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# A Comparison of Wage Determination Methods in the Americas

**Chris Jecchinis  
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Gerald Phillips**

*This study compares the methods that are used to determine wages in the developing and developed countries of the Americas.*

The wage earners' standards of living depend to a great extent on the methods by which their wages are determined. Such methods can affect wage levels and differentials as well as the overall share of wage earners in income distribution and the fruits of development. This study compares the methods that are used to determine wages in the developing and developed countries of the Americas. The most important methods that can be identified include the government regulation of minimum wages and wage adjustments, collective bargaining and payment by results.

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## GOVERNMENT INVOLVEMENT IN WAGE DETERMINATION

All countries of the Americas have passed legislation which specifies some type of statutory minimum wages. However, there is a wide variation in the stated objectives of such legislation. Some examples of the explicit objectives of minimum wage legislation include the following:<sup>1</sup>

- to guarantee that every employee receives a wage which provides a certain basic income and standard of living (Canada and the United States).

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<sup>1</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, p. 21.

- to obtain for the employee a «fair share» of national income and «fair participation» in the results of economic growth (Argentina and Costa Rica).
- to provide a basis for the expansion of production and employment by increasing demand (Argentina, Brazil, Peru).
- to increase the productivity of employees by increasing their standard of living, health, and satisfaction (Colombia, Brazil and Peru).
- to serve as a transitional alternative until a more comprehensive form of wage regulation is developed (Mexico, Uruguay, Jamaica, and Trinidad and Tobago).

Despite the apparent universality of these stated objectives, there are still a great number of wage earners in each country who do not receive the minimum wages which have been set by law. Such laws frequently exclude certain occupational groups such as domestic servants and public employees. Also, minimum wage laws are easily evaded in particular sectors of the economy (such as the handicraft, retailing, small factory, small service and agricultural industries) and in particular geographical locations (particularly in countrysides, small towns, and the outskirts of large cities).<sup>2</sup>

At least three types of minimum wage regulating agencies can be distinguished within the Americas. The first type involves the establishment of minimum wage decrees by Government. In Cuba, the Ministry of Labour fixes the minimum wage after consultation with workers' representatives. In Canada, minimum wages which apply to workers under the federal jurisdiction (which covers approximately 10% of all Canadian workers) are set by statute and administered directly by the Minister of Labour.

In the United States, federal minimum wages are established by the Fair Labour Standards Act which can be amended by a vote of Congress. Also, the Walsh-Healey Public Contracts Act provides that employees working on all government let contract work exceeding \$10,000 be paid not less than the prevailing minimum wages as established by the Secretary of Labour. These prevailing minimums for government work are determined for about thirty industries on the basis

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<sup>2</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, pp. 24-25.

of wage surveys conducted by the Bureau of Labour Statistics.<sup>3</sup> In addition, many state and local governments also have minimum wage laws.

A second type of minimum wage regulating mechanism consists of a tripartite body responsible for recommending minimum wage rates to some legislative body. Puerto Rico and the Virgin Islands both have tripartite industry committees to recommend minimum hourly wage rates.

A third variant of minimum wage regulating mechanisms involves a tripartite body responsible for *fixing* minimum wage rates. Each Canadian province has a single wage board presided over by a government official. These boards issue general orders which set rates applicable to the majority of workers and special orders which set higher rates for particular industries or occupations.<sup>4</sup> In Argentina, a single national minimum wage is determined by law and automatically adjusted for changes in the cost-of-living index by a decision of the National Minimum Wage-Fixing Council.

The general system in Uruguay is of somewhat special interest. Minimum wages are fixed by boards which consist of three government members, two workers' members and two employers' members. These boards are set up for various occupational groupings in a given geographical area and may be established on the initiative of the Government or upon the request of either party. The decisions of the boards on minimum wages applicable to each kind of work within their jurisdiction may be contested by the Government (if the minimum wages are considered too low) or the affected parties (unless the decision of the board is unanimous).

Regulations providing for the establishment of minimum wage boards have also been set up in Jamaica, and Trinidad and Tobago.

According to the International Labour Organization, the principles utilized by tripartite boards to arrive at minimum wage rates have much in common throughout the Americas. Usually, these boards consider such factors as general economic conditions and cost of living considerations. In some countries (particularly Mexico, Peru, Brazil and Colom-

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<sup>3</sup> HELFGOTT, R. B., *Labor Economics*, New York, Random House, 1974, p. 314.

