

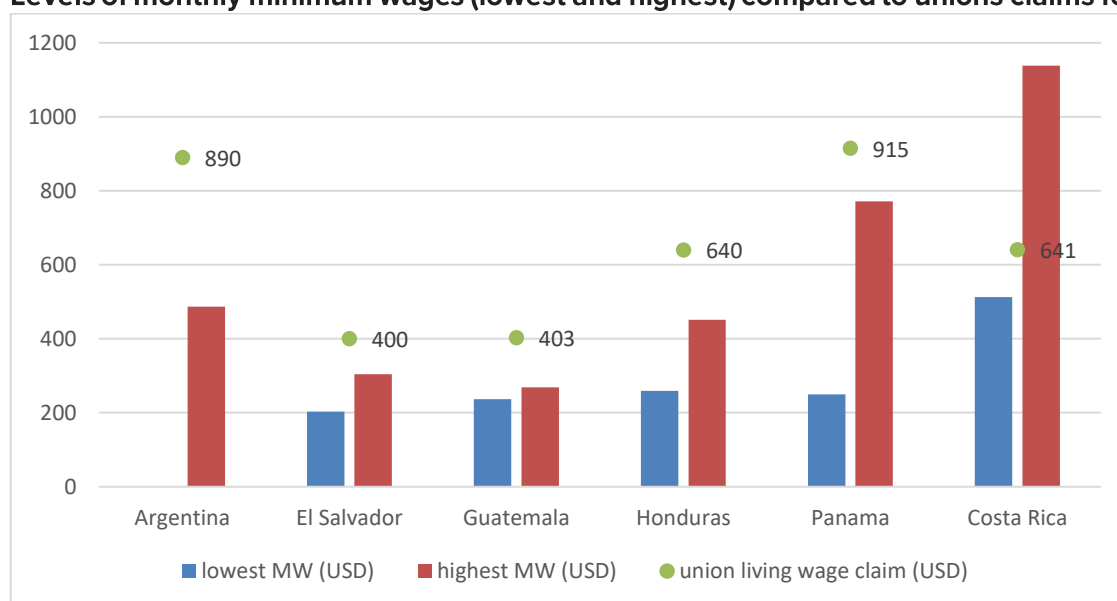
Supporting wage-led growth

The case for Central American wage floors

Economic growth is slowly on the rise in Central America, but extreme levels of poverty, low and stagnant wages and rampant inequality are hampering its acceleration, in addition to having devastating consequences on the region’s people. Poverty is unacceptably high across Central American countries, with almost half the population of El Salvador living below the national poverty line – rising to more than two thirds of the population in Guatemala and almost three quarters in Honduras¹. Inequality levels in the region are also among the highest in the world².

Work is unfortunately not a guarantee of escaping poverty for most workers, let alone ensuring a decent life. More than half of all workers in formal employment living in poverty in Guatemala and Honduras³. Minimum wages in the region fail to provide an adequate wage floor that ensures all workers the ability to meet basic living expenses. Rather, **minimum wages are dismally low**, and they tend to be fragmented across sectors, regions, and enterprise types and leave out a substantial portion of workers. At the same time, the possibility for workers to organize and collectively bargain for fair wages is also being compromised in many countries in the region as trade union rights are under attack⁴.

Levels of monthly minimum wages (lowest and highest) compared to unions claims for living wages (in USD)



Note: This chart depicts the lowest and highest levels of statutory minimum wages given that multiple minimum wages exist in the above countries (per region, economic sector, etc.).

Source: ITUC regional minimum wage campaigns, based on national ministry data

In addition to low levels of minimum wages, **non-compliance in their payment remains a major issue** throughout the region. The International Labour Organisation (ILO) estimates showing that over one fifth of wage earners is paid less than the minimum wage in Panama and Costa Rica, and over 60% of wage earners in Honduras and Guatemala. The **complexity of the minimum wage system due to multiple minimum wages**, the **low capacity of labour inspectorates** and **inadequate penalties for non-compliance** have all been shown

¹ See CEPAL/ECLAC statistical database, Population living below the poverty and extreme poverty lines (1990-2014 data)

