2006) conclude that the existing range of elasticities of employment with respect to changes in the minimum wage is very wide, that the majority of studies point towards disemployment effects, especially among the low-skilled population, and that there is comparatively little evidence of positive employment effects.

While employment effects have been the focus of minimum-wage related research, distributional and fairness concerns are commonly the primary rationale for introducing wage floors. The optimal level of any binding wage floor then depends on the relative weights attached to distributional and efficiency concerns. Of course, changes in the minimum wage do not reach the poorest segments of the population, i.e., households where no-one has a job. Yet, improving the incomes of low-wage workers may be a policy objective in itself and properly-set minimum wages can complement other policies in achieving it. In other words, although employment effects are a crucial influence on distributional outcomes, it is possible that, when set against other distortive redistributive measures, an optimal policy mix includes minimum wages even if they reduce employment among certain groups.

minimum wages in place, it is more difficult for employers to “pocket” tax concessions aimed at improving employees' take-home pay and employment incentives. Again, given such complementarities and different strategies across countries, it is desirable to analyse relevant tax policy measures together with trends in minimum wages.

Section 2 provides an overview of minimum wages across countries using a range of different measures. Section 3 applies the *Taxing Wages* models to calculate tax burdens and net incomes of minimum-wage earners. Section 4 then examines the cost of employing minimum-wage workers. All sections present results for 2000 and 2006. Observed trends are discussed in terms of the relative contributions of tax reforms and changes in minimum wages.

2. Minimum-wage levels

It is important to note that wage floors can exist even in the absence of statutory minimum wages. First, out-of-work benefits can act as a reservation wage with firms unable to find workers willing to accept wages below applicable benefit rates. Second, collectively-bargained minimum wages exist in some of the nine OECD countries who do not operate statutory minima. However, while the proportions of employees covered by such agreements can be large (for instance in Austria, Germany and Nordic countries), negotiated minimum wages tend to vary markedly between economic sectors, regions or depending on employer characteristics (for instance, more than 140 different collective agreements currently exist in Finland). For these reasons, negotiated wage floors are not considered in this chapter unless they are quasi-statutory.¹ Information on unemployment and other out-of-work benefit levels can be found in the OECD series *Benefits and Wages* (OECD, 2004; 2007).

Statutory or quasi-statutory minimum wages are in place in 21 OECD countries. Data from the OECD minimum wage database, shown in Table S.1, indicate that the variation across countries is very substantial, with 2006 levels ranging between less than USD 1 and more than USD 10 per hour for adult workers.

Table S.1. **Gross statutory minimum wages, 2000-2006**
Per hour, USD at 2006 market exchange rates and constant prices

	2000	2001	2002	2003	2004	2005	2006
Australia	8.80	8.75	8.79	8.92	9.06	9.16	9.06
Belgium	9.47	9.47	9.58	9.55	9.47	9.43	9.32
Canada	6.77	6.69	6.62	6.53	6.54	6.60	6.71
Czech Republic	1.18	1.45	1.62	1.76	1.85	1.95	2.05
France	8.80	8.97	9.08	9.24	9.55	9.92	10.14
Greece	4.81	4.81	4.89	4.97	5.08	5.19	5.35
Hungary	0.96	1.38	1.64	1.56	1.55	1.61	1.69
Ireland	8.66	8.54	8.56	8.66	9.29	9.68	9.51
Japan	5.55	5.64	5.72	5.74	5.75	5.77	5.76
Korea	2.23	2.33	2.61	2.80	2.95	3.20	3.47
Luxembourg	9.99	10.34	10.32	10.71	10.63	10.91	10.79
Mexico	0.74	0.75	0.75	0.75	0.75	0.75	0.76
Netherlands	9.81	9.98	10.09	10.19	10.14	9.97	9.92
New Zealand	5.69	5.66	5.72	5.98	6.18	6.34	6.56
Poland	1.37	1.51	1.51	1.58	1.57	1.58	1.65
Portugal	3.22	3.24	3.26	3.23	3.24	3.24	3.23
Slovak Republic	1.01	1.07	1.20	1.22	1.17	1.31	1.32
Spain	4.28	4.23	4.19	4.16	4.31	4.43	4.52
Turkey	1.27	1.04	1.18	1.22	1.56	1.59	1.55
United Kingdom	8.16	8.56	8.96	9.13	9.53	9.81	9.93
United States	6.08	5.92	5.82	5.69	5.54	5.36	5.15
OECD-21	5.18	5.25	5.34	5.41	5.51	5.61	5.64

Source: Secretariat calculations based on the OECD Minimum Wage database. See Annex Table S.A1 for details.

