Multinational Salary Planning Report

The Federation of International Employers (FedEE)

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Introduction

This is the first multinational salary planning report published by the Federation of International Employers (FedEE Global). It replaces the former series of reports entitled “Pay in Europe” that were published from 2001 until 2015. This report was discontinued because it reproduced data contained in FedEE’s online Job Evaluation and Pricing System (JEAPS) - which remains available to FedEE Members.

The principal purpose of this report is to assist employers to draw up salary budgets for the coming year that are both internally sound and sufficiently competitive. Our approach challenges commonly used market-driven approaches to salary management and exposes the inadequacy of official data sources. It is therefore important to read all sections of the report in order to gain an understanding of FedEE’s approach to reward management.

Although prepared for a multinational corporate audience, it is hoped that the data and insights provided will also be of value to smaller and localized enterprises as well as public sector employers.

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Chapter 1. The roots of pay determination

The conventional way for employers to determine remuneration levels is either through market comparisons with wages and salaries paid within the locality where they operate (based on job titles), or by individual/collective negotiations with jobholders or their representatives. This method attempts to side-step the fundamental issues about what income employees need to maintain a good standard of living. It also uses the market or the fact that pay arises from collective bargaining to justify pay levels. Fairness is assumed to arise, even in the absence of an objective assessment of skills and responsibilities. Most importantly of all, however, “ability to pay” considerations do not take centre stage from the outset at all.

Pay determination has therefore become a circular argument where employers pay in line with what other companies pay - with no underlying fixed point of reference anchoring the pay market. Of course, there is often a statutory minimum wage (See appendix A) or official subsistence level defining the bottom of the market. But this is often no valid guide to what employees need for even a comfortable standard of living.

Employers would also claim, perhaps quite legitimately, that an individual employee’s chosen living standard, their family size and what they have to pay out in income tax and social security contributions is none of their concern. What is, however, clearly their concern is the “ability to pay” factors at work in their enterprise. Few companies can price their goods or services in a ‘cost plus’ way. Prices must remain competitive with other service or goods suppliers in the market place. On the other side of the equation total labour costs can be calculated fairly readily once other costs are known. It is the matching of gross profit against huge fixed costs like pay that is the true jugglIng act that underpins pay determination.

Although a few top salaries will be many times the value of salaries for the principal employment groups, their slice of total budgets will generally not be significant, as it is the sheer numbers of mainstream workers that eat into labour cost budgets.

One concern that employers cannot avoid is their own contribution to social security and company superannuation funds. In fact, these have the greatest impact on employee numbers as they do not produce any commercial return in themselves - unless they include elements paid as a levy to cover contingency costs that otherwise an employer may have to meet directly – such as sick pay, maternity pay or redundancy compensation.

Free collective bargaining makes little sense at an industry level unless there is a hidden purpose to establish a labour cartel. Although a quite legitimate joint effort may occur to raise the salaries of certain “hard to hire” groups the process can easily turn into collusion. This is when both parties conclude that keeping salaries high will prevent new market rivals poaching key staff and also raise the cost of market entry. Unions are generally happy to go along with a labour cartel because it allows them to claim responsibility for a generous deal.

Finally, a critical aspect of any pay system is making sure that pay differences are consistent and justifiable, “felt fair” and non-discriminatory.

The most common way to make pay systems equitable and manageable is by involving a process of job evaluation. Systems such as the ‘HAY Method’ have been used for over 70 years and if jobs are evaluated by committees consisting of managerial and employee representatives then the outcomes are more democratically justifiable. One of the main weaknesses of this method is that job evaluation is, in practice, far from an objective process, especially if it is manipulated to prevent unwanted outcomes - such as reversed traditional differentials.

Another difficulty facing any company using job evaluation is how it translates into salary market policy decisions. If a population of jobs have been given “job size” scores, then the next step is to use survey data collected from companies using the same evaluation method to determine what monetary values per “point” of job scores should be set according to a “policy line”. To remain competitive a company will often wish to set an “upper quartile” policy. But they could well find that their current salaries vary from upper quartile reference rates so dramatically that it busts the “ability to pay” constraints. Furthermore, the collective aim to seek upper quartile practice will itself change the overall pay reference points in a highly inflationary way.

Companies that seek to accommodate a new job-evaluated pay policy can, of course, introduce any improvements gradually over time. But those found to be paying too high may find it far less easy to adjust and may have to wait until jobholders are replaced before anything can be done to seriously rectify the situation. Thus a great many “red circle” jobs will emerge that could cause labour relations issues, particularly when salaries are frozen for an extended period.

Another problem about job evaluation-based pay systems is that they can force companies to shed labour in order to afford more competitive remuneration levels. This, in turn, will mean that the ‘job size’ of those jobs that remain will rise – thus partly confounding the exercise of headcount austerity.

The founder of “scientific management” Frederick Taylor once said that all workers know at heart what they are truly worth. This is not, however, universally true. In an article entitled “Most People Have No Idea Whether They’re Paid Fairly” (Harvard Business Review, December 2015) Dave Smith explored the awareness of employees about their pay levels. He reports that “people are often wrong about how much they’re paid compared to the going market rate. … In fact …two-thirds of people who are being paid the market rate believe they’re actually *underpaid*, representing a huge discrepancy.”

Remuneration professionals usually justify a focus on salary market comparisons by claiming that only by paying at or above the median level for a particular sector or occupation can their company stand a chance of recruiting and retaining high quality staff. However, what the Harvard Business Review article underlines is that the actual pay level is less important than how pay is communicated to individuals. Even those paid relatively poorly will stay loyal to an employer if the company makes clear they are a valued employee and the economic factors determining their relatively low remuneration level are carefully explained to them.

Failure to pay individuals or groups the same as others that “differ by certain personal characteristics not relevant to a job” is not just a social justice issue. Equal pay is a powerful way that a company communicates that reward is linked primarily to the “size” of the job being undertaken and how well it is being performed. Paying women, for instance, consistently less than men in similar positions undermines this essential link between accountability, merit and reward.

But the incidence of discrimination against people for their gender, race, racial origins, disability etc in a society can also play into the hands of the equitable employer. For companies that discriminate are also rejecting or underpaying high-calibre people who are therefore much easier to recruit and retain than if discrimination was less commonly practiced in the labour market.

Fools Gold

We have outlined a number of factors that illustrate how the process of purely determining pay through sectoral, occupational or regional pay practice comparisons is a risky and precarious approach to salary management. The starting point must be a company’s marketing and financial plans. Only then can an assessment be made of potential wage and salary budgets. The current pay market is a final step in the process of determining pay levels, not its starting point - especially in “green field” operations where there are few, if any, employees already in post. Ability to pay is also something that must be uppermost in any negotiations with trade unions or prospective individual employees, whilst equal pay is one way to ensure that a company avoids recruiting poor quality staff, simply because of an unjustified prejudice against certain types of candidates.

2. Rewards and Incentives

Everyone can recognize the advantages of using variable payments to reward success. It is less commonly considered an incentive to penalize employees for failure. This is probably because the early experiments by the psychologist B F Skinner into operant conditioning found that rats subjected to negative reinforcement became confused and eventually went mad, whilst those given positive reinforcement for achievements became fast learners in their quest for better and bigger lumps of cheese.

But humans are a long way ahead of rats in intelligence and psychological complexity. In fact, the very perception of positive and negative reinforcement by humans differs greatly in relation to context, tone of voice, choice of words and a host of often subtle non-verbal signals. Understanding this is key to any rewards policy that seeks to create material and nonmaterial incentives to improve business performance.

In 1943 Maslow put forward his theory about human motivation and the way that needs are in a *hierarchical* relationship from the most basic level of physiological needs, through to safety and security, love and belonging, self-esteem and finally self-actualization. Clearly each of these levels has a significant non-material element.

What Maslow did not take into consideration is that human motivation consists at its most basic level not with “psychological needs” but “survival needs”. As in the animal kingdom more generally, humans need food, hydration, shelter and freedom from undue cold and heat and protection from disease. In fact the next most important needs above these things are safety and security. Only when these basic needs have been satisfied will others emerge as important. Psychologists like to place “psychological needs” as the starting point in the cycle of human motivation because they are conditioned to stress any theory which reinforces their status. But psychological needs were not discovered by Freud and contemporaries, but created by them. They are a luxury that only became possible for the mass of humanity to experience once the quest for survival, safety and security were not day to day struggles. In fact, under selfdetermination theory the three most important psychological needs are autonomy, competence, and relatedness.

So what can employers do to balance off the huge choices that exist between non-material and material rewards? The employment relationship is based on a great many elements other than base salary – some of them intended and many of them unintended consequences of company policies and practices.

Non-Material Rewards

Positive Reinforcement can be achieved without any material rewards in a number of ways:

The job: The most basic motivation provided by a job is the holding of the job itself. However, few people are grateful for being simply employed, unless it follows a long period of unemployment or highly precarious employment.

Freedom to: The next motivators are under the “freedom to” banner. A working parent is happy because they are given the freedom to work hours that fit into their domestic schedule. The commuter is motivated by the freedom conveniently and safely to park their car at their workplace.

Employee first: At a higher level an ‘open door’ policy by management (if genuine), a set of fair company policies, employee consultation forums and good employee communications provide a sense of safety because they all appear to put the employee first.

Engagement: An engaged employee is someone who is enthusiastic, energetic, loves their job and will “work beyond the call of duty” if need be. Companies can seek to increase employee engagement in a number of ways. But there is no one way that works, especially if engagement is already low.

Management textbooks emphasize leadership and the cultivation of talent as if employees will see someone making all the right moves and noises and instantly follow. The modern workplace is not a battlefield subject to trench warfare where participants are shot if they refuse to “go over the top”. Employees will only become engaged if they feel more involved and interested in what they do. But alas, few companies perform sufficiently exciting and intellectually challenging activities to conjure such enthusiasm. So the most that can be achieved in many work environments is “employee loyalty” and an arms length commitment. One thing that seems to cost nothing, but motivates staff to a surprising extent are “high sounding job titles”. Unfortunately these must be used sparingly or employees see them - especially if many people suddenly achieve a ‘manager’ title, even when they do not actually manage anyone.

Praise: It seems obvious that praise is a motivator, but praise is not an easy workplace behavior. This is partly because it can easily be misconstrued as flattery, or even flirting. The giving of praise also needs to be infrequent and reserved for achievements that are milestones for the individuals concerned - rather than just the company.

Accordance of trust: trustworthiness is a rare characteristic, but where it is found and given it can be a powerful motivator – either through delegation, the giving of particular tasks or promotion.

Status: This is a culturally bound concept. In many societies it is associated with things like a uniform or dress code, access to a staff-only canteen, monthly rather than weekly pay, proximity to others who have clear high status (like a board member), use of a business card and even a separate office. In Germany and Austria it is associated with the use of academic signifiers such as “Magister” for holders of a masters degree and certain strict formalities in the way people are greeted and addressed, whilst in Asia it is inextricably caught up with the phenomenon of “face”.

Autonomy: This is the ultimate “freedom to” manage oneself. Autonomy is reserved for entrepreneurs and a few creative professionals – usually in R&D functions.

Prospect of advancement: The predominant non-material positive incentive is the opportunity for gaining a better job. This is not purely a quest for higher pay. There may be a wide variety of non-monetary factors that make a certain job desirable.

Esteem: At an entirely different level from status is esteem. This is a high level of general respect accorded to an individual because of the know-how and often personal qualities they possess (or are claimed to possess) - that can be as much ethical as utilitarian.