<sup>4</sup> OSTRY, S., and M. A. ZAIDI, *Labor Economics in Canada*, Toronto, Macmillan of Canada, 1972, p. 258.

bia) special attention is given to market conditions which affect the ability of an industry to absorb a particular minimum wage.<sup>5</sup>

The enactment of minimum wage legislation by no means guarantees its effective implementation. Many difficulties are involved in implementing the legislation within the existing economic and social institutions. The inadequate education of some workers makes it difficult to inform them of their rights under the minimum wage laws. Frequently, insufficient resources are devoted to publicizing and enforcing such laws. And inevitably, there will be a certain proportion of workers who may be so anxious to obtain and retain jobs that are in scarce supply that they voluntarily refuse to demand the application of minimum wage laws. Such problems are by no means unique to the developing countries. Both Canada and the United States still have some occupations, industries and regions where these problems are extremely prevalent.

There is a general tendency in some countries for legal minimum to be set so low as to have an insignificant effect on general wage levels. In other words, «the minimum level below which wages may not legally fall is frequently just at — or — just above — what the lowest paid workers would receive in any case, if there had been no law».<sup>6</sup>

In most countries of the Americas, regulations not only influence minimum wages, but certain permissible wage adjustments as well.

When a firm operates in an environment where it is not exposed to competition from other employers, the Government may find it necessary to intervene on the workers' behalf. In most of Central America governments represent workers in wage negotiations where company wages are fixed. In Costa Rica, contracts in force with the banana and cocoa plantations stipulate that the lowest wage should be 50 per cent higher than the statutory minimum applicable on coffee plantations (which are not usually foreign owned). In Argentina, the National Rural Employment Board advises the National Minimum Wage Board on wages for seasonal workers.<sup>7</sup>

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<sup>5</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, p. 22.

<sup>6</sup> Inter-American Economic and Social Council, Document CIES/Com. VII/33, p. 7.

<sup>7</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, p. 25.

Individuals employed either directly or indirectly by government departments, government enterprises, or government subsidized «private» companies may constitute anywhere from 15 to 35 per cent of a country's total non-agricultural labour force. Most public employees in the Americas have few, if any, collective bargaining rights and are dependent upon the whims of government for wage adjustments. In recent years, public employees in the United States, Canada, and Mexico have been struggling to improve their bargaining rights and it is likely that this pattern will spread to the more developed countries in the Americas in the near future.

The United States, Canada, and Argentina have all experimented with forms of wage guidelines that are somewhat less than compulsory. In each case, voluntary adherence to these guidelines was not forthcoming and it became necessary to drop the guidelines or revert to system of outright wage controls. Both Canada and Argentina chose the former solution while the United States chose the latter. However, the United States experiment with wage controls between 1971 and 1973 was subsequently abandoned in favor of a return to a system of free collective bargaining.

#### WAGE DETERMINATION BY COLLECTIVE BARGAINING

Another significant method of wage determination in the Americas, collective bargaining, is somewhat related to the regulatory mechanisms previously described. It is not unusual in Latin America for the representatives of both employers' and workers' organizations to take an active part in the negotiations leading to the adoption and promulgation of minimum wage rates by wage boards and government authorities. In Argentina, Brazil, Ecuador, Mexico, Peru, Trinidad and Tobago and some Canadian jurisdictions, any collective agreement arrived at between the parties in a particular industry may have its scope extended by a regulatory agency to cover the whole of the relevant trade or industry.

Except in Argentina and Mexico, the method of collective bargaining in wage determination has until recently been rather limited in Latin America. The rapid pace of industrialization in a number of countries has been accompanied by a correspondingly rapid pace of unionization activities. Venezuela is a prime example of this trend. Collective bargaining is also gaining ground in the non-Latin countries of the Carib-

bean, especially in the sugar, beverage, and biscuit industries of Trinidad and Tobago and Jamaica.<sup>8</sup>

Some interesting differences, however, emerge from a comparison of collective bargaining in the United States and Canada with the practices in other parts of the Americas.

It has already been mentioned that in many regions of the Americas, trade unionism is still in its infancy. In these regions workers' representatives are often hard pressed to simply insure that minimum wage legislation is adhered to and at best strive to secure wages that are modestly above the minimum wage. Also, attempts are made to keep all wage increases commensurate with minimum wage increases.