StatLink  : <http://dx.doi.org/10.1787/071400861853>

While comparing absolute wage levels in a common currency can be informative, international comparisons frequently express minimum wages relative to the earnings distribution in each country.

The relative position of minimum-wage workers is of interest both as a feature of the income distribution and because it is indicative of the economic significance of wage floors for the labour market. While, arithmetically, the most obvious effect of introducing or raising minimum wages is to change the earnings of those below the new wage floor, there will generally be spill-over effects on the wages of those further up the earnings distribution. For instance, a recent study argues that the large minimum wage increase in Hungary in January 2001, which introduced a wage floor at around the 15th earnings percentile, resulted in progressively smaller, but measurable, wage increases up until the 35th percentile (Kertesi and Köllő, 2003).²

Table S.2 shows gross earnings of full-time minimum-wage workers as a percentage of the average wage measure (AW) used in the *Taxing Wages* series.³ They range from roughly 25 per cent in Korea and Mexico to around 50 per cent in Australia, France, Ireland and New Zealand. On average across the 21 countries, minimum wages in 2006 amount to nearly 38 per cent of AW.

Table S.2. Relative minimum-wage levels, 2000-2006

Gross earnings of full-time minimum-wage earners as per cent of gross average wages (AW)

	2000	2001	2002	2003	2004	2005	2006
Australia	50	51	50	49	48	48	47
Belgium	42	41	41	41	40	40	40
Canada	38	38	38	38	38	38	38
Czech Republic	30	36	38	40	40	41	41
France	43	43	44	44	45	47	47
Greece	43	43	43	43	41	39	39
Hungary	28	38	42	39	37	38	39
Ireland	53	51	49	51	50	53	52
Japan	27	27	28	28	28	28	28
Korea	22	22	23	24	23	25	26
Luxembourg	40	41	41	42	41	42	41
Mexico	27	25	25	24	24	24	24
Netherlands	46	45	45	45	43	42	43
New Zealand	45	44	45	46	47	48	50
Poland	33	34	33	34	34	36	37
Portugal	41	41	40	40	39	39	39
Slovak Republic	31	32	35	37	34	37	36
Spain	34	34	33	33	34	35	36
Turkey	18	16	19	21	27	27	27
United Kingdom	32	33	33	34	35	35	35
United States	39	38	37	36	35	34	33
<i>OECD-21</i>	<i>36</i>	<i>37</i>	<i>37</i>	<i>38</i>	<i>38</i>	<i>38</i>	<i>38</i>

Note: The available average wage figure for the US currently excludes supervisory and managerial workers. The ratios shown for the US would therefore be considerably lower if US average wages were available on the same basis as in other countries. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: Secretariat calculations based on the OECD Minimum Wage database.

StatLink  : <http://dx.doi.org/10.1787/233275325270>

Between 2000 and 2006, the simple (un-weighted) country average has increased slightly, indicating that minimum-wage workers have tended to participate equally in the wage gains or losses experienced by the working population at large. Some countries have, however, seen substantial changes over the past six years. The United States stands out as

the only country where minimum-wage workers have seen their real earnings decline markedly and persistently (see Table S.1, which shows that Belgian and Canadian real minimum wages have declined as well but only marginally so). As the nominal value of the Federal minimum wage has not been increased since 1998, inflation has eroded its real value. Gross earnings of minimum-wage earners have fallen behind those of the average US employee by six percentage points over the period. Minimum wages have also lagged behind average wage growth in Australia, Belgium, Greece, Mexico, the Netherlands and Portugal.

In a number of other countries, the gap between minimum and average wages has narrowed. Relative minimum-wage levels have increased from very low initial levels in Turkey and from moderate levels in the United Kingdom and most Eastern European countries. Minimum-wage workers in France and New Zealand have benefited from further increases of relative wage floors that were already among the highest in the OECD.

Despite a number of minimum-wage increases, relative wage floors in Ireland have remained largely unchanged over the 2000-2006 period as a result of equally large wage increases in other parts of the wage distribution.

3. After-tax values of minimum wages

One policy objective of introducing or increasing minimum wages is to improve the incomes of low-skilled workers. The tax treatment of low wages plays an important role in determining the extent to which higher minimum wages do in fact translate into net income gains.