Negative reinforcement

Until the last 50 years, and even today in some societies, the “stick” was as important as the “carrot” in persuading employees to perform. However, now negative reinforcement is often hemmed in by numerous regulatory threats such as discrimination and bullying claims – and, of course, constructive dismissal.

Seldom used and often unlawful is the imposition of a penalty involving the employee rectifying errors on an unpaid basis, becoming subject to micromanagement, being marginalized or denied promotion. In many undeveloped countries the filthy and most risky tasks are handed out to those with the poorest performance records. This is particularly in favour where the job sets the pace for a team which is collectively incentivized to work to deadlines. Thus not only are the tasks dirty and dangerous, but an individual is under pressure to perform.

Less problematic is the deprivation of privileges**.** In many workplaces management has over time made many (often informal) concessions to employees. These are not part of any job description, but they make jobs far less tedious and demanding, without significantly reduced work outputs. But although these have become custom and practice they are not contractual and can be easily withdrawn for selected individuals - or even entire work teams.

A poor appraisal score, whether associated with a loss of salary or a potential increase, is a potentially powerful way to motivate an employee, although it can equally be a distinctive if handled by a manager who has poor human relations skills. The threat of demotion or redundancy will often have the same outcome.

Material rewards in kind

This category of rewards first developed as a way to avoid income taxes on direct remuneration. In cultures where status is portrayed by conspicuous symbols such rewards were highly valued – well beyond their actual value.

However, government tax departments have gradually clawed back benefits-in-kind into the tax system and such benefits as company cars are often not attractive because of the huge penalty on private use. In some countries, such as the UK, there is also some tax advantage in the business use of a private car, provided it is correctly insured for this purpose.

Positive Reinforcement

There is an extensive list of benefits-in-kind that can be potentially offered to employees. These are often divided into two groups – those received because of an employee's status and those received because the jobholder needs them as "an essential user".

Company cars: Usually subject to an extensive company car policy – with availability through a company owned fleet, contract hire or leasing arrangement. Employees may also be encouraged to acquire and use their own car through a car allowance or interest free loan, plus a mileage allowance to cover fuel, insurance and maintenance.

Life insurance: Once a principal benefit, but now often tagged onto a company pension scheme

Company Pensions: Usually the most tax effective benefit an employer can give to an employee. Not so much a benefit in kind, as a delayed source of remuneration. It is only a benefit because employees cannot touch the invested funds until they have retired or reached a certain age. The traditional 'defined-benefit' schemes are gradually being phased out in favour of cheaper and less risky "defined contribution" pension arrangements. Although government pension rules generally allow contributions to pensions to be tax free, recipients will have to pay tax once they begin to receive their pension payments. Moreover the ongoing charges on pension funds made by administrators and pension advisors can cut heavily into pensions over time. Annuities are seldom good value – so offshore options and draw down flexi-schemes often provide the best longer-term solution when individuals begin to draw from the funds.

Mobile phones: Now considered a modest benefit, especially if subject to a tax penalty for personal use. As the level of personal use is difficult to track, an 'all-in' contract is usually preferred giving inclusive calls across a specified territory. Alternatively, a pay as you go arrangement may be maintained with the employee given a fixed allowance for monthly calls.

Sick leave: In many countries, such as the USA and Ireland, paid sick leave depends on an individual's company and is not a universal right. This is changing in the USA where individual states and municipalities are introducing a modest level of paid sick leave that must be earned by workplace attendance over the year. Wellness policies that do not allow for paid sick leave are counterproductive because they encourage employees with contagious diseases, like flu, to continue attending work and thus spread the disease to other employees.

Additional Holidays: As with Pensions, this is not necessarily to be viewed as strictly a benefit-in-kind if the holidays are paid. Many companies in Europe offer additional individual leave days. These generally grow with length of service and may be purely in compliance with legislative requirements or an applicable collective agreement. In many countries there are also usually a plethora of bank closure, saints and local feast days – some of which are treated as public holidays. In China there are very few individual days off as most holidays are defined centrally, often by reference to traditions – such as 'tomb sweeping day' and the 'dragon boat festival'. One of the most valued holiday practices - though seldom practiced by employers - is giving an employee their own birthday off.

Other Benefits in Kind: These include private medical insurance, free eye sight tests and medical check-ups, (often not regarded as a benefit and more a health and safety provision), Gym membership, gifts, discounts, subsidized canteens, childcare, company outings (now outdated), free housing (especially for expatriates) and sabbaticals.

Negative reinforcement

Dis-benefits-in-kind are relatively uncommon and generally discriminatory or otherwise unlawful. They include redeployment, the down grading of benefits that exist (such as a car model or range), replacing benefits with those of negligible value or poor quality or the removal of benefits altogether.

In some countries, where the rule of law is less strictly enforced, it may consist of deliberate non-compliance with statutory benefits such as holidays or non payment of social security so that employees lose protections offered by the state.

Monetary rewards

The focus for most reward systems is on monetary benefits, particularly basic wages and salaries. The most basic Maslow needs are satisfied by an adequate level of payment sufficient to provide clothing, food, shelter, environmental comforts and security. Unfortunately these are not guaranteed in most countries by receipt of the statutory minimum wage. Everyone’s needs differ according to the neighborhood where they live, their number of dependants, savings and state of health. An employer can only reward them by taking into account other factors relating to job accountabilities, productivity, time and attendance. There is therefore a gap in the social reward mechanisms affecting lower paid employees that some welfare-orientated states seek to fill, but so many governments around the world simply ignore.

Positive Reinforcement

Wage vs Salary: The difference between these two types of payment has become confused in modern usage. It remains valid in the USA where it is called “exempt” and “non-exempt” pay – but even here the definitions are changing. It used to be that manual workers received an hourly wage and qualified for overtime, whilst the non-manual worker received a fixed monthly salary and did not qualify for overtime. Now many manual workers receive remuneration that is paid monthly and both manual and non-manual workers often work flexi-hours, receiving time off in lieu rather than extra pay at a premium rate.

Incremental Pay Scales: These are rarely found in the private sector and involve pay being set according to a scale, depending usually on length of service. The scale itself is adjusted regularly in the light of price inflation, the labour market or collective negotiations.

Performance-related pay reviews: These are most frequently used in the private sector and may consist of a common (cost of living) element and an individual performance element. The performance evaluation usually arises from the appraisal system where the individual is judged against their principal set of job accountabilities, often converted to tangible goals.

Discretionary bonuses: Used correctly these payments (if of sufficient size) can be a powerful incentive which employees seldom forget. In many countries, such as Germany, discretionary bonuses may become contractual - especially if the same amount is paid for two years or more in a row. Bonus payments for senior staff in the finance sector have become highly controversial. For this reason in Europe such practices are now bound up by regulation. Shareholders are also increasingly apt to question bonus payments made to board members and other senior executives.

13th/14th Month payments: These are fixed bonuses usually paid out to assist employees with meeting holiday costs and – in Christian countries – meeting the costs of the Christmas period. They are sometimes statutory, but often common custom and practice. As they are not performance based they should be regarded as basic remuneration.

Share options: Whilst share schemes may appear to provide benefits-in-kind at the point of vesting, a share option is clearly remuneration when cashed in at the due date. Since the last downturn these schemes are sometimes viewed as having dubious value and if stock prices fall they do not retain their other value as staff retention mechanisms.

Payment by results (PBR), commission, profit share etc; Few employees are now paid entirely by piece rates or sales commission. However, they remain an important element in many occupations. Profit sharing is a dubious incentive in a commercial company. Although it allows companies to share success - and therefore is only triggered when there is an ability to pay - it also reduces the pot from which shareholders may be rewarded.

Negative reinforcement

There are few ways that employers can reduce remuneration or use the withholding of monetary rewards to directly incentivize employees. Pay freezes, monetary fines, temporary lay-offs, the introduction of zero-hours arrangements and the removal of wage premiums - where legitimate and lawful - are at best tolerated by employees and their representatives. It is only in companies facing bankruptcy that wage reductions may be associated with greater productivity.

A multifaceted approach to rewards management

In the last chapter we sought to demonstrate that determining pay solely by market comparisons is both short-sighted and self-defeating. In this chapter we have gone on to show that the focus of rewards policy on base salary and annual bonus payments is far too narrow an approach. Even if non-material factors are absent from a company reward policy they will nevertheless remain as a silent and uncontrolled element influencing the way employees perform. Although negative re-enforcement is a legal minefield, it is a constituent of any performance management system. Managing bad news so that employees remain motivated is a critical skill for HR professionals, particularly in a multinational setting where different cultures provide considerable challenges when seeking to convey occupational failures and personal shortcomings.

Chapter 3. Ability To Pay

The starting point for undertaking a review of an established company's ability to pay is its recent trading accounts. The profit and loss statement can reveal a great deal if it is read with one eye on the footnotes – as accountants will use different depreciation rates and accounting rules to minimize corporation tax.

It is easy to carry too much labour cost simply because it is necessary to provide for the rises and falls in customer demands. Yet looking across to the balance sheet will indicate if the company is having to borrow heavily to remain afloat. A healthy-seeming net income may leave little for distribution to shareholders once money has been put aside for reserves, unpaid debts, overdraft payments and new projects.

So what is an affordable labour cost? Let us begin with an analysis of labour requirements. This can be carried out in a number of ways, but the least effective way will be to ask functional managers to draw up manning levels. They will frequently begin with the status quo and bid for more staff to make their management task easier. It will naturally also be assumed that if a manager is asking for more staff the worst case scenario will be to remain stuck with the status quo.

There is no better approach for production jobs than old fashioned time and motion methods. For computer-based jobs much can be determined through keyboard stroke analysis and for call-centres a call-handling throughput for the highest performing employees adjusted for customer queue levels. All studies should include a factor which indicates the estimated reduction in labour inputs arising from capital substitution – based on known technologies. Of course, the current capital investment required may far outstrip the existing labour cost, but capital costs will tumble once more widely adopted.

Employees are always adept at filling their time and looking busy, even during slack periods – and this is even more so when being observed for determining manning levels. It is therefore necessary to evaluate the importance and urgency of each task – bearing in mind that all jobs will need to have around 15% for miscellaneous duties sometimes referred to as ‘housekeeping’. In understaffed positions it may appear that staff are coping, but if work intensity is too great then the general quality of tasks will fall, errors arise and employee absences escalate. Building in additional work breaks to deal with work intensity may be the same, in manning terms, as hiring staff to reduce intensity levels.

All manning figures should be on a full-time-equivalence (FTE) basis. It must also include all staff, apart from those on short-term assignments. If a contractor is effectively working on an ongoing basis they should be included in the headcount.

Once armed with an objective assessment of manning requirements a comparison can be made with current manning levels. This will highlight areas where changes are necessary. However, no immediate action should be taken until a future ability to pay assessment is made. The simplest way to carry this out is through a breakeven analysis.

Breakeven analysis

In order to determine what a company can afford in total labour costs it is necessary to set a specific time period over which future revenues can be predicted. It is also necessary to establish an acceptable grossed-up internal rate of return (IRR) for the business (grossed up for corporation tax). The IRR is the minimum discount rate that a company uses to determine if any investment is worthwhile.

For the purposes of the calculation it also essential to add together capital investment and labour costs. In commercial terms both types of spending are effectively the same and can often be substituted for each other. Capital is usually a single lump sum (with additions for maintenance, insurance etc) whilst labour cost will be the total paid to employees, plus tax and other costs for the period of revue.