The influence and power of trade unions in much of Latin America have to a great extent fluctuated with changes in the political leadership of each country. In many cases, workers' organizations have been so preoccupied with the fight for their own survival that relatively little attention has been paid to achieving acceptable wage adjustments for their membership. Thus, a high percentage of unionized workers in the Americas still have their wages set unilaterally by their employer or by regulations of some administrative authorities.

On the other hand, the relatively stable political environment within which Canadian, American and Mexican unions have operated during the postwar period have enabled them to routinize many aspects of wage determination.

The majority of workers in Canada and the United States have their wages determined or strongly influenced by the collective bargaining process. Wage bargains that are struck for a particular company or industry often have far-reaching consequences for wage determination in the economy as whole. Settlements achieved in one area or industry tend to set patterns throughout the other sectors. Also, it is not uncommon for employers to grant unorganized workers wage and salary adjustments that are similar to those achieved by organized workers in order to retain valuable employees and to forestall unionization.

However, the collective bargaining systems of the developed countries of the Americas do have their shortcomings. In recent years the adversary nature of collective bargaining in Canada and the United

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<sup>8</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, p. 27.

States has been severely criticized by both scholars and the general public. Increasing pressure has been exerted on governments, labour, and management to modify the existing process so that industrial conflict and its debilitating effects on national productivity play a diminished role in the wage determination process. Thus, despite the relatively stable environment within which collective bargaining operates in Canada and the United States, the pressures for more rapid evolution and change are becoming stronger. Ultimately, such pressures will have some influence on the wage determination systems of Canada and the United States, hopefully for the better.

#### WAGE DETERMINATION BY 'PAYMENT FOR RESULTS'

Employees in the Americas normally are paid for the unit of time worked rather than for the results achieved. In fact, the opposition to payment by results in Argentina, Peru, and Mexico was evidenced by the priority given to the abolition of incentive payment systems in a significant number of collective negotiations.<sup>9</sup>

Where «payment for results» systems are found, they generally take the form of a supplement to a basic fixed wage. In Canada and the United States, many employees paid on a «commission basis» are generally guaranteed a certain minimum level of compensation by their employer. In Colombia, supplements have been formulated in terms of productivity bonuses (the paint industry) and mileage bonuses (the beer delivery workers). In Mexico, Peru, Argentina, Brazil, and Venezuela legislation has been passed that enables workers to share in corporation profits. Such legislation tends to make profit sharing compulsory rather than optional. However, the enforcement and control mechanisms to ensure compliance with the legislation have been extremely weak (especially in Argentina and Brazil).

#### CONCLUSIONS

There is a tendency for outside observers to suggest that wage determination methods within the developing countries of the Americas will (and should) mirror the present methods used within the developed countries. Such suggestions fail to take account of the socio-economic,

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<sup>9</sup> I.L.O., *Remuneration and Conditions of Work In Relation to Economic Development*, Ninth Conference of American States Members of the I.L.O., Geneva, 1970, p. 30.



geographical, and political situations which prevail in the developing countries of the Americas.

The low educational levels of a significant proportion of the workers and the geographical isolation of certain regions and industries both contribute substantially to confused and weak collective bargaining institutions. Also, the rapid changes in governments and governmental policies towards collective bargaining stand in the way of any rapid development of effective collective bargaining institutions. Thus, the wages of a high proportion of workers in the developing areas will continue to be determined either by the whims of their employers or the decrees of government.

In this type of environment, the collective actions of workers will continue to be directed towards ensuring that public regulations guarantee minimum «living» wages to all employed, that such regulations are understood by all workers, and that such regulations are rigidly enforced.

To accomplish these objectives workers' organizations in many developing countries of the Americas have chosen to become activists in the political arena instead of fighting to remove political control and interference from their internal affairs. This tendency has prompted the International Labour Organization to conclude in one of its studies that «...the central role played by the government in fixing wages in the private sector and its intervention in industrial relations suggests that a different course of development (in wage determination) will be followed (in the developing countries) from that taken by the United States and Canada, where complex, privately-negotiated collective agreements have become the rule.»<sup>10</sup>

### **Étude comparative des méthodes de fixation des salaires dans les Amériques**

Le niveau de vie des travailleurs dépend pour beaucoup des méthodes de fixation des salaires. L'article ci-dessus compare les différentes méthodes de détermination des salaires dans les pays industrialisés et en voie de développement dans les deux Amériques.