It is clear from Table S.2 that minimum wage levels are substantially below 67 per cent of the average wage – the lowest earnings level considered in the standard *Taxing Wages* calculations for single or primary earners. It is therefore possible that relevant aspects of tax policy measures directed at the very bottom of the wage distribution may not in fact be picked up by the standard measures considered in *Taxing Wages*.

Table S.3 presents tax burdens faced by employees and shows that these can indeed differ significantly between “low” (67 per cent of AW) and “lowest” (minimum wage) earnings levels. Results are shown for single individuals only.⁴

In 2006, average tax rates faced by minimum-wage earners have exceeded 20 per cent in the Netherlands, Poland and Turkey. Yet, 10 countries have eased tax burdens in recent years. Over the 2000-2006 period, tax reductions for minimum-wage workers have been most prominent in Belgium, France, Ireland, the Netherlands and, in spite of a large increase in minimum wage levels, in Hungary. In these countries, tax burdens of average workers have fallen less strongly during this period and, as a result, tax systems have become more progressive in the lower half of the wage distribution.

The resulting minimum wages net of income taxes and employee social security contributions are displayed in Figure S.1a. With progressive tax systems, minimum wages expressed as a percentage of the average wage are larger in net terms than they are on a gross basis. In a number of countries, this progressivity provides a sizable boost to the incomes of minimum-wage earners relative to those of average earners. While the largest equalising effect is found for the country with the highest labour tax burdens for average wage earners (Belgium), the difference between the tax rates faced by average and minimum-wage earners is also substantial in Hungary (20 percentage points) and the United Kingdom (14 percentage points). In Mexico, a generous non-wastable tax credit

Table S.3. Average tax rates for full-time workers at different wage levels
Personal income tax plus employee social security contributions

	2000			2006		
	MW	67% AW	AW	MW	67% AW	AW
Australia	15.4%	20.7%	26.1%	14.7%	19.9%	23.7%
Austria		25.6%	31.0%		27.0%	33.0%
Belgium	23.5%	35.8%	43.0%	17.2%	34.8%	41.8%
Canada	15.3%	19.6%	25.4%	13.8%	20.4%	24.2%
Czech Republic	14.9%	20.8%	22.6%	15.6%	19.1%	22.5%
Denmark		40.8%	44.1%		38.8%	40.9%
Finland		28.1%	34.2%		24.3%	30.7%
France	21.0%	25.7%	28.8%	16.7%	26.1%	29.1%
Germany		38.1%	44.5%		36.6%	42.7%
Greece	15.9%	17.4%	21.1%	16.0%	17.2%	24.7%
Hungary	20.5%	30.0%	35.7%	14.3%	22.8%	34.0%
Iceland		15.9%	22.6%		19.2%	24.5%
Ireland	8.3%	11.1%	20.3%	2.7%	7.3%	14.8%
Italy		23.7%	28.2%		22.8%	27.6%
Japan	12.2%	15.5%	17.0%	14.5%	17.9%	19.5%
Korea	6.7%	7.4%	9.0%	7.2%	8.3%	10.6%
Luxembourg	17.0%	23.5%	30.1%	15.9%	21.1%	27.9%
Mexico	-24.5%	-4.6%	2.4%	-21.8%	-1.6%	5.0%
Netherlands	26.6%	32.6%	33.2%	22.6%	31.2%	36.1%
New Zealand	17.4%	18.6%	19.4%	18.3%	19.0%	20.9%
Norway		26.7%	30.7%		25.5%	29.0%
Poland	26%	30.4%	31.6%	27.4%	30.8%	32.2%
Portugal	12.2%	17.3%	22.4%	11.0%	15.5%	21.2%
Slovak Republic	12.4%	17.9%	19.5%	13.4%	18.7%	22.4%
Spain	6.4%	14.7%	19.8%	6.7%	16.3%	20.5%
Sweden		31.7%	33.7%		28.5%	31.1%
Switzerland		18.9%	22.0%		18.8%	21.9%
Turkey	24.1%	27.2%	28.7%	28.4%	29.5%	30.5%
United Kingdom	11.7%	22.2%	25.5%	12.7%	23.7%	26.8%
United States	16.3%	21.1%	23.9%	14.5%	20.6%	23.4%
<i>Average</i>	<i>14.3%</i>	<i>22.5%</i>	<i>26.6%</i>	<i>13.4%</i>	<i>22.0%</i>	<i>26.4%</i>

Notes: AW: average wage, MW: statutory minimum wage. The average wage for the US currently excludes supervisory and managerial workers. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: OECD *Taxing Wages* calculation files.