The formula for the calculation is as follows

$$\frac{\text{(Gross profit – overheads and interest)}}{1 + \text{IRR}} - \text{(capital + labour costs)} = 0$$

If we take as an example a company with an estimated average turnover over the next 4 years of $10m a year, with a projected average gross profit of $4.5M per year.

Overheads and interest amount to a projected average of $1.1M a year.

This means that over 4 years the sum of gross profit – minus overheads and interest - is 4 x $3.3M = $13.2M.

Management has set a net IRR at 12%. Therefore 13.2/1.12 = $11.786

The capital investment (including maintenance etc) necessary to achieve the gross profit is $2.2M. Therefore the sum available for labour costs is 11.786 – 2.2 = $9.586. This means that over 4 years labour costs can be at most $2.397 pa.

If there are three board members earning a total of $450,000 a year (including associated costs) then there will be $1.947 available for general labour costs. If the average labour costs per non-board employee over the 4 year period is $37,500 per annum then the company may employ 51 staff. If any of the staff costs more than $37,500 then there will need to be an equal saving in the cost of another staff member. Likewise, if price inflation or other forces drive up labour costs more than expected, then gross profits will also need to rise at the same rate or a reduction take place in the number of those employed.

If it is not possible to recruit staff at the projected average labour cost it may be necessary to seek capital equipment to substitute for labour. This may be a more attractive proposition over time as a single additional investment of 25% will typically reduce labour requirements by 18%. This will therefore liberate 15% more for non-board labour costs.

Labour costs will include fixed and variable remuneration, the cost of benefits-in-kind, social security, training and other associated expenses.

Of course these calculations will always be estimates and in practice the need to reinvest will mean that a higher IRR may be required. It also leaves no room for contingency costs. Companies accounts are also seldom as simple as in the illustration.

Squaring the circle

The complete set of ability to pay calculations will produce three different FTE manning levels

- The existing headcount
- The adjusted time-study headcount – with an added capital substitution factor
- The future breakeven headcount.

The task of the HR professional will be to reconcile mismatches in manning levels through selective hiring, redeployment and redundancy. Existing labour costs will be an initial guide to job pricing, but no final salary budget can be formed until non-monetary rewards and benefits-in-kind have been evaluated (Chapter 2), breakeven adjustments have been made (Chapter 3) and the salary market has been taken into account (Chapter 4).

Thus it can be seen that in our approach a view of the salary market is undertaken as a final, not a first step in salary determination.

The 15% rule

The most difficult pay levels to set are those in the board room. This is particularly the case in publicly-quoted companies where board members are not necessarily principal shareholders. The need for high salaries is not only because of the accountabilities that Directors have in relation to shareholders, customers, suppliers, employees and the public at large, but is also due to the need for integrity. Unless well rewarded, those running companies may be tempted to follow corrupt practices. Furthermore, the income tax paid – and other charges - on high salaries is generally so high that what appears to be a generous package can seem fairly ordinary once viewed on a net basis.

As a general rule the sum to set aside for board room pay should not exceed 15% of a company's payroll and annualized capital investments, with the total fund for distribution capped at $5 million. Where there are numerous board members – including two-tier boards - this may need to be increased, but never to more than 17%. The distribution of remuneration will depend on whether a board member is executive or non-executive and what role they perform. The Executive Chairman/CEO will have a demanding role carrying much managerial risk and therefore their remuneration level will justify a multiplyer of 2.0 to 2,5 times the average executive remuneration level.

Board membership may attract performance-related bonus payments and where these exist they should never exceed 110% of base salary.

4. Global pay markets

We set out below median (midpoint) salaries for key national economies around the world. The table also includes FedEE projections for salary budgets in 2017.

Salary budgets are the maximum affordable increases that can be made, on average, in an economy to sustain a future target rate of price inflation. Although not strictly a formal policy of the IMF and World Bank it is generally regarded by economists that the optimal level of annual consumer price inflation that will maintain consumer demand and achieve economic stability is 2% - 2.1%. Thus our budget figures have been calculated to ensure that the 'cost push' effects coming from the labour market will help to achieve that outcome. Individual companies may well decide to constrain pay levels below the budget figures, especially where current (as distinct from future) consumer price inflation levels are well below the budgeted level.

Median basic hourly gross wage and salary levels
@June 2016 in national currency and projected increases

Europe		**2017 Budget (+/- %) ***
Euro area	……………	3.6
Austria	17.42 euros	3.5
Belgium	18.22 euros	3.5
Czech Republic	132.92 koruna	4.6
Denmark	203.85 krone	3.7
Estonia	6.04 euros	5.0
Finland	18.59 euros	3.1
France	16.30 euros	3.5
Germany	16.52 euros	3.4
Greece	7.98 euros	1.7
Hungary	1398.15 forints	4.5
Ireland	23.11 euros	4.4
Italy	12.40 euros	2.8
Luxembourg	25.95 euros	5.9
Netherlands	21.45 euros	3.6

Norway	247.07 krone	4.1
Poland	18.68 zloty	5.3
Spain	11.43 euros	3.7
Sweden	181.25 krone	3.9
Switzerland	37.08 francs	3.0
United Kingdom	13.73 pounds	3.2

Rest of the World

Australia	32.74 dollars	4.0
Brazil	9.22 real	2.3
Canada	21.35 dollars	4.1
China	15.58 RMB	7.8
Hong Kong	64.16 dollars	4.3
India	27.35 rupees	9.4
Indonesia	759.39 rupiah	7.1
Israel	42.29 shekel	4.9
Japan	1,729 yen	2.5
Mexico	40.96 pesos	4.5
Russia	218.90 rubles	2.1
Singapore	19.95 dollar	4.3
South Africa	55.72 rand	2.8
South Korea	12,828 won	4.8
Taiwan	167.35 dollar	3.2
Thailand	44.48 baht	4.4
Turkey	7.69	5.0
UAE	21.55	3.6
USA	17.75 dollars	4.2

** FedEE projections*

Median/Mean Ratios (MMR) and interdecile rates

The bigger the gap between individual pay rates, particularly towards the top of pay distributions, the bigger the gap will exist between median and mean pay figures for a given population. This is called earnings skew, and median pay rates are invariably lower than mean rates (the mean is skewed to the right). The higher the MMR the more equal the overall distribution of pay in an economy is likely to be.

Another way to assess earnings distribution across a population as a whole is to look at the ratio between the 90% decile and the 10% decile and the 90% decile and the 50% decile (the midpoint).

The following selection appears to be fairly arbitrary, but up-to-date data is not generally available and we are therefore only able to reproduce what we can obtain or deduce at the time of publication.

Country	**MMR**	**Country**	**90/10**	**90/50**
Belgium	0.98	Belgium	2.4	1.5
United Kingdom	0.90	Switzerland	2.7	1.8
Canada	0.90	Slovenia	3.1	1.9
Finland	0.89	Slovakia	3.8	2.0
Australia	0.85	Venezuela	5.8	1.8
Czech Republic	0.85	Sri Lanka	5.9	1.7
Austria	0.84	Greece	6.1	1.5
Norway	0.84	Malaysia	6.4	2.5
Spain	0.84	Russia	6.9	2.4
Poland	0.82	Turkey	7.1	2.4
Slovakia	0.78	India	7.2	2.8
Brazil	0.77	Latvia	8.2	2.5
Costa Rica	0.76	Indonesia	9.7	2.4
Israel	0.74	New Zealand	10.3	2.2
Panama	0.74	Peru	11.5	2.2
South Korea	0.73			
Japan	0.68			
USA	0.65			
Turkey	0.53			
UAE	0.43			

The extreme contrasts in MMR between the UAE and Belgium indicate how unequal many countries remain. This is well illustrated in the case of Turkey where median incomes are only 53% of the average. This is largely because incomes at the 90th percentile are 701% higher than those at the 10th percentile. Whereas in Belgium the 90/10 differential is only 240%.

The above table should also be compared with salary survey figures from some of the leading remuneration consultants. What their survey figures do not usually include is data from smaller enterprises and even larger local companies.

Sectoral pay differentials

Significant differences exist between general pay levels in economic sectors. These tend to persist over time and are due to factors such as capital intensity, economies of scale, the different mix of skilled manpower in each sector, the frequency of job changes (high volatility usually raises pay levels) and variations in bargaining power. Each national market place also has a distinct set of sectoral relativities – and even different rankings of sectoral pay levels.

Here are contrasting patterns of wage and salary relativities for two quite different economies.

	UK	PR China
Manufacturing	100	100
Mining and quarrying	124	120
Construction	100	89
Wholesale and retail	78	109
Transport and storage	94	124
Hospitality	60	78
Information and Communication	140	196
Finance and real estate*	130	211
Professional scientific services	126	160

** UK figures include real estate*

Source: Office for National Statistics (data for 2016) and The China Statistical Agency (data for 2014)

Apart from in the mining sector, pay relativities differ significantly between the UK and China. Construction, which is on a par with manufacturing in the UK, is considerably below manufacturing in China. In all other sectors, pay levels are relatively higher than manufacturing in China than in the UK. This is particularly the case for wholesale/retailing and transport/storage which are below manufacturing pay levels in the UK - but well above them in China.

Individual market rates

FedEE Member companies can determine salary rates for jobs based on their knowledge, experience, responsibilities, risks and time-span of discretion by drawing on the JEAPS database. This allows the market price of all jobs to be determined accurately according to a particular country, industry and organizational size. JEAPS currently covers most European countries and will be expanded to include Australia, Brazil, China, India, Japan, South Africa and the USA in 2017.

5. International Pay Trends

The recovery from the recession of 2007-11 has been slow and in 2016 global economic growth is now predicted by the World Bank to average just 2.4%. This is a reduction from the bank's earlier forecast of 2.9%. Although the bank expects an improvement in economic growth during 2017 and 2018 it also predicts a weakening of the growth level in China from 6.7%. to 6.3%

Falling oil prices have not produced the stimulus for growth that was expected in oil importing countries and many weak economies such as Greece, Portugal and Brazil continue to struggle for any growth at all. Many examples of damaging price movements remain. With Venezuela being the most extreme example of hyper-inflation and Japan's economy the most afflicted by persistent price deflation.

In Europe, growth has been particularly sluggish. Over the year to Q1 2016 the EU economy grew by 1.7%, whilst between Q4 2015 and Q1 2016 average growth was 0.5%. The biggest gains were in Romania (+4.2%), Slovakia (+3.6%), Spain (+3.4% from a reduced base), Bulgaria (+2.9%) and Cyprus (+2.7%). However, annual growth was only 0.9% in Finland, 0.8% in Portugal and 0.5% in Hungary.

According to the European Commission's Spring economic outlook, post-recessionary growth in the EU has been much slower than in the USA because of relatively low consumer confidence in the EU, slower productivity gains and labour market rigidities. EU GDP growth is set to remain fairly constant at 1.6% this year and 1.8% in 2017.

Labour Productivity

The increased pace of innovation across many areas such as biotechnology, energy, IT, automation and financial services is arguably faster today than at any time in history. Yet its visible impact on productivity has yet to be felt. This may be because there is a natural lag between innovation and the applications that stem from them. However, the most likely cause is that underlying productivity is actually falling and innovation alone is holding it steady. This is evident from the reduction in manufacturing investment that took place during the long recession and has not fully recovered during the slow upturn. The aging population is hitting economies far greater than was supposed and low demand has produced price constraints – thereby hitting profitability. Long-term unemployment is also hitting the skills base. Moreover, globally the tax-take has remained far too high and unrelenting – drawing on resources that could otherwise be invested in the new innovative technologies.