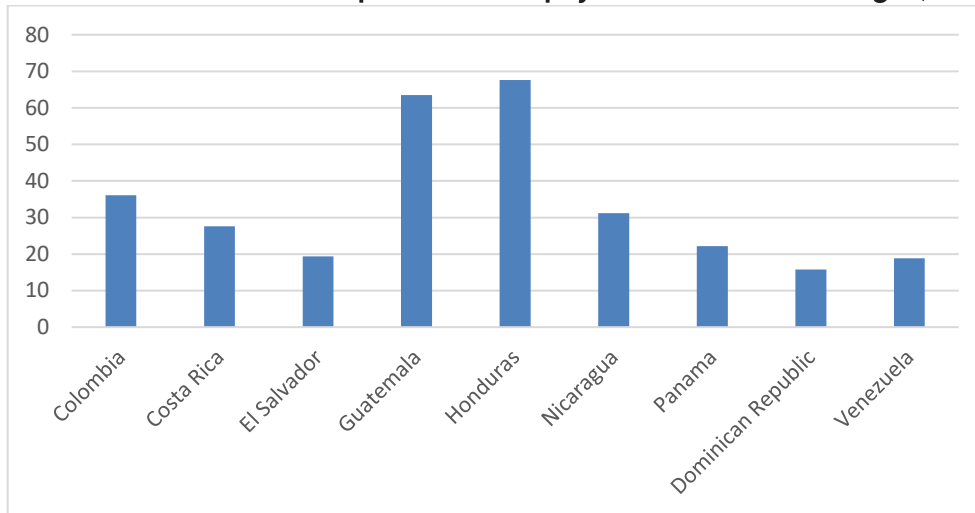
² According to GINI coefficient

³ See CEPAL/ECLAC statistical database, Population living below the poverty and extreme poverty lines (1990-2014 data)

⁴ For more information please refer to the [ITUC Global Rights Index 2017](#)

to play a role.

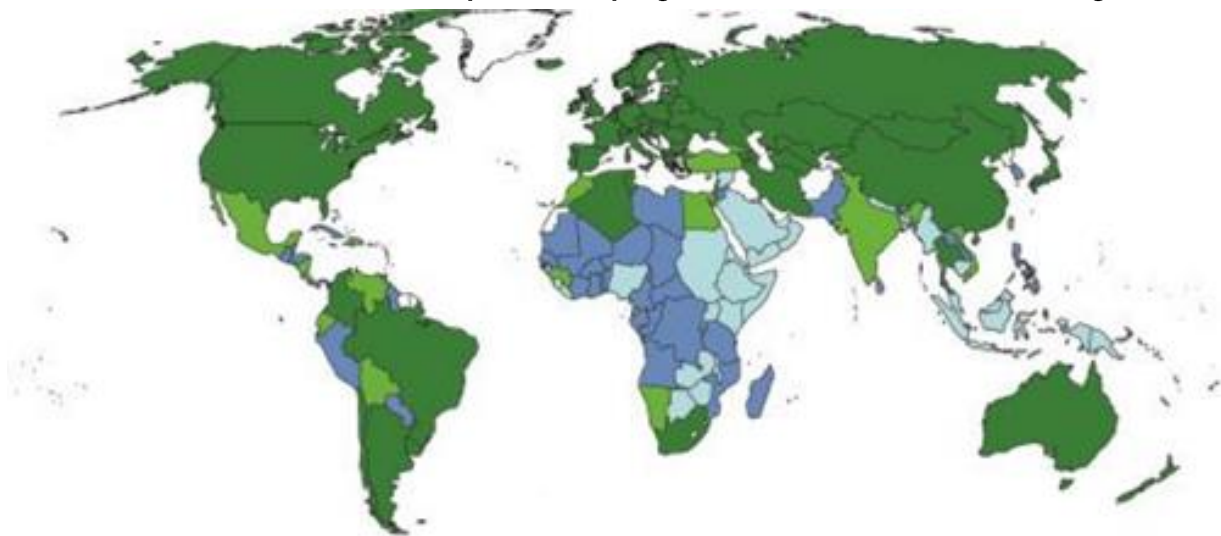
Estimated rate of non-compliance in the payment of minimum wages, selected Latin-American countries



Source: International Labour Organisation (2016)⁵

Social protection systems are moreover woefully under-developed in much of Central America. The chart below from the ILO shows that social protection systems remain limited in scope throughout many of the countries in the region. Social protection expenditure in Central America also tends to be significantly lower than the rest of the Latin America and the Caribbean; social spending accounts for less than 10% of GDP in Guatemala, El Salvador and Honduras, while neighbors such as Chile, Cuba, Trinidad and Tobago, Argentina spend around twice as much as this⁶.