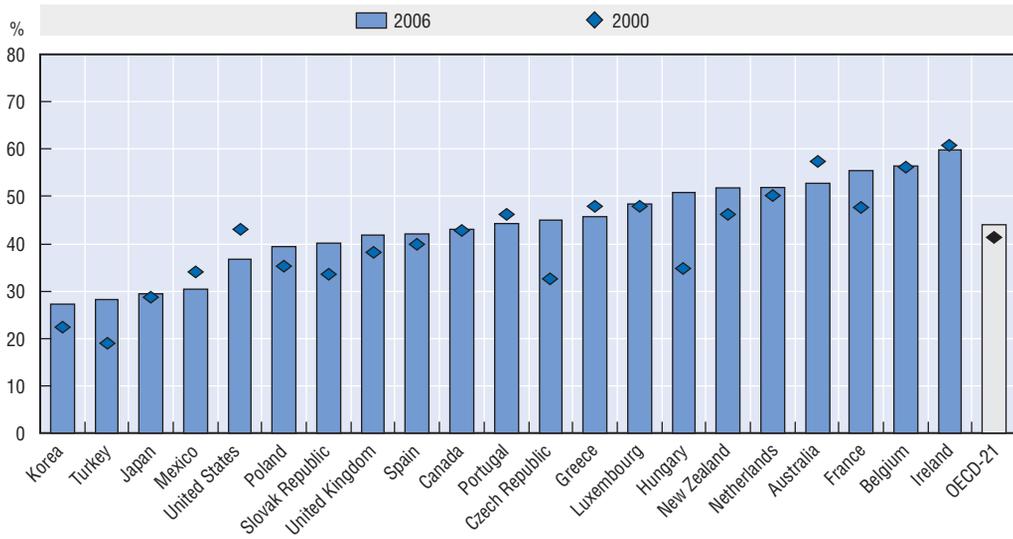
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available to low-wage earners produces a negative tax burden for full-time minimum-wage workers.

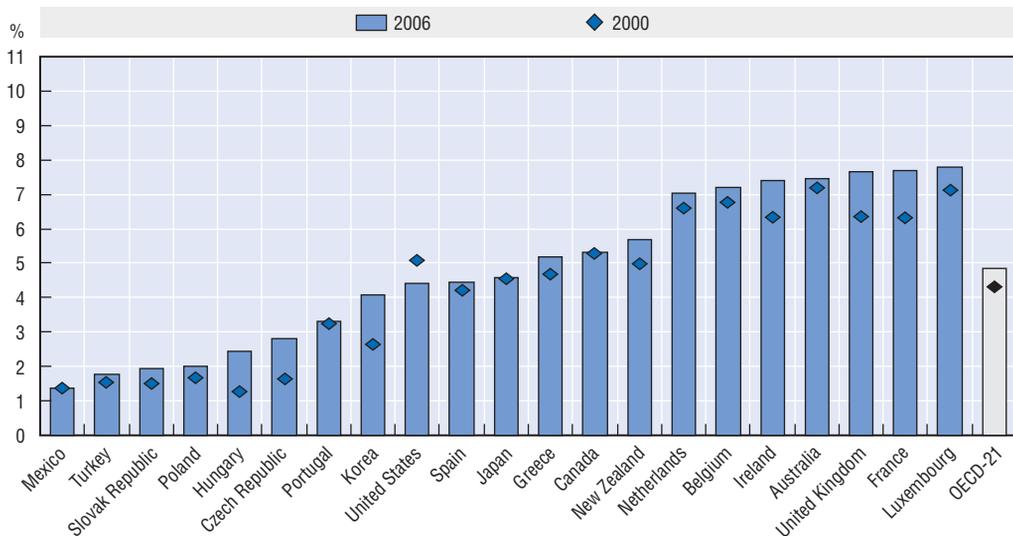
After adjusting for differences in prices and exchange rates across countries using purchasing power parities (PPPs) for 2006, one hour of work in a full-time minimum-wage job is shown to pay most in Western European countries and in Australia, at a PPP equivalent of around USD 7.50 (Figure S.1b). At about USD 4.50, the spending power of US and Japanese minimum-wage workers is significantly lower. As might be expected, the purchasing power of minimum-wage earners is lowest in the lower-income OECD countries. Since 2000, the net value of minimum-wage work has, however, gone up very significantly in the Czech Republic and has almost doubled in Hungary (relative to net average wages, the net earnings of full-time minimum wage workers in these latter two countries are now at or above the OECD-21 average of 44 per cent).