In North America productivity growth has been reasonably positive since 2011, but has generally declined in Canada. Unit labor costs in the US nonfarm business sector increased 4.5% in the first quarter of 2016, reflecting a 3.9% increase in hourly pay and a 0.6% decline in productivity. In fact, unit labor costs have increased 3.0% over the last four quarters.

So far, companies have absorbed this cost and not passed it on to consumers. The US Consumer price index rose by just 1.1% over the year to April 2016. Recent increases have largely been due to rising fuel costs than labour costs. By contrast, price inflation in Canada hit 1.7% in April on a year-on-year basis as Canadian companies were forced to pass on past unit labour cost rises. The only ray of sunshine for Canada is that unit labour costs expressed in $US have fallen each year since 2013 and continued to fall (by 3.2%) in Q1 2016.

Labour productivity per hour worked in the European Union rose over the period from 2010 to 2015 by 23.2% in Romania, 18.5% in Latvia, 12.1% in Ireland and 9.8% in Malta. Yet it rose only 4.2% in Germany, 2.2% in the UK and in France by so little that it has not released its data. In fact, the UK's Office for National Statistics estimates productivity is still 14% lower in the UK than it would have been if the economy had not been hit by the recession.

These differences are to some extent due to the economic structure of the countries concerned, with service-based economies such as the UK having much higher productivity growth outside its declining manufacturing base. But productivity is largely a function of investment and there have been huge differences in recent years — particularly in foreign direct investment. Net foreign direct investment as a percentage of GDP in the major EU economies was low or negligible in the major national economies such as Italy (0.1%), Germany (1.4%), France (1.8%) and the UK (2.0%). However, it was 22.4% in Malta, 27.2% in Cyprus and 53.3% in Ireland. The reason why is also clear — because these three countries operate the lowest corporation tax rates in the EU (with the exception of Bulgaria).

Another factor in productivity is how effectively an economy is in using its resources when producing goods and services. This is a major priority for manufacturing companies, as greater scarcity of raw materials and increased demand for finished goods, together with environmental concerns, is putting pressure on resource utilisation.

Unfortunately the latest figures for resource productivity date back to 2014. Overall the EU produced 1.98 euros (2.25 US dollars) per kilogram in that year. But countries differed widely in their achievements — from 0.28 euros per kilo in Bulgaria to 3.8 euros per kilo in Luxembourg. Amongst the major national economies, Germany (2.1 euros) and France (2.6 euros) were only marginally above average, but the UK (3.5 euros) and the Netherlands (3.6 euros) scored highly.

Major trends

During the last year a number of trends have begun to emerge.

- **Pay levels** since the 2007-11 recession have remained fairly flat throughout the developed economies. But there has been an ongoing trend towards convergence of pay levels between developed and developing countries. This has been evident since the year 2000 and was only temporarily halted by the recession.

- **Harmonization** of pay increases is evident within and between countries. For instance, sectoral collective wage rounds in Germany are more unified this year with large company negotiations – so that the latest basic pay deal in automaker VW is the same as for the Engineering sector as a whole. In the west – from the USA, UK, to Poland, Slovenia and Israel the standard pay rise has seemed to be within the range 3-4% during the last year. By contrast, in India and China the annual increases have been running at 8-11% and are likely to continue doing so next year. In countries that are politically or economically unstable, such as Venezuela, Argentina and Egypt the pattern is much more diverse.

- **Labour productivity** has outstripped real earnings in many countries. This has been assisted by the cut in oil prices and its impact on general consumer price levels. However, in emerging economies such as the Russian Federation real earnings have generally increased in recent years and outstripped productivity growth. But this has not been the case in China, Mexico and Turkey.

- **Pay increases** have continued to be made even when consumer prices have been falling. This means that overall real earnings levels have been rising.

- Governments have been trying to hit their targets for **minimum wages** and definitions of wage earners. In the USA a new threshold has been set for non-exempt workers, pitching them at the 40th percentile of earnings of full-time salaried workers in the lowest-wage census region. In May there was a 13% hike in minimum wage rates in Peru and on July 1st rates rose 11% on the mainland of Malaysia. The Polish government has also doubled its original proposed rate increase for 2017. This year a new "living wage" is being introduced into the UK to raise adult salaries well above the statutory minima and in New Zealand an increasing number of companies are volunteering to adopt their living wage.

- **Protectionism** is also evident in the labour market. Examples abound, but in Europe both Germany and France are now requiring foreign lorry drivers to be paid their minimum wage rather than a lower rate set in their home country. In spite of declining levels of unionization in the private sector France continues to rubber stamp sectoral wage agreements – thus making them applicable across their whole sector, even though this establishes an "anti-trust" labour cartel. Earlier this year in South Africa wage cartels under section 32 of the Labour Relations Act were challenged before the Gauteng high court in

Pretoria. Whilst in a related move the Irish Labour Court has begun to impose union-led wage agreements on non-unionised companies.

- **Equal pay** continues to be high on the agenda in many western countries. The focus is gradually turning to gender quotas on company boards, regular reporting of earnings differentials (as in France, and the UK from this Autumn) and even establishing comparators beyond an immediate enterprise, as in Maryland's Senate Bill 481. The earnings gap shows little sign of closing – although there is some evidence in countries such as Brazil that female earnings climb faster than mens' earnings up to age 29 before the earnings gap widens once again. This is undoubtedly due to women taking maternity leave - thus leaving the career opportunities that do exist open for men to exploit. There is also some evidence from Cyprus that the gender earning gap closes completely for some professional groups with length of service.

- **Collective agreements** in the private sector continue their slow demise. However, as unions shrink they also merge and transform in character. The majority of unionized workers in the west are now white-collar workers and in many countries women union members outnumber men. The sheer number of people who are unionised is also less important that the impact they can make. Hence the highly militant union CGT in France and RMT in the UK have been able to hold companies and governments to ransom.

- The clamp down on **foreign labour** continues on many fronts with the tightening of borders and additional visa restrictions in Europe due to the wave of largely middle eastern refugees. Countries such as Saudi Arabia and Oman have been trying to force foreign companies to employ more nationals and pay them on a par with expatriate workers, whilst country governments, as in Singapore, are raising the cost of visas and work permits.

- There is a persistent and substantial **migrant wage gap** in most developed countries. In some countries, such as Spain, this can be explained because migrants are largely unqualified seasonal workers who fill jobs nationals are reluctant to fill. In the majority of cases, however, migrants have formal qualifications and experience which greatly exceeds those required in the jobs in which they are employed. This is particularly evident in Denmark, Germany, Luxembourg, the Netherlands, Norway, Poland and Sweden where immigrants are, on average, better qualified than nationals.

- The **informal economy** continues to be a feature of the labour market in many countries, especially in Latin America where it can account for up to 50% of the total national workforce. Countries where it is most evident are also characterized by a high level of corruption in public office and although it could be largely eliminated there is little political will to do so.

- Remuneration committees have been increasingly encouraged to scrutinize **board room pay and benefits** packages. Pressure has continued to be exerted by governments and shareholders on the level of bonuses for company directors in public companies. This is no longer just an issue for those in the finance sector.

- The last year has also been **a time for experiments** – like the Swiss referendum on a universal basic income (which was voted down) and this was also the dawn of holacracy—a new concept of self-management that confers decision-making power on fluid teams, or “circles,” and roles rather than individuals. Both the universal income and self-management would place a strain on conventional reward structures. Why, for instance, pay someone in full if their basic “survival income” is accounted for by the state? Likewise, the flatter the structure and the more fluid the work groups the less opportunity there is to incentivize through pay linked to job size or even work group. In fact, with very little job hierarchy there is little scope for career development and also therefore employee retention.

Executive pay appears, as always, to be untouched by economic - and particularly labour market – trends. There is a huge demand for those with certain skills, particularly in the data analysis fields. The expansion of more companies from India and China onto the multinational stage will also lead to a head hunting focus that has never been equaled. Such companies will be very aware that by stealing key staff they also weaken rivals and that will be too much of a temptation to be resisted. Much of the draw will be through remuneration packages that far exceed even the blue-chip deals western companies have made. Key to retention will also be the introduction of post-compete restrictions, bonuses that are based on longer term performance that are set at zero if an employee leaves and share issues that only convert to ownership after a number of years of service at a senior level.

Prospects to 2020 and beyond

The Shorter term

Over the next 3-4 years significant uncertainties will affect the wage and salaries market. The most important of these is what will happen to consumer prices. The price of oil will be a major factor influencing prices and pay – more, in fact, if it rises than if it goes further down. For if companies reduce their energy costs they will often absorb the savings by converting them into profits, but if costs rise they shall almost certainly want to pass them directly on to customers. Therefore a rise in oil price will have a bigger impact on pay demands and expectations than an oil price cut.

Global competition will affect larger international companies through depriving them of key staff or necessitating them to pay more to retain their most valuable people. Recently the International Labour Organization warned about the possible consequences of long–term unemployment on younger males in the west. Their conclusion was that this could well lead to widescale social unrest. However, it could also politically radicalize significant sections of the population, adding to the latent terrorist threat that could destabilize a country and its economy.

The pattern of economic cycles has undoubtedly been deeply disturbed by the last recessionary period, but it remains highly likely that a downturn will once again emerge by 2019.

The longer term

One thing is for certain – that the world's population – which was 3bn in 1960 has now grown to 7.4bn and is likely to top 10bn by 2050.

Some 3.2 bn of the world's population are currently in employment, but only 1.3 bn people work over 30 hours a week. Moreover more than 20% of the working population are in 'informal work' – sometimes called the "grey economy" – with a further 18% in self-employment. FedEE estimates that only one third of the world's population work full-time in the formal economy. This amounts to only 15% of the total population of the world.

Contrary to numerous reports over the longer-term the world will not be facing a critical shortage of skilled manpower. This is because over the next 15 years there will be a wave of technological change that will amount to a step change in the pace of the digital revolution.

"Capital substitution" will have an era-shaking impact on advanced economies and create a new swathe of the unemployable. To date automation has focused on large-scale manufacturing enterprises such as the automotive sector. But in the brave new world of 2020-2030 it will become far more evident in other sectors such as retailing, office services and even the hospitality sector. There are already substantial hotels that operate with only one member of staff on duty at any one time and high street retailing is quickly becoming a place where goods are viewed prior to them being ordered online. Service sector automation will not consist of humanoids – but conventional looking machines that perform the tasks conventionally carried out by humans. Order processing is largely carried out now by office computers and these will increasingly be allied to decision support systems to deal with most contingencies.

To date, the share of GDP accounted for by income from employment has been slowly falling from 62% in Western Europe in 1960 to around 57% today. But by 2030 it will have fallen to 52% and by 2050 to 44%. By 2100 its share will be below 30%. Those whose jobs survive will earn salaries that are on average many times their present levels in real spending power, for those who own the means of production there will be wealth and power beyond all we can currently imagine. But for the rest of the population the prospect is a lifetime without any employment - and the only pathway to survival will be through the introduction of a universal basic income sufficient to sustain a modest living standard.