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<sup>10</sup> I.L.O., *Remuneration and Conditions of Work in Relation to Economic Development*, Ninth Conference of American States Members of the ILO, Geneva, 1970, p. 28.

L'auteur étudie en premier lieu le rôle joué par les gouvernements dans la détermination des salaires. Bien que tous les pays des Amériques aient adopté une forme quelconque de législation en matière de salaire minimal, les motifs avérés de cette législation vont de la garantie d'un revenu de base au Canada et aux États-Unis à un état de transition en attendant qu'une forme de contrôle plus étendue des salaires soit établie au Mexique, en Uruguay et à la Jamaïque. En outre, le champ d'application de ces lois diffère beaucoup d'une nation à l'autre.

On peut distinguer dans les Amériques trois genres d'organismes chargés du contrôle des salaires: l'établissement d'ordonnances de salaire minimal par le gouvernement (l'État fédéral canadien, les États-Unis et Cuba); des organismes tripartites qui ont la charge de recommander des taux de salaire minimal à un corps législatif quelconque (Puerto Rico et les Îles de la Vierge); des commissions qui fixent elles-mêmes les tarifs de salaire minimal (la plupart des provinces canadiennes, l'Argentine, l'Uruguay, Trinidad et Tobago).

La rédaction de lois sur le salaire minimal soulève nombre de difficultés. Le manque d'instruction d'un certain nombre de travailleurs, l'insuffisance des ressources consacrées à la publicité et à l'exécution des lois et le refus des travailleurs d'en exiger la mise en vigueur tendent à entraver l'application pratique de la législation tant dans les pays industrialisés que dans les États en voie de développement dans les deux Amériques.

Dans la plupart d'entre eux, les règlements étatiques exercent une influence à la fois sur les rectifications acceptables des taux de salaire courants que sur les tarifs minimaux eux-mêmes. En premier lieu, dans les pays d'Amérique centrale, comme à Costa Rica, et en Argentine, les gouvernements sont intervenus de temps en temps au nom des travailleurs. De plus, le fait que, à peu près partout, l'État soit directement l'employeur de 15 à 35 pour cent de l'ensemble de la main-d'œuvre non agricole pèse aussi d'un poids considérable sur les ajustements de salaire dans les différentes nations. Enfin, un certain nombre de pays, comme les États-Unis, le Canada, l'Argentine et le Mexique ont tenté l'expérience de l'établissement de normes directrices ou de contrôles en matière de traitements.

Le deuxième aspect que l'auteur envisage a trait à la détermination des salaires par voie de négociation collective. Encore que la négociation collective comme méthode de fixation des salaires soit depuis longtemps courante aux États-Unis, au Canada, en Argentine et au Mexique, il faut en même temps noter que le rythme de syndicalisation s'est singulièrement accru au cours des dernières années dans les autres pays des Amériques. Cependant, le contexte politique à l'intérieur duquel beaucoup de syndicats doivent agir demeure très instable dans les nations en voie de développement.

Le troisième aspect que l'on peut considérer, c'est le salaire payé à la pièce ou selon le mérite. La plupart du temps, il revêt la forme d'un supplément qui vient s'ajouter au salaire minimal légal.

Dans sa conclusion, l'Auteur souligne que, dans l'appréciation des méthodes de détermination des salaires dans un pays déterminé, il faut tenir compte des conditions sociales, économiques, géographiques et politiques qui y prédominent. L'insuffisance d'instruction de divers groupes de travailleurs, le degré d'isolement de certaines régions et de certaines industries et les changements d'attitude des gouvernements à l'égard de la négociation collective ont tendance à avoir un double effet dans les pays en voie de développement.

Tout d'abord, l'action collective des travailleurs vise à s'orienter vers l'obtention d'un salaire minimum vital qui soit garanti, à s'assurer que les travailleurs comprennent les réglementations et que ces dernières sont appliquées d'une façon rigoureuse. Deuxièmement, afin d'atteindre ces objectifs, les organisations syndicales sont portées à faire de l'activisme politique plutôt qu'à lutter pour écarter la mainmise et l'ingérence des partis politiques dans leurs affaires internes. Ainsi, « le rôle primordial joué par le gouvernement dans la détermination des salaires dans le secteur privé et son intervention dans les relations professionnelles laissent présager une orientation (dans la détermination des salaires) différente de ce qui existe aux États-Unis et au Canada où des conventions collectives compliquées et négociées privément entre les parties sont devenues règle courante ».

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