Figure S.1. **After-tax value of hourly minimum wage for a full-time worker**

A. As per cent of the net average wage

StatLink : <http://dx.doi.org/10.1787/203355843027>

B. In USD at 2006 purchasing power parities



Note: The average wage for the US currently excludes supervisory and managerial workers. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: OECD Taxing Wages calculation files.

StatLink : <http://dx.doi.org/10.1787/268811827174>

4. Minimum labour costs

While increased net wages can ease barriers on the supply-side of the labour market, high minimum wages can “price” low-productivity workers out of the labour market, giving rise to concerns that minimum wages may result in adverse employment effects. Whether these concerns are justified depends on the structure of the labour market, worker productivity, and the cost of employing minimum-wage labour.

A number of different perspectives are possible when assessing this cost. Similar to the analysis of net minimum wages, minimum labour costs can be expressed relative to

the cost of employing workers at an average wage level. Other things equal, a small difference between minimum and average labour costs makes it more likely that wage floors are binding in the sense that they increase employer costs. While there is no agreement on the overall employment effect of minimum-wage increases, a more binding wage floor increases the likelihood that at least some low-productivity workers would face difficulties finding a job. Similarly, the cost difference between lower and higher-skilled workers can be expected to have some influence on the sectoral composition of economic activity within a country.

In addition it is useful to evaluate the absolute cost advantage or disadvantage of minimum wage workers between countries. On one hand, and along with other factors, cost disparities between countries can shape the incentives for employers to re-locate or out-source labour-intensive and “low-value added” activities. On the other hand, absolute differences in minimum labour costs can indicate by how much the productivity of minimum-wage workers in “high-cost” countries would have to exceed that of “low-cost” countries in order to neutralise this potential cost advantage.

On average across 21 OECD countries, employers pay around USD 6.40 for one hour of minimum-wage labour. This is shown in Figure S.2a, which accounts for both payroll taxes and mandatory social contributions payable by the employer. Compared to the year 2000, this represents an increase of about 8.5 per cent in real terms. As gross minimum wages have grown at approximately the same rate, this indicates that payroll taxes and employer contributions have, on average, tended to remain unchanged over that period.

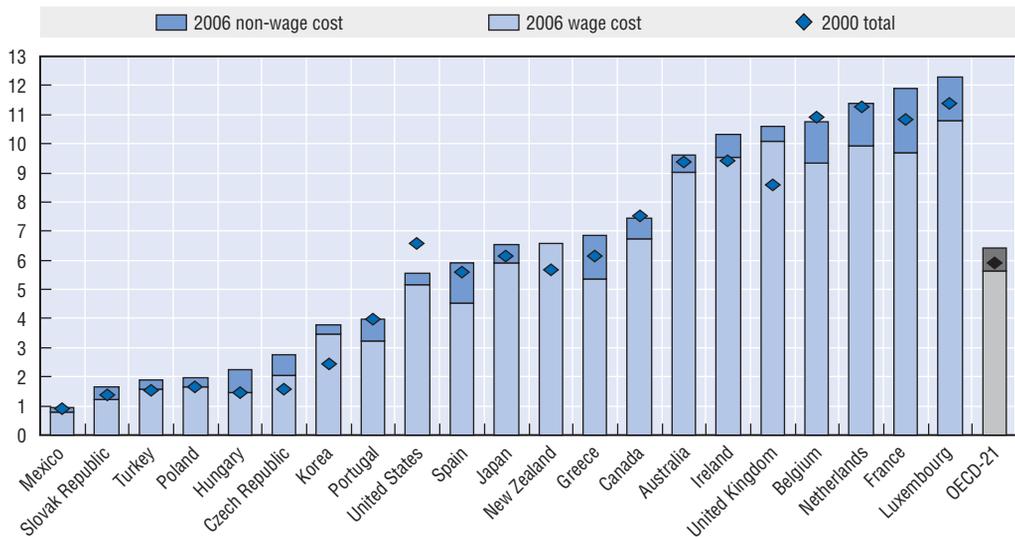
The international variation of minimum labour costs in dollar terms is enormous, however, with hourly costs in the highest-cost country (Luxembourg) exceeding those at the bottom (Mexico) by a factor of 13.⁵ Differences are also large when compared across countries that are closer geographically or whose economies are more integrated. For instance, the minimum labour cost in the United States is roughly six times as high as in Mexico but 25 per cent lower than in Canada. Australian minimum labour costs exceed those in New Zealand by 46 per cent. In Europe, the cost of employing French minimum-wage workers is three times as high as in Portugal, despite recent reductions of French social charges for low-wage workers. Finally, minimum labour costs in the Slovak Republic are, respectively, 38 per cent and 25 per cent lower than in the neighbouring Czech Republic and Hungary.