6. Country short reports

This chapter provides an alphabetical compendium of FedEE news reports on remuneration and benefits changes from the summer of 2016. They provide a snapshot of the world - ranging from changes in minimum wage rates to key collective wage deals, changing patterns of paid leave, employee share ownership, the pay of foreign workers, narrowing the gap between entry-level/junior employees and senior executives to experiments in basic income rights.

These reports will be updated every quarter. However, ongoing developments and updates can also be found in FedEE's fortnightly member-only Newswire.

AUSTRALIA: Over the year to March 2016 wages in the Australian private sector grew by 1.9%. This is the slowest rate of growth since records began 18 years ago. It is partly a reflection of low price inflation - with retail prices rising by just 1.3% over the year to March, including slight deflation in the latest quarter. As might be expected, financial and insurance services, public sector health and education sectors had the highest overall rises during the year – at +2.6%.

BELARUS: The pattern of "real pay" outcomes is in practice nearly impossible to forecast with any accuracy because it means both the dynamics of aggregate wage rises and price movements must be totally understood and regulated. A great achievement even in that remnant of the USSR called Belarus. Yet that has not dissuaded the country's Deputy Economy Minister from confidently announcing a real increase in wages of 1.5% in 2017.

CHILE: Congress has approved a government proposal to increase the minimum wage in Chile by 26,000 pesos to 276,000 pesos ($US 419) over the next 18 months. This is a significant increase from the original government proposal of 260,000 pesos. Although 183,000 workers are paid the minimum wage in Chile a great many more are reliant on it as a pay setting reference point.

CHILE: Over the year to March 2016 average basic manufacturing sector earnings in Chile rose by 6.1%. Annual changes were lowest in the public sector - particularly teaching (2.7%) - and highest in the hotels and restaurants sector (8.7%). Consumer prices in Chile rose over the same period by 4.5%.

CHINA: There has been a gradual adoption around the country of paid holiday laws implementing the 'Paid Annual Leave Ordinance'. So far 12 provinces have responded with their own measures (Hebei, Jiangxi, Chongqing, Gansu, Qinghai, Liaoning, Anhui, Shaanxi, Fujian, Guangdong, Zhejiang, Inner Mongolia). The ordinance gives workers 5 to 15 paid days off each year according to length of service and a right to be paid 300% the normal daily rate if an employee is required to forego their time-off.

CHINA: Seven Chinese provinces/municipalities have just announced minimum wage increases. These range from 1,270 yuan ($US 193) a month in Qinghai to 2190 yuan ($US 332) a month in Shanghai. Although wage adjustments are becoming smaller over time, China's Ministry of Human Resources and Social Security has reported that, over the past five years minimum wages across the country have risen on average by 13.1% a year.

CHINA: Chinese airlines are offering substantial salary premiums to attract foreign pilots. Faced with escalating domestic demand, Chinese carriers have a shopping list of 100 pilots a week that could stretch on for the next two decades. Even smaller companies such as Qingdao Airlines and Sichuan Airlines are offering over $US 300,000 a year, compared to Delta which typically pays $US209,000. There are also extra perks - like offering to pay the Chinese income tax bill, signing bonuses and free flights home.

CYPRUS: The trend in average gross earnings in Cyprus has been in decline since 2012. During Q1 2012 it was 1902 euros per month, but since then it has declined in the same quarter each year to stand at 1816 euros per month in Q1 2016.

One significant development in Cyprus is in the earnings differential between men and women. The structure of earnings results for 2014 have only just been published. These reveal that women, on average, earn overall per hour 88.4% of the rates earned by men. But when length of service data is taken into account the picture changes dramatically. Women managers start off their careers earning 90% of what their male counterparts earn. But after 30 years service their average gross pay is equal. For professionals the earnings gap starts further apart with women earning 83% of the hourly salaries compared to male counterparts. However, they reach parity after 20 years service and female professionals earn, on average, 11% more than professional men after 30 years service.

CYPRUS: Employers have up to the end of November 2016 to repay any outstanding social security charges in order to avoid prosecution. This may be done without penalty if paid as a lump sum, but applications may also be made to pay in up to 54 installments – although this will include a 27% penalty charge. The government estimates that 39,000 companies and self-employed workers (17% of total) owe a total of 290M euros ($US 312M) in unpaid social security – a figure that will continue to grow with time as the courts do not have the capacity to handle the volume of necessary prosecutions. Many companies will also not be in a position to repay outstanding charges as many have gone out of business. The number of registered enterprises has fallen by 25% since 2013.

CZECH REPUBLIC: After lengthy consultation with both sides of Industry, the Czech Ministry of Labour and Social Affairs has proposed that the national minimum wage should rise on January 1st 2017 by 11.1% from CZK 9,900 ($US407) to CZK 11,000 ($US452) a month. This is a compromise between the trade unions target minimum rate of CZK 11,400 and the employers' call for the new minimum to be limited to CZK 10,600. In April 2016 the annual rate of consumer price inflation (HICP) in the Czech Republic was 0.5%. The National Bank has forecast this will rise to 2.2% by Q3 of 2017. However, the bank's expectation is significantly in excess of the recent prediction made by the European Commission. This saw inflation rising to just 1.4% next year. Either way, the minimum wage increase will only fuel inflation, especially if it influences wage bargaining across the economy.

CZECH REPUBLIC: Over the year to Q1 2016, median monthly earnings for full-time employees in the Czech economy grew by 6.5%

to CZK 22,533 ($US 921). The median wage for men rose to CZK 24,570 ($US1,004) and for women to CZK 20,165 ($US824). 80% of employees earned between CZK 12,117 ($US495) to CZK 40,997 ($US1,675).

DENMARK: Companies in Denmark may wish to take advantage of a new legal framework for employee share ownership that will come into effect on July 1st 2016 under s.7P of the Danish Tax Assessment Act. The new 7P scheme allows an employer to distribute shares to employees (worth, at the time, up to 10% of their annual salaries – including pension) at either no cost or at a reduced cost, without any tax liability at the point of their grant. Tax is purely levied when they are sold, and they will then be treated as capital gains rather than income. No certificate from an auditor or lawyer is required to set up the scheme, but it must be based on a written formal agreement between the employer and employee and not involve the issue of any specially created class of shares.

ESTONIA: A Bill has been submitted to the Riigikogu (parliament) that reduces the minimum qualifying remuneration level for foreign workers wishing to enter the country from 1.24 the average Estonian pay level to the average level itself. The government has also proposed that employees in the field of information and communications technology (ICT) become exempt from annual immigration quotas. Existing longer-term residence permits will be extended to ten years and major investors who have made an investment of at least one million dollars in Estonia will be automatically given temporary residence visas.

EUROPE: the structure of middle incomes across Europe has come under the spotlight in recent figures published by Eurostat. The proportion of people with incomes at or above 130% of the median has remained remarkably stable over the period 2008-2014/15 (29.5%-30%). The lowest proportion has, however, been in Norway (22.6%) and the highest in Estonia (34.7%) and Serbia (34.4%). But the most curious changes have been the few countries where the relative number of people experiencing at least modest affluence has been clearly on the rise - such as Denmark (22.6% to 25.8%), Sweden (23.6% to 25.2%) and, to a less extent, Germany (28.6% to 30.4%).

FINLAND: An experiment into what is being called “basic income” is being planned in Finland for 2017-18. It will not, however, be a scheme providing the population as a whole with a monthly allowance, but a new way to distribute social security funds. The current system contains a number of incentive traps which a unified benefit-for-all approach to claimants would potentially overcome. It is postulated by the government that basic income will “promote employment” – although the logic behind this claim is far from obvious. Far more effective would be the Chinese practice of requiring every able-bodied person out of work to do a socially useful activity on a full-time basis. That is why roads in China are generally so litter free.

FRANCE: The long-debated Labour law reforms have now been finally pushed though the national assembly. Amongst the main changes set out in the *Labyrinthine* 343 pages of the law will be an easing of working time limits. The formal 35-hour limit will remain, but maximum daily working time will be raised from 10 to 12 hours and maximum weekly working time raised from 44 to 46 hours. Both, however, will require company-level agreements to achieve their implementation. Overtime will also be much cheaper with a minimum premium of 10% instead of 25% for the first 8 hours per week and 50% thereafter.

GERMANY: The German Airline Lufthansa has concluded an agreement with the cabin crew union UFO that will help to secure the company’s future. The deal was reached through a mediator and included replacement of the company’s defined benefit with a defined contribution pension scheme for new staff, new flexible contracts to cater for seasonal variations, a way ahead for the budget carrier Eurowings, a 5.5% pay rise over the period to 2019, a 3,000 euro ($US 3,315) one-off bonus (already paid out), a no-strike clause and job guarantees until 2021.

GERMANY: The automaker Volkswagen AG has concluded a 20-month pay agreement with the trade union IG Metall covering 120,000 employees in its German operations (Volkswagen Financial Services.). In early May the company agreed to pay a on-off bonus of 3,950 euros ($US4,418) relating to 2015. The new deal gives workers and increase of 2.8% in September 2016 and a further 2% next August. This is on top of an extra 200 euros added to each employee's pension fund, an extended partial retirement option and a new two-year averaging process for profit sharing bonus calculations.

GERMANY: A two-year collective agreement has been reached between the German utility company RWE and the trade union IG BCE, which reflects the low level of electricity demand in Germany's sluggish economy. This gives 11,000 employees a basic wage increase of 1% on Jan. 1, 2017, and again on Jan. 1, 2018. This largely mirrors a similar deal reached recently between the company and the trade union Verdi. However, Verdi members also received a one-off bonus of 1,000 euros. But staff at RWE Generation SE and RWE Power AG represented by IG BCE will instead qualify for a new early retirement scheme.

GLOBAL: An increasing number of companies are becoming concerned about the widening gap between entry-level/junior employees and senior executives. The largest bank in the USA – JP Morgan Chase – is taking the lead to resolve this is a very open way. Writing in the New York Times Chief Executive Jamie Dimon has announced that the company is planning to raise the current pay floor of $10.15 an hour to $12 - $16.50 an hour over the next three years. The bank already offers even low-paid workers a generous benefits package – including healthcare – worth $11,000 a year.

Although many governments around the world are seeking to hike minimum pay rates to reduce social inequalities they are still not keeping pace with the post-recessionary pay rises for senior executives. Other pressures are at work too – such as an attempt to reduce corruption in public service – which has led the Indian government to reverse the compression in differentials between lower paid and top civil servants.

Last year the pay of CEOs in America's top 350 companies was, according to the Economic Policy Institute, down 5.1%. But this was seen by the institute as nothing to do with policies to reduce the wage gap. In fact, 83% of decline in CEO pay was due to the drop in value of realized stock options in 2015.

Of course, many companies can afford to raise salaries at the lowest levels knowing that many of these positions will be redundant in the next few years. A report released at this year's World Economic Forum predicted job losses amounting to around 7 million over the period to 2020 – mainly in administrative/office positions. Grossed up to a global level this rises to 10.5 million worldwide.

GLOBAL: The late or nonpayment of wages is coming increasingly under the legal spotlight as the issue hits the headlines in many countries around the world. In the last few weeks it has affected airport workers in Kuwait, police officers providing security at the Rio Olympics, council cleaners in the Indian state of Kerala and Teachers in Zimbabwe. It has also led to a Bill to criminalise such acts in Nigeria.

In Philadelphia, USA a new city ordinance came into force on July 1st establishing a "Wage Theft Coordinator". This measure provides an alternative course of action for anyone owed between $100 to $10,000, with much scope for multiple claims and fixed penalties if the non-payment extends over several weeks.