Number of areas covered in social protection programmes anchored in national legislation



Scope of legal coverage

- None
- Very limited scope (1–4 policy areas)
- Limited scope (5–6 policy areas)
- Semi-comprehensive scope (7 policy areas)
- Comprehensive scope (all policy areas)

Source: ILO Global Social Protection Report 2014-2015

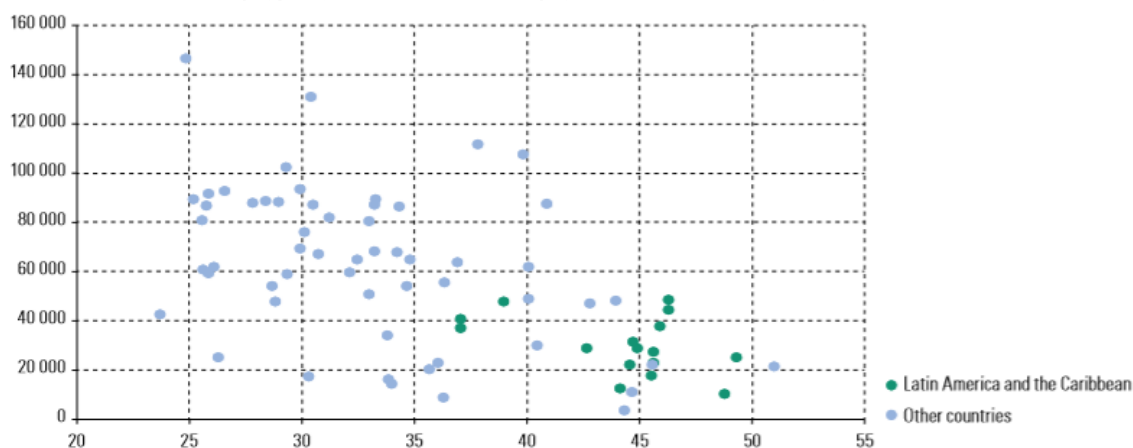
These trends are not only unacceptable from a social justice perspective, but they are also a threat to social

⁵ See ILO (2016) Incumplimiento del salario mínimo en América Latina. La importancia de los factores institucionales

⁶ See CEPAL statistical database, Social public expenditure of the central government as percentage of GDP (2015 data)

and political stability as well as sustainable economic development. Dismally low wages and inadequate social protection constrain low household consumption, which in turn reduces aggregate demand, particularly when wages are stagnating in many economies at the same time⁷. This in turn **compromises job creation and productivity, and constrains possibilities for even greater economic growth.** The Economic Commission for Latin America and the Caribbean (CEPAL) has emphasized that domestic demand has a large role to play in the acceleration of growth in the region, with private consumption being the biggest motor of this demand⁸. The World Bank, IMF, academics and others have moreover shown how poverty and inequality carry significant risks, including low social mobility, under-utilisation of human capital, eroded confidence in institutions, and reduced social cohesion⁹. In this regard, CEPAL has moreover reported in 2018 that **inequality is a stubborn impediment to the region's productivity, growth, development and sustainability.** The chart below highlights how Latin American countries' high levels of inequality correlate strongly with very low levels of productivity¹⁰.

Levels of inequality (gini) and productivity (output in USD PPP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC)¹¹

Note: The Gini index is expressed in percentage terms. Productivity is expressed in output per employee in 2011 PPP dollars

Raising the minimum wage and enhancing social protection would, in turn, have significant social and economic benefits. Minimum wages have been shown to be an effective tool in reducing poverty as well as wage inequalities by pushing up wages at the bottom of the distribution¹². While employers and some governments have wrongly argued that raising the minimum wage would compromise companies' abilities to operate and reduce jobs, the vast majority of literature has shown that this is not the case¹³. Empirical evidence from Brazil - as well as countries in other regions such as Indonesia, South Africa and India - has shown that **raising the minimum wage can have a positive impact on employment**¹⁴. Studies also show that minimum wages increases have not affected competitiveness as there are other, more critical factors such as skill supply, the rule of law, the stability of industrial relations, availability and use of technology and infrastructure, logistics, and trade rules¹⁵. Much research has also highlighted the positive effects of minimum wages on improved skills, reduced turnover, higher organizational efficiency and higher productivity¹⁶. Social protection systems have also been shown to be extremely effective in preventing and reducing poverty and inequality, fostering skills development and employability, providing crucial automatic stabilisers, reducing informality and supporting