The variation across countries is still substantial after accounting for differences in average wage levels. This is shown in Figure S.2b, which compares the cost of employing minimum-wage workers with the cost of an average-wage workers. Minimum labour costs range from less than 30 per cent of the cost of an average worker in Japan, Korea, Mexico, Spain and Turkey to close to 50 per cent in Australia, Ireland and New Zealand.

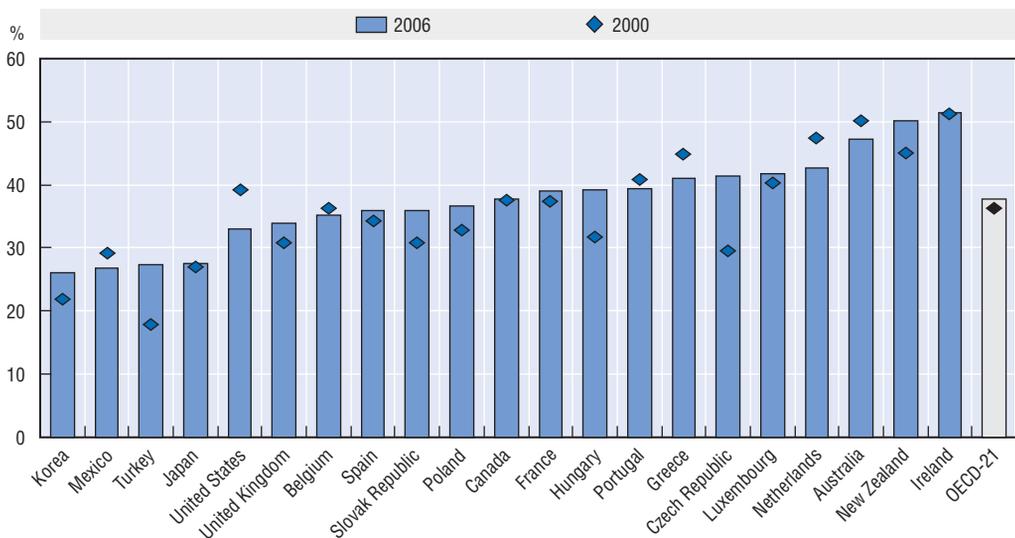
In most countries, the cost of employing minimum-wage workers has gone up in recent years, both in real terms and relative to the labour cost for workers earning average wages. The trends are, in fact largely similar to those observed for net minimum wages. One exception to this pattern is Belgium, where a combination of lower tax burdens and minimum-wage increases below inflation have enhanced net incomes of minimum-wage workers while keeping labour costs largely unchanged.

Figure S.2. **Minimum labour cost for full-time minimum-wage workers**

A. Per hour, USD at 2006 market exchange rates and constant prices

StatLink  : <http://dx.doi.org/10.1787/184611188468>

B. As per cent of labour cost for an average earner



Note: Including payroll taxes and mandatory social contributions. The average wage for the US currently excludes supervisory and managerial workers. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: OECD Taxing Wages calculation files.

StatLink  : <http://dx.doi.org/10.1787/051257587008>

Non-wage labour costs

Figure S.2a also shows that non-wage labour costs can represent a substantial part of the total cost to employers. For full-time minimum-wage workers, payroll taxes and mandatory social contributions are found to increase employment costs by more than 30 per cent in the Czech Republic, Hungary and Spain but by less than 10 per cent in Korea and most English-speaking countries (see also Table S.4). Non-wage labour costs are also substantial in some of the countries without statutory minimum wages (Austria, Finland, Germany, Italy and Sweden). Most countries charge similar rates of payroll taxes and

Table S.4. **Payroll taxes and employer social security contributions for full-time workers at different wage levels**