In Australia this issue is perceived as the exploitation of vulnerable workers. A comprehensive body of legislation was outlined ahead of the federal elections on July 2nd and now that the Liberal coalition has been returned to government legislation can be expected in the next few months. The reforms will principally arise as amendments to the Fair Work Act 2009 and serve to ramp up penalties payable by employers who "deliberately and systematically" underpay workers and fail to keep proper pay records.

GREECE: An analysis of records by the social security organization IKA for January 2016 reveals the true state of the Greek pay market. Each month employees worked for 21.38 days, although this fell to 12.22 days for those in the construction sector. In return, the average full-time employee received 1,219.69 euros gross a month, although this amounted to 500 euros in the construction sector and 400.84 euros for part-time workers. The average part-time worker earned 45% of the daily rate received by full-time employees. Finally, no surprises here concerning the gender wage gap - which revealed its usual pattern with full-time women employees receiving, on average, well below (84.5%) male monthly pay.

INDIA: The Madras High Court has ordered garment manufacturers in Tamil Nadu to increase wages from an average of R's 4,500 to Rs 6500 per month ($US67 to $US97), backdated to December 2014. Over 500 manufacturers and exporters had petitioned the court, claiming that such a huge increase would make it impossible to compete with Bangladesh or China. However, although the Bangladesh minimum wage for garment workers is $U68 a month the recent attack by islamist militants that killed a dozen foreigners in a Dhaka restaurant will have done much to dissuade foreign companies from visiting the city and hence undermine its massive garment manufacturing sector. Moreover, even the poorest Chinese province that is a garment producer - Heilongjiang – has a minimum monthly wage of $US153.92.

ITALY: The Italian government is planning to introduce a number of measures to combat absenteeism, particularly in the public sector. Doctors across Italy issue 20 million medical certificates each year. Although 12% of these in the private sector are for a single day of absence, in the public sector single days account for 27%. Furthermore, the majority of public sector single days of absence are taken immediately next to weekends or public holidays. Absenteeism has long been a feature of Italy's public sector and is a huge burden on public finances. Last New Year's eve around 80% of Rome's city police called in sick and 35 town hall staff in the northern coastal town of San Remo have recently been placed under house arrest - and 150 others under investigation - after a three year covert monitoring operation concerning abuse of the time management system.

ITALY: After remaining static for three months, average contractual hourly wage rates in June rose by 0.2% over the previous month. The average hourly increase in the Italian private sector over the year to June was 0.9% - whereas average contractual pay rates in the public sector remained unchanged over the year.

JAMAICA: The Sugar Producers Federation have reached a backdated agreement with the Bustamante Industrial Trade Union, National Workers Union and University and Allied Workers Union.

This increases sugar workers' wages by 4% in the first year and by 3% for the second year. Sugar is one of Jamaica's primary export products, employing a significant number of skilled and unskilled manual workers.

JAPAN: From October 1st 2016 Japan's average minimum wage will rise by JPY 25 ($US 0.25) to JPY 823 (USD 8.20) an hour. Minimum wages in Japan are set locally and this average reflects practice in all 47 prefectures. In reality, the minimum hourly wage will only be JPY 714 ($US 7.01) in Okinawa, but JPY 932 ($US 9.15) in Tokyo once the increases take effect.

LITHUANIA: On July 1st 2016 the minimum wage in Lithuania rose by 8.6% from 350 euros ($US 389.00) to 380 euros ($US 423) a month. The last increase from 325 euros a month took effect on January 1st 2016. This is a huge overall increase in real terms as the annual rate of consumer prices over the year to May 2016 was just 0.2%.

LUXEMBOURG: The Grand Duchy's statistical agency STATEC has issued its price inflation forecasts for the coming year. This is in the form of three scenarios depending on movements of the crude oil price. The impact on the annual rate of consumer prices next year would range from +0.9% to +1.8%. In each case, however, the change would trigger wage indexation. This could happen as early as in Q4 2016, but is most likely to happen in the first or second quarter of 2017. The last indexation-linked wage and pension increase in Luxembourg took place in October 2013.

MEXICO: According to official estimates at the end of 2015 some 53% of Mexicans who worked did so in the informal economy. This means that they did not pay tax on their incomes, but equally that they did not enjoy the protection of the social security system. Although it is official government policy to reduce the numbers paid 'off the books', the proportion increases each year and now generates 47.7% of the country's wealth (GDP). The OECD has identified the principal causes of the huge informal sector as excessive regulation and the high costs of operating in the formal sector. For instance, in the OECD as a whole the average cost of starting a business is 3% of an entrepreneur's income, whereas in Mexico it is 19%.

MEXICO: The massive state-owned oil company Pemex has reached a one-year deal with the oil workers union that increases all pay rates by 3.17%. with effect from August 1st 2016. 85% of the 140,000 strong workforce are union members and the union has six representatives on the company's main board. Last November the company cut its liabilities through an agreement with the union to raise the retirement age from 55 to 60 for those with less than 15 years service and to offer new employees a defined- contribution, rather than the existing defined-benefit scheme. In spite of the slump in the oil price employees continue to receive a number of generous benefits - such as up to two loans at preferential interest rates to buy a home and usually a car and health insurance that covers the cost of cosmetic surgery for employees and their family.

NEW ZEALAND: The Ministry of Business, Innovation and Employment (MBIE) just released the Labour Market Scorecard for the second quarter of 2016. This reveals real pay levels are rising - with the average weekly wage up by 2% over the year, compared to only a 0.4% increase in consumer prices. Looking forwards to next year. A new two-year deal in the metal and manufacturing sector has now been concluded and ratified by the Metals union and the majority of its signatories. The pace-setting deal improves health and safety provisions and increases basic rates by 2% this year and 2% in 2017. Meanwhile, a parliamentary Bill is now at the third reading stage that would extend minimum wage legislation to contractors. Momentum too is gathering in the living wage movement. Last year, there were 27 declared living wage employers and now there are approaching 60.

NEW ZEALAND: The Labour inspectorate in New Zealand has discovered that an estimated 760,000 people in both the public and private sectors have not received pay due under the Holidays Act. The miscalculations and misinterpretations could, in many cases, go back over more than ten years and involve a loss to individual employees of between $250 and $500 a year ($US 160-320). The problems, that first came to light after several individual investigations, involve annual leave, BAPS (bereavement leave, alternative holiday, public holiday and sick leave) payments, missing clauses in job contracts and a failure to keep adequate records. Due to the statute of limitations any claims cannot extend for more than six years.

NEW ZEALAND: Soaring profits over the last year at Air New Zealand have led to an increased bonus for its 8,200 staff. Last year the payout was $1,400 ($US1,014), but a 42% profit gain has increased the bonus to $2,500 ($US1,811). The company is 50% state-owned so public coffers will receive $260 M in dividends.

POLAND: The Polish Council of Ministers has decided to issue a regulation raising the national minimum wage by 8.1% - from 1850 PLN to 2000 PLN a month ($US466 to $US504). In the past employers were able to hire staff at 80% of the minimum wage during the first year of service. From 2017 this will end and all adult employees will be entitled to the minimum wage in full. The Polish Senate has also passed a minimum wage Bill which includes a provision for the self-employed and those subject to a service contract. This is set at 12 PLN ($US3.02) an hour and will be indexed each year in line with changes to the mainstream minimum wage for employees.

SOUTH AFRICA: A rare challenge to the practice of wage cartels has been dismissed by the Gauteng high court in Pretoria. The case was brought against section 32 of the Labour Relations Act 1995 by the Free Market Foundation think tank. This section allows sectoral wage deals to be extended to parties who were not involved in collective bargaining. Although certain safeguards have - in the past - been inserted into the law - to require publication of submissions for general applicability and to allow appeals by non-parties - the provision remains largely intact.

SOUTH KOREA: The statutory national minimum wage in South Korea will rise by 7% in 2017 to 6,470 won ($US) an hour. However, establishment of the rate followed a walkout of all nine trade union representatives from negotiations, after refusal of their demands for a double-digit increase. The wage affects the earnings of 3.4 million workers and is used as a reference point for many others during collective bargaining.

SOUTH KOREA: The world's fifth biggest automotive company, Hyundai Motor, thought last week that it had reached agreement with the Korean Metal Workers Union. The deal was set to increase basic monthly remuneration by KRW 58,000 ($US 52), plus a one-off payment to each employee of KRW 3.3M ($US 2,940). This was a significant reduction compared to last year's settlement, but in the face of dwindling demand in the automotive sector it appeared to be a realistic deal. However, the agreement was soundly rejected by a vote of Hyundai employees. Now the company faces a continuation of the strikes and walk-outs that have beset it all Summer.

SOUTH KOREA: A recent analysis carried out by the Federation of Korean Industries has found that between 1996 and 2014 gross, average wages grew from US$30,880 to US$36,653, whilst labour productivity more than doubled. However, the country continues to operate with a low female workforce participation rate. According to official figures for June 2016 the unemployment rate was 3.6%, but was 10.3% for those aged 20-29. In spite of this, collectively agreed wages in Korea continue to climb. According to the Korean Statistical Information Service they averaged 4.8% in the private sector in March 2016 – up from 3.3% in January 2016.

TAIWAN: Average gross monthly earnings in Taiwan rose over the year to March 2016 by 2% from TWD 43,016 ($US 1,320) to TWD43,880 ($US1,347). Although amendments to the Labor Standards Act introduced in January 2016 required a mandatory reduction in standard working hours from 84 hours every two weeks to 40 hours per week regular monthly working hours actually rose 3.3 hours to 178.2 by March 2016, whilst overtime declined slightly from 8.8 to 8.1 hours a month. In a move to offset the assumed decline in monthly pay levels brought about by the working hour reduction the Ministry of Labour has announced that it will raise the minimum hourly wage from TWD120 to TWD126 within the next two months. If the Ministry consulted its own statistics it would see this was not necessary.

THAILAND: Since August 10, 2016 skilled workers in 20 occupations across Thailand qualify to receive an increased minimum wage of 360-550 THB ($US10.36-15.83) per day, subject to undertaking a test to ensure their skills meet with the occupational requirements. The fields of employment covered include auto parts and repairs, electronics, jewelry production and logistics.

TURKEY: The structure of earnings survey is conducted throughout Europe and related states ever four years. It takes officials two years to process the data and then they often get it wrong. For instance, the 2014 data from the Turkish Statistical institute reveals that the gender pay gap – which throughout the world is tipped in favour of men – is reversed in Turkey. Annual Average gross earnings, they claim were 27,974 TL ($US 9,497) for women and 27,775 TL ($US 9,429) for men. Thus men earned just over 0.7% less than women. But before declaring a world first it is necessary to look at a breakdown of the figures by educational qualification. At every point from employees with just primary education to those with higher education women are paid significantly less than men. The gap is 18.9% for those with least education and 18.2% for those with the highest levels of educational attainment. Yet another case of officials sleeping on the job perhaps?

UKRAINE: Over the year to the end of May 2016 actual wages in Ukraine grew by 23.3% and real wages by 12.2%. The nominal (gross, not inflation-adjusted) average wage in the first half of 2016 was UAH 4,746 ($US191.26). Wage arrears continue to grow and are now more than double their level in 2012.