⁷ ILO (2017) [Global Wage Report 2016/2017](#)

⁸ CEPAL/ECLAC (2017) [Preliminary Overview of the Economies of Latin America and the Caribbean](#)

⁹ See for instance World Bank (2016) *Poverty and Shared Prosperity*; IMF (2015) *Causes and Consequences of Income Inequality: A Global Perspective*; Wilkinson and Pickett (2009) *The Spirit Level: Why More Equal Societies Almost Always Do Better*

¹⁰ CEPAL/ECLAC (2018) [The inefficiency of inequality](#)

¹¹ CEPAL/ECLAC calculations done on the basis of University of Groningen, Penn World Table and Harvard University, Standardized World Income Inequality Database (SWIID)

¹² See for instance [ILO Global Wage Report 2016/2017](#)

¹³ See for instance the ILO [Minimum Wage Policy Guide](#); World Bank (2015) *Balancing Regulation to Promote Jobs*

¹⁴ ITUC Frontlines Report (2014) [Income inequality: Time to deliver an adequate living wage](#)

¹⁵ See for instance, OECD (2008) *Skills for Competitiveness: Tackling the low skilled equilibrium conceptual framework*; World Bank (2017) *Trouble in the Making? The Future of Manufacturing-Led Development*

¹⁶ See for instance a comparative evidence review conducted by the Ontario Ministry of Labour (2015) *The Economic Impact of Minimum Wages*; OECD (2016) *Employment Outlook*; ILO (2017) [Global Wage Report 2016/2017](#)

overall economic growth and development¹⁷.

Unions across the region are therefore calling on their leaders to set minimum wage floors and adequate social protection systems that allow workers in Central America and their families to live in dignity, and which will support Central American economic development. Central American leaders have already made commitments along these lines, most notably within the EU-Central America Association Agreement, where all parties affirmed that they:

Recognise that full and productive employment and decent work for all, which encompass social protection, fundamental principles and rights at work and social dialogue, are key elements of sustainable development for all countries, and therefore a priority objective of international cooperation. In this context, the Parties reaffirm their will to promote the development of macroeconomic policies in a way that is conducive to full and productive employment and decent work for all, including men, women and young people, with full respect for fundamental principles and rights at work under conditions of equity, equality, security and dignity. (Article 286.1)

Central American leaders must now live up to these pledges within the agreement and develop joint, concrete, and time-bound plans for action. If governments together support and promote minimum wage increases and expansions of social protection across the region, competition can no longer be argued to be a barrier.

Unions insist that minimum wages must be developed together with social partners and take into account the cost of living, considering at minimum the costs of the following essential items:

Minimum living wage	
Food	Education expenses
Housing	Essential care costs
Household bills and utilities	Medical expenses
Transport	Recreation
Clothing	Contingency for emergencies

Minimum wages should be simple and must cover all workers in order to sure that every worker is guaranteed a minimum standard of living, and they should be effectively enforced through labour inspectorates, as well as through dissuasive sanctions for non-compliance. **Governments must also ensure and promote collective bargaining rights in order to achieve fair wages above the minimum wage level.** Accordingly, workers should have the right to organise, join trade unions, and negotiate appropriate wages and compensation for their work with their employers.

Unions also call on their governments to **ensure adequate, comprehensive social protection systems** based on ILO Convention 102 on Social Security and Recommendation 202 on Social Protection Floors, and in line with the commitment of the UN Agenda 2030 to expand social protection coverage. Social protection systems must contain, at minimum, the following elements:

Social protection components	
Medical care	Family benefit
Sickness benefit	Maternity benefit
Unemployment/ out-of-work benefits	Disability benefit
Old-age pension	Survivors' benefit
Employment injury benefit	Child and elderly care

To achieve this, **governments must ensure adequate fiscal space for social protection.** Implementing progressive taxation forms of taxation, tackling tax evasion and supporting the transition to formal employment from the informal economy will all be essential in this regard.

In short, the **promotion of wage increases and the expansion of social protection are foundations for Central America's development, and regional coordination is necessary.** It is time for Central American governments to deliver on their commitments to decent work and ensure minimum living wages and social protection for all.

¹⁷ See ILO World Social Protection Report 2017-2019; European Commission (2013) Evidence of Demographic and Social Trends: Social policies' contribution to inclusion, employment and the economy; ILO (2011) Decent Work and the Informal Economy; ILO (2014) Monotax: Promoting formalization and protection of independent workers