As per cent of gross wages

	2000			2006		
	MW	67% AW	AW	MW	67% AW	AW
Australia	6.4%	6.4%	6.4%	6.0%	6.0%	6.0%
Austria		31.0%	31.0%		29.1%	29.1%
Belgium	15.4%	31.9%	32.9%	15.5%	28.3%	30.4%
Canada	11.0%	11.4%	11.6%	11.2%	11.6%	11.7%
Czech Republic	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Denmark		0.7%	0.5%		0.9%	0.6%
Finland		26.0%	26.0%		24.0%	24.0%
France	23.0%	41.2%	41.2%	17.6%	33.3%	42.3%
Germany		20.5%	20.5%		20.5%	20.5%
Greece	28.0%	28.0%	28.0%	28.1%	28.1%	28.1%
Hungary	52.8%	44.0%	41.8%	32.0%	35.3%	34.7%
Iceland		4.8%	4.8%		5.8%	5.8%
Ireland	8.5%	8.5%	12.0%	8.5%	10.8%	10.8%
Italy		34.1%	34.1%		32.1%	32.1%
Japan	10.3%	10.3%	10.3%	13.1%	13.1%	13.1%
Korea	8.9%	8.9%	8.9%	9.2%	9.2%	9.2%
Luxembourg	13.8%	13.8%	13.8%	14.0%	13.7%	13.5%
Mexico	21.8%	12.7%	11.7%	26.3%	13.6%	11.9%
Netherlands	15.0%	16.1%	10.7%	14.7%	15.8%	15.0%
New Zealand	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Norway		12.8%	12.8%		13.3%	13.3%
Poland	20%	20.4%	20.4%	20.4%	20.4%	20.4%
Portugal	23.8%	23.8%	23.8%	23.8%	23.8%	23.8%
Slovak Republic	38.2%	38.2%	38.2%	26.2%	26.2%	26.2%
Spain	30.6%	30.6%	30.6%	30.6%	30.6%	30.6%
Sweden		32.9%	32.9%		32.3%	32.3%
Switzerland		11.6%	11.6%		11.1%	11.1%
Turkey	19.5%	19.5%	19.5%	21.5%	21.5%	21.5%
United Kingdom	5.2%	8.8%	9.9%	6.8%	9.7%	10.7%
United States	8.2%	8.0%	7.9%	8.2%	7.9%	7.8%
<i>Average</i>	<i>18.8%</i>	<i>19.7%</i>	<i>19.6%</i>	<i>17.6%</i>	<i>18.8%</i>	<i>19.0%</i>

Notes: AW: average wage, MW: statutory minimum wage. The average wage for the US currently excludes supervisory and managerial workers. Average wages for Ireland, Korea and Turkey refer to the Average Production Worker (manual workers in the manufacturing industry).

Source: OECD *Taxing Wages* calculation files.

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employer social contributions for minimum-wage labour and higher-earning employees. Preferential rates for minimum-wage workers are found in only five countries (Belgium, France, Hungary, Ireland and the UK).

In countries where the cost of employing unskilled or low-productivity workers is considered to be a barrier to employment, reducing social charges can be effective at reducing labour costs. Belgium and France, two countries with particularly high levels of non-wage labour costs, have implemented targeted reductions of employer contributions. In both countries, the relevant rates for a full-time minimum-wage worker are now 50 per cent or less of those applicable to average earners. Yet, as a result of high minimum-wage levels, the total cost of employing minimum-wage workers in these countries is still among the highest in the OECD.

Averaged across countries, reductions in payroll tax and contribution burdens on minimum-wage labour over the 2000-2006 period have been more modest. Rates have, in fact, gone up in Japan, Mexico, Turkey and the United Kingdom. Unlike in Belgium, France and Hungary, where reductions of non-wage labour costs were targeted towards low-wage workers in particular, the Slovak Republic has implemented substantial across-the-board cuts and reduced non-wage labour costs at all earnings levels.

5. Summary and concluding remarks

Statutory minimum wages are in place in 21 OECD countries, ranging between USD 0.8 and USD 11 per hour. In a number of countries, minimum-wage levels have gone up in real terms in recent years. During the 2000-2006 period, the most substantial increases were observed in Czech Republic and Hungary (plus 65 per cent). In a slight majority of countries, minimum wages have also increased relative to average wage levels. The United States is the only country where real earnings of minimum-wage workers have dropped significantly during this period. In 2006, the full-time earnings of minimum-wage workers range from less than 25 per cent of full-time average wages in Mexico and to more than 50 per cent in Ireland.

While income tax systems are progressive and tax burdens correspondingly lower for minimum-wage workers, the overall income taxes and social contributions they pay are considerable (between 15 and 28 per cent in half of the countries). Social contributions paid by minimum-wage earners exceed income taxes in most countries and tend to be the main drivers of their overall tax burden.

