

Does increasing the minimum wage reduce poverty in developing countries?

Whether raising minimum wages reduces—or increases—poverty depends on the characteristics of the labor market

Keywords: minimum wages, developing countries, poverty

ELEVATOR PITCH

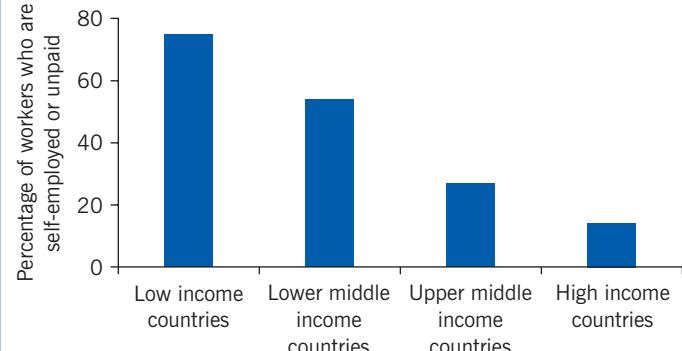
Raising the minimum wage in developing countries could increase or decrease poverty, depending on labor market characteristics. Minimum wages target formal sector workers—a minority in most developing countries—many of whom do not live in poor households. Whether raising minimum wages reduces poverty depends not only on whether formal sector workers lose jobs as a result, but also on whether low-wage workers live in poor households, how widely minimum wages are enforced, how minimum wages affect informal workers, and whether social safety nets are in place.

KEY FINDINGS

Pros

- ⊕ If job losses in the formal sector are small, raising the minimum wage is likely to reduce poverty.
- ⊕ If informal sector wages rise when the minimum wage increases, higher minimum wages are likely to reduce poverty.
- ⊕ If the people earning the minimum wage are heads of low-income households, higher minimum wages are likely to reduce poverty.
- ⊕ If low-income workers lose jobs and cannot find jobs because of a higher minimum wage, social safety nets for low-income households can protect against poverty.

More than half of workers in developing countries are not covered by minimum wage legislation



Source: Based on data in [1].

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Cons

- ⊖ If higher minimum wages cause workers to lose formal sector jobs, they are not likely to reduce poverty.
- ⊖ If minimum wage legislation does not cover a large pool of informal workers, higher minimum wages are not likely to reduce poverty.
- ⊖ If the people on the minimum wage are secondary family workers in nonpoor households, higher minimum wages will not reduce poverty.
- ⊖ If low-income workers lose jobs and cannot find jobs because of higher minimum wages and there are no social safety nets, higher minimum wages will increase poverty.

AUTHOR'S MAIN MESSAGE

Raising the minimum wage reduces poverty in most developing countries. But the impact is modest because the legal minimum wage applies to only a minority of poor workers; in particular, it does not cover workers in the large informal sector. And raising the minimum wage creates losers as well as winners among poor households—depending on employment effects, wage distribution, and effects on the household head—pulling some out of poverty while pushing others in. Raising the minimum wage could be part of a comprehensive poverty-reduction package but should not be the only, or even the main, tool to reduce poverty.