UNITED KINGDOM: Sectoral pay differentials tend to remain very stable over time. This is illustrated by the latest data published by the UK's Office for National Statistics showing gross average weekly earnings (AWE) between 1995 and 2016. In the Spring of 1995 AWE in the private sector stood at £303 and by the Spring of 2016 this had grown to £593. This year manufacturing and construction remain close to the private sector average and all but three sectors vary by only a few percentage points from their relative position 21 years ago. The biggest changes have arisen in the hospitality sector (0.71 down to 0.60), transport and storage (104 to 0.95) and financial and real estate services (1.36 to 1.31). The first two sectors have probably had their earnings constrained by the influx of eastern European workers since 2004, whilst the spotlight on pay in the banking sector together with fall-out from the last recession will be important factors in reducing relative pay levels.

UNITED KINGDOM: Figures from the Office for National Statistics show the pattern of bonus payments for service sector employees on a year-on-year basis. Rather than a seasonal pattern, they reveal huge variations around a mean point from January 2001 until April 2016. The lowest point was reached in February 2009, although one high point was September 2007 – the trigger date for the great recession itself. Was this a swan song or a contributory factor for the recession itself? Since another high point in April 2013 bonus payments have begun to level off. The last high point was July and August 2015, since when bonus payments have reached much calmer waters.

UNITED KINGDOM: The UK government proposes to remove income tax and National Insurance (Social Security) exemptions from all notice payments in lieu with effect from April 2018. The current £30,000 tax exemption applies where there is no express provision for an employer to make an in lieu of notice payment in an individual's employment contract. The exemption will continue only in respect to genuine severance payments arising from such situations as unfair dismissal or redundancy - although excluding any relevant additions such as bonus payments that apply in the notice period. Employers, but not employees, will also be required to pay National Insurance on severance payments above £30,000.

UNITED KINGDOM: The final report of the Executive Remuneration Working Group has now been published. Although it contains ten recommendations - such as the need for a board to justify the gap between CEO remuneration and the median pay level - the general approach is to encourage companies to do things that work best for them. The report has also been somewhat overtaken by the Prime Minister's desire to require annual binding shareholder votes on top management pay.

UNITED KINGDOM: Revised guidelines on setting board room remuneration have just been issued jointly by a group of company secretaries in FT100 companies and the Investors Group. Ever since 2008 the salaries and benefits of company directors in medium to large companies in the UK have been subject to detailed regulations setting out their authorization and how they are reported. Schedule 8 of regulations published in 2013 went on to define in great detail what should appear in the annual directors' remuneration report and what the remuneration policy must contain and how it should be approved. The new guidelines reflect the experience of companies over the last three years, which has been a period in which shareholders have increasingly questioned top management reward policies and the decisions of remuneration committees.

USA: The US Bureau of Labour Statistics has issued a comprehensive review of employee benefits in the private sector as at March 2015. This reveals that 66% of workers received company retirement benefits. Moreover, the proportion of the total amount paid by employees towards medical costs varied significantly between nonunion workers (23%) and unionized workers (13%) whilst paid holidays were provided to 90% of full-time and 37% of part-time workers. Life insurance benefits were also commonly provided – with 57% of workers having access to them. However, access was greater in the manufacturing (71%) than the service sector (54%) and in companies employing over 500 people (86%).

USA: The Governor of the State of Maryland has just signed into law one of the toughest and far reaching US equal pay measures. Senate Bill 481 will come into force in October 2016. It will extend the right to equal pay in comparison with equivalent jobs in an employer's workplaces across the whole county rather than just the immediate workplace. It will also be unlawful for employers to place workers of different genders or gender identities onto different career tracks or fail to inform them about job opportunities. Moreover, employers will be forbidden from ordering employees not to discuss their remuneration or to victimize those who do share such data.

USA: Although across the US 23 cities, five states and one county have so far passed paid sick-leave laws the City Council of Minneapolis is the first mid-western city to fall in line. Currently 42% of employees in the city do not have any kind of paid sick leave provision. However, from July 1, 2017 companies that have been in existence for more than one year and have six or more employees in Minneapolis will be obliged to provide a scheme giving annually up to 48 hours of paid sick leave. Entitlement will increase at a rate of one hour of leave per 30 hours worked.

USA: As of January 1st 2017, employers in the State of Illinois will be prevented by the Freedom to Work Act to enter into non-compete agreements with low-wage employees. This development stems from recent case law around the country which disputed the appropriateness of such agreements. The Act defines which employees are to be considered as “low-wage”, and essentially the definition covers employees who receive anything less than $US 13,00 per hour. It should be noted that, the Act does not apply to existing contracts.

VIETNAM: There are four regional statutory wage rates in Vietnam. These are set to rise in 2017 by 7.3%, the lowest annual increase since minimum wages were established in 1997. Workers in Region I (Hanoi) will see their wages rise to 3.75 million dong (US$168) a month, whilst those in other regions will be entitled to between US$ 115 and US$ 148 a month.

Appendix A: Statutory minimum wage rates

Minimum Wages: Europe

Many countries in Europe operate statutory or collectively determined minimum wage rates. In all but a handful of countries, these rates provide a standard of living that is close to (or even below) subsistence levels. Denmark, Finland, Italy and Sweden do not operate national minimum rates, but nevertheless have minimum rates set through sectoral collective agreements that jointly cover a high proportion of the working population. Austria set a minimum pay level in 2009, but now appears to have let it lapse. Belgium does not apply a statutory rate, but does have collective minima (RMMMG) that are may be claimed as a legal right. Germany introduced a national minimum wage for the first time on January 1st 2015. Bosnia-Herzgovina has a national collective agreement that is approved by the government and creates an effective minimum wage in the federal area.

The International Labour Organisation establishes minimum rates for able seamen. As of January 1st 2015 the minimum monthly wage for seafarers is 592 US dollars. From January 1st 2016 it is 614 US dollars. The minimum consolidated monthly wage for able seamen — including overtime and annual paid leave — is 2,468 US dollars.

Monthly gross statutory minimum wage rates *(last updated August 16th 2016).*

Full-time adult employees, aged 23+ [1]

Country	Minimum wage rate	Currency code	Date effective
Albania	22,000 leke	ALL	21.01.2016
Andorra	975.87 euros	EUR	01.01.2016
Austria [2]	1,000.00 euros	EUR	01.01.2009
Belarus	239 rubles 48 kopecks	BYR	01.07.2016
Belgium	1,559.38 euros	EUR	01.12.2012
Bulgaria	420 levs	BGN	01.01.2016
Croatia	3,120 kunas	HRK	01.01.2016
Cyprus [3]	924.00 euros	EUR	01.04.2012
Czech Republic [4]	9,900 koruny	CZK	01.01.2016

Estonia	430.00 euro	EUR	01.01.2016
France [5]	1,466.62 euros	EUR	01.01.2016
Germany	1,473.33 euros	EUR	01.01.2015
Greece [6] [7]	585.78 euros	EUR	01.03.2012
Guernsey	1,187.33 pounds	GGP	01.10.2015
Hungary [8]	111,000 forints	HUF	01.01.2016
Iceland [9]	260,000 kronur	ISK	01.05.2016
Ireland	1,586.00 euros	EUR	01.01.2016
Isle of Man	1,213.33 IOM pounds	IMP	01.01.2016
Jersey (Channel Islands)	1,208.13 Jersey pounds	JEP	01.04.2016
Kosovo [10]	130.00 euros	EUR	30.04.2011
Latvia	370 euros	EUR	01.01.2016
Lithuania	380 euros	EUR	01.07.2016
Luxembourg [11]	1,922.96 euros	EUR	01.01.2016
Macedonia [12]	14,223.00 dinars	MKD	01.01.2016
Malta [13]	728.04 euros	EUR	01.01.2016
Moldova	2,100 lei	MDL	01.05.2016
Montenegro [14]	193.00 euros	EUR	22.03.2013
Netherlands	1,537.20 euros	EUR	01.07.2016
Poland	1,850 zlotys	PLN	01.01.2016
Portugal [6]	530 euros	EUR	01.01.2016
Romania [15]	1,250.00 leu	RON	01.05.2016
Russian Federation [16]	7,500 roubles	RUB	01.07.2016
Serbia	30,104.99 new dinars	RSD	01.08.2016
Slovakia	405 euros	EUR	01.01.2016
Slovenia [17] [18]	790.73 euros	EUR	01.01.2016
Spain [6]	655.20 euros	EUR	01.01.2016
Turkey	1,647 Turkish lira	TRY	01.01.2016
Ukraine	1,450.00 hryvnias	UAH	01.05.2016
United Kingdom [19]	1,161.33 pounds sterling	GBP	01.10.2015

NOTES:

[1] Where official rates are expressed by the hour or week, they have been converted to monthly rates on the basis of a 40-hour week and 52-week year. Minimum wage figures are gross (pre-tax) rates and exclude any 13th or 14th month payments that may be due under national legislation, collective agreements, custom or practice.

[2] Austria: applies to certain industry sectors. Applicable to all sectors from 01.01.2009. Employees are entitled to 14 monthly payments each year.

[3] Cyprus: applicable to certain groups in non-unionised sectors after 6 months' employment. Minimum wage upon first recruitment is 870 euros. Rate not updated since economic crisis and some pressure for it to be reduced.

[4] Czech Republic: rates may not include travel allowances, on-call payments and severance compensation.

[5] France: based on statutory 35-hour week.

[6] Greece, Portugal, Spain: white-collar workers only. Workers normally entitled to 14 monthly payments per year.

[7] Greece: rate applicable to over 25s. Different rates apply to blue and white collar workers and vary by length of service and marital status. Private sector workers only. The minimum wage was cut by 22% from 751 euros pcm due to austerity laws. The minimum wage for those under 25 has been cut by 32% (currently 510 euros).

[8] Hungary: the minimum wage for skilled workers is HUF 129,000 in 2016.

[9] Iceland: the minimum pay level is established through a national collective agreement. Rate after 6 months in job.

[10] Kosovo: rate applies to under 35s. Those over the age of 35 are entitled to a minimum wage of 170 euros per month.

[11] Luxembourg: unskilled workers only.

[12] Macedonia: It applies to all sectors except textiles, clothing and leather where a lower rate exists.

[13] Malta: higher wage rates are set by order in the following sectors: agriculture, beverages, domestic work, clay and glass work products, food manufacturing, hire cars and private buses, hospitals and buses, jewellery and watches, leather goods and shoes, papers, plastic, chemicals and petroleum, private security services, professional offices, public transport, sextons and custodians, textiles, tobacco manufacture, transport equipment, metal, woodwork and private cleaning services.

[14] Montenegro: the rate is normally adjusted on the basis of a recommendation from the Social Council.

[15] Romania: based on 170 hours per month.

[16] Russia: the monthly minimum wage in Moscow is more than twice the national rate.

[17] Slovenia: the minimum wage is defined as normal net take home pay.

[18] Slovenia: all sectors except textiles and leather - where lower rates apply.

[19] UK: Employees aged 25 and over must be paid the new national living wage set at £7.20 per hour

Minimum Wages: Rest of the World

Compared to Europe only a relatively few countries in the rest of the world have statutory national minimum wage rates. Countries such as South Africa, Singapore and Egypt have no comprehensive minimum wage system, although in some sectors workers may be guaranteed a minimum wage. In other countries the minimum wage varies by state (e.g. USA, Canada, India, China) and may even vary within the state by region, city and by sector. In Honduras the minimum wage does not vary by region, but depends on the sector and the size of the company.

The following is a selection of minimum wages for adults across the world. They are gross statutory monthly minimum wage rates, unless otherwise stated. Please see the explanatory notes for further details.

Country	Minimum wage rate	Currency code	Date effective
Argentina [1]	5,588 Argentine peso	ARS	01.08.2015
Australia [2]	2,847.08 Australian dollars	AUD	01.07.2015
Brazil [3]	871.00 Brazilian real	BRL	01.01.2016
Canada [4]	1,733-1,907 Canadian dollars	CAD	n/a
Chile [5]	250,000 Chilean pesos to 276,000 pesos	CLP	01.01.2016
China (Shanghai) [6]	2,190 yuan	RMB	01.04.2016
Colombia [7]	644,350 Colombian pesos	COP	01.01.2015
Ecuador	366 US dollars	USD	01.01.2016
Israel	4,650 new sheqel	ILS	01.04.2015
Japan [17]	142,653 yen	JPY	01.10.2016
Morocco [8]	2,566 Moroccan dirhams	MAD	01.07.2015
New Zealand [9]	2,643.33 New Zealand dollars	NZD	01.04.2016
Peru [10]	850 nuevos sol	PEN	01.05.2016
Philippines (National	481 Philippine pesos (per	PHP	04.04.2015

Capital Region) [11]	day)		
Senegal [12]	36,244 West African CFA francs	XOF	01.02.1996
South Korea [13]	1,045,200 won	KRW	01.01.2016
Taiwan [14]	20,008 Taiwan dollars	TWD	01.07.2015
USA (federal minimum)[15]	1,256.66 US dollars	USD	24.07.2009
Venezuela [16]	11,577.81 Venezuelan bolivars	VEF	01.03.2016

NOTES:

[1] This is the official national monthly minimum wage rate. The hourly minimum wage rate is 23 ARS based on a 48-hour working week.

[2] National monthly minimum wage rate calculated on the basis of a 38-hour week and a 52-week year at a rate of 17.29 AUD per hour.

[3] Official national monthly minimum wage. The standard working week in Brazil is 44 hours.

[4] The minimum wage (officially stated as an hourly rate) depends on the state. Based on a 40-hour work week and a 52-week year, the monthly minimum wage will range between these two figures.

[5] Official national monthly minimum wage. In Chile the standard working week is 45 hours. The wage will rise by 26,000 pesos over the period to the end of 2017.

[6] The minimum wage in China depends on the region. Often there are many different levels of minimum wage within a region. The rate given is the official monthly minimum wage in Shanghai. This is the highest minimum wage in China. The standard working week in China is 40 hours.

[7] Official national monthly minimum wage. In Colombia the standard working week is 48 hours.

[8] This is the minimum monthly wage for industry, commerce and services, calculated on the basis of a 44-hour week or 2288 hours per year. The official hourly minimum wage for industry, commerce and services (SMIG) is 13.46 dirhams per hour.

[9] This is the monthly minimum wage for 18 year olds and over calculated on the basis of a 40-hour week and 52-week year (15.25 NZD per hour from April 1st 2016)

[10] Official national monthly minimum wage rate. In Peru the standard working week is 48 hours.

[11] Minimum wage stated is the daily rate for the National Capital Region of the Philippines.

[12] Monthly minimum wage rate for the non-agricultural sector, calculated on a basis of a 40-hour week and 52-week year and a rate of 209.10 XOF per hour (official SMIG).

[13] Monthly rate based on a 40-hour week and 52-week year. official rate is 6,030 won per hour for 2016. The minimum wage will rise by 7% in 2017.

[14] Monthly minimum wage rate.

[15] Minimum wage rate calculated on the basis of a 40-hour week and 52-week year at the federal hourly minimum wage rate of 7.25 USD. Many states and municipalities set a higher minimum wage rate. The highest minimum wage rate at the time of writing is in Washington. 18 US states use the federal minimum wage.

[16] This is the official national monthly minimum wage for adults. In Venezuela the standard working week is 40 hours for day work, 37.5 hours for mixed day and night work and 35 hours for night work.

[17] Average of rates across all prefectures.

Appendix B: The quality of survey data

A fundamental problem facing salary managers and administrators in international companies is how to secure valid and up to date information about the salary market in all the countries where the company operates. There is no data source or processing operation that produces objectively accurate data and this is because of some key weaknesses that are - to a greater or lesser extent - shared by commercial and official sources alike.

There are twelve principal types of originating, processing or interpretational error, as follows:

Type 1: Normal standard errors: All statistics based on random samples and expressed as averages or “means” are subject to standard errors, typically using as their reference point a ‘normal distribution’ curve. These standard errors (*SE*) are the standard deviation of the sampling distribution of a statistic and are usually expressed as confidence intervals for +/- three standard deviations to produce a 95% or 99% confidence level. Generally the larger the sample the smaller the statistical error.

Small samples especially require interpretation through the calculation of standard deviations, although this is seldom provided for any pay survey data. Many commercial surveys are based on a limited number of participating companies and it is typical for data in some parts of resulting statistical tables to be based on extremely low responses rates and cell counts.

Type 2: Poor sampling: If a survey is not conducted with a carefully constructed sampling frame, then its results can easily be distorted due to, for instance, a higher proportion of male workers than would be expected in certain job or sectoral categories.

Type 3: Poor quality control on data inputs: The principal source for commercial and official pay data are company finance departments. Few governments or private survey organisations provide any positive incentive to complete the data in a timely or accurate way, although many governments offer regulatory threats to employers about the obligation to comply. Commercial surveys suffer less from such negative reinforcement. But the smaller sample sizes in such surveys may concern some companies about the provision of data which will betray their current pay competitiveness to potential rivals. In both cases there is all too often little quality control on the data that is submitted – particularly any possible errors or inconsistencies.

Type 4: Calculation errors: The division of labour in government statistical agencies can mean that the computer programmes used to calculate individual rows, columns or even cells of a single table might have been written by different people. This can result in major errors arising, especially when statistical means are being calculated. This was the case several years ago when FedEE statisticians found that in the Irish woodworking industry women were paid, on average, higher than men. The sample was not too small and therefore it appeared that evidence had been found of a very unusual phenomenon. However, when confronted with the figures the Irish CSO agency was forced to admit they had got it wrong. More recently the German Statistical Service also made a substantial error in its pay tables.

Type 5: Late publication: It frequently takes up to a year for a state statistical office to process anything but the simplest form of data. Monthly or quarterly data published within weeks of its receipt is confined to indices where the data can be pooled and a mean produced that can be given the latest index figure. For some statistical offices data can take 2-3 years to process and most notorious of these is the International Labour Organisation in Geneva. It relies on data being submitted to it by different government agencies around the world. The ILO claims that it corrects the data so that it can be consistent and comparable, but how far it goes to achieve this is highly dubious. Much of the data is clearly just incorporated in a raw form into its LABORSTA tables.

At the time of writing the latest ILO Wages in Manufacturing data for Canada is in respect to the year 1999. This is so far out of date it is of use to no one - except perhaps a historian.

Type 6: Pooled inaccuracies: This is primarily a problem associated with commercial pay surveys. When a country's economy opens up to inward investment – such as happened after 2004 in Eastern Europe when many joined the European Union - foreign companies are eager to recruit local staff. Some take the advice of recruitment agents and do so at inflated salary levels. This suits the agent as it makes recruitment easier and increases their own fee level.

Eventually commercial surveys begin to emerge with participants primarily those foreign companies that have moved in and paid staff upon dubious local "advice". Thus, when the data is processed it shows the salary figures of companies that have each largely determined their pay levels through a combination of guesswork or poor advice. It is therefore no valid reference point for any company subsequently moving in and wishing to discover the true local salaries market. It, of course, does reveal the shape of a certain market, but one which it would not be wise to perpetuate.

Type 7: Inconsistent categories: Although most official surveys draw on standard NACE classifications for industries and the International Standard Classification of Occupations (ISCO) commercial surveys typically use non-standard classifications. There is also little quality control on the process of classification, particularly when data for a multi-industry conglomerate is being processed.

Type 8: Poor definitions: There are fairly detailed descriptions for standard classifications. But in practice these are so generic and vague that it is difficult to match real life data to the words provided. Furthermore those using the classifications are doing so in a variety of languages and cultural interpretations so that there is considerable scope for allocating data to classifications for which they were not intended. One example is the term "professional" which in the UK is accorded a special status associated with high level vocational qualifications. But in many other parts of Europe a person's profession is merely another name for their job.

Type 9: Medians vs Averages: The statistic of choice for many survey analysts is the average or "mean". This is because it is easy to calculate and is believed to be generally understood by survey users. However, pay data is typically heavily skewed towards higher earnings figures because as earnings increase they generally become more widely spaced apart. The alternative (and more useful) statistic is the "median" or midpoint of a range. The mean can be anything from 3% to 45% higher than the median in a pay distribution. If an employer wishes to reward staff in an equitable way by reference to the pay market they will be led to inflate salaries if their reference is the "mean".

Type 10: Bonus/13th month distortions: A company seeking to obtain the most up to date survey data early during a year may be tempted to call on data gathered during December or the 4th quarter of the previous year. However, where it is common practice to pay year-end bonuses (or 13th month payments) then raw remuneration data will naturally be higher in that period than other periods of the year. It will therefore be necessary to adjust the data to remove the bonus effect or to use data for the previous month or quarter.

Type 11: Changes in working time: Pay data is not always collected with directly associated working time data and therefore will be highly vulnerable to high variability - often output-related or seasonal in nature. Unless employees are subject to fixed monthly salaries (without any scope for overtime pay) the only worthwhile data will be pay on an hourly basis. Here analysts may make a number of assumptions by, for instance, taking the normal working week as a reference point or the actual hours worked. However, employee absence or temporary layoffs can seriously distort official working time figures.

Another frequent mistake – even made by governments – is to believe that statutory changes in working time will result in the desired outcome and therefore the policy objective. In France the 35-hour week was heralded at its inception as a way of promoting job growth, but France today has a higher average working week than the majority of other EU countries. In January 2016 the government of Taiwan introduced amendments to the Labour Standards Act requiring a mandatory reduction in standard working hours from 84 hours every two weeks to 40 hours per week. However, as a consequence, regular monthly working hours actually rose 3.3 hours to 178.2 by March 2016.

Type 12: The Naturalistic Fallacy: The German philosopher Immanuel Kant long ago pointed out that when we use facts to justify our actions we should not be misled into believing that what is the case automatically becomes what “ought” to be the case. In other words, an “is” cannot logically become an “ought”. This has profound implications for salary administration as it is common practice to take an average, median or quartile pay figure and use that as a measure of pay competitiveness. Believing that if pay levels are set at a certain position in the market then the company will be able to recruit and retain the best people. However, establishing a universal pay practice line is a potentially costly policy. Companies may not be experiencing labour shortages or retention problems equally in all functions and locations.

A high market reference point can make it difficult for moderate performers to leave an employer and the pay market itself says little about two equally important factors – profitability and productivity. In some countries, such as France, government-backed sectoral labour cartels exist where a small number of employers agree wage rates that must be applied throughout the sector. This has the effect of squeezing out smaller would-be competitors.

Although official pay data is normally based on much bigger samples and better sampling methods than private and commercial surveys, they also have the disadvantage of poor quality processing. Examples of errors abound and therefore it is wise to have in mind the kind of data that you would expect to find and if the official data is very different check out other analyses in the official database. These will often confirm whether a problem really exists. For instance. median monthly