Given considerable tax burdens even at the lowest wage levels, tax policy measures can have a sizable impact on the net earnings available to low-wage workers. Indeed, the comparison across countries shows that average tax rates for single minimum-wage earners have declined since 2000, and that a number of European countries have implemented tax reductions targeted at the lowest wage levels. Such targeted tax reductions improve the incomes of minimum-wage workers as employers cannot lower wages in response. Since low-skilled individuals tend to respond more readily to financial work incentives than those with higher wage-earning potential, these policy measures are also potentially effective at increasing labour supply.

Looking at the costs faced by employers, social contributions and payroll taxes add, on average, around 18 per cent to the cost of employing minimum-wage workers. On an hourly basis, the resulting total cost of minimum-wage labour ranges from less than USD 2 (in Mexico, Poland, Slovak Republic and Turkey) to around USD 12 (in France, Luxembourg and the Netherlands). Despite reductions in non-wage labour costs in several countries, there has been no convergence of minimum labour costs in recent years.

Notes

1. While not directly set by law, decisions by judicial bodies or agreements between social partners can result in wage floors that are legally binding or equivalent in terms of coverage and universality to statutory minima. Examples are Australia, Belgium and Greece.
2. Recent experimental evidence also suggests that employees adjust their wage expectations following changes in the minimum wage and that this affects the labour supply schedule prompting employers to consider paying wages above the legal minimum (Falk *et al.*, forthcoming).
3. All results shown in this chapter relate to *full-time* workers. It should be noted that part-time work is common among low-wage employees. As a result of progressive tax systems, tax burdens (and

possibly labour costs) of part-time minimum-wage workers will tend to be lower than indicated by the tax burden measures shown here.

4. Countries also operate a number of tax and benefit provisions affecting low-wage earners in other family situations – particularly where children are present (OECD, 2004). Because such provisions also reflect family-related tax policy objectives, they are not considered here although they can of course be relevant for minimum-wage earners.
5. It should be noted, however, that most of the “high minimum labour cost” countries employ differentiated minimum-wage schedules that employ lower minima for younger workers (see annex Table S.A1).

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ANNEX

Table S.A1. **Statutory minimum wages and contractual working hours of full-time minimum-wage workers, 2006**

	Wage floor in national currency ¹					Applicability ²	
	Hourly	Daily	Weekly	Monthly	Annual	Age group	Other
Australia			484		25 189		
Belgium				1 234	14 808	21+	Private sector
Canada	7.60				15 808		
Czech Republic	46.80				97 344		
France ³	8.15				14 833		
Greece ⁴				717	8 599		Single white collar workers, employed < 3 years
Hungary				62 500	750 000		
Ireland	7.65				15 912	18+	
Japan	668.00				1 389 440		Weighted average of rates across 47 relevant regions
Korea	3 100.00				7 937 160		
Luxembourg	8.69				18 041	18+	Single individuals
Mexico		47			17 199		"General" minimum wage: average across 3 regions
Netherlands ⁴			319		16 597	23+	
New Zealand	10.25				21 320	18+	
Poland				899	10 788		
Portugal ⁴				450	5 403	18+	Non-agricultural workers
Slovak Republic	40.00				83 200		
Spain ⁴				630	7 560	18+	
Turkey		18			4 602	16+	
United Kingdom	5.20				10 816	22+	
United States	5.15				10 712	20+	Federal minimum wage; higher minima in 29 states (as at January 2007)

1. Expressed in EUR for euro-zone countries. All minimum wage numbers relate to the relevant fiscal year (Australia: July 2005 to June 2006, New Zealand and UK: April 2006 to March 2007, calendar year in all other countries). 12-month averages are shown where the values have changed during the fiscal year. Where conversions to/from hourly wages were necessary, this has been done on the basis of 40 hours per week, except in Belgium (38), France (35), Korea (46), Poland (42 prior to 2001) and the UK (38).
 2. Other minima can apply to other groups. For instance, minimum wages are often considerably lower for younger workers.
 3. Salaire Minimum Interprofessionnel de Croissance (SMIC). A higher minimum (Garanties Mensuelles de Rémunération, GMR) applied to employees affected by the mandatory reduction of working hours to 35 per week in order to keep their monthly wages unchanged. From 2005 onwards, the two minima are the same.
 4. Adjusted to include holiday allowance (Netherlands) and 13th/14th monthly payments (Greece, Portugal, Spain).
- Source: OECD Minimum Wage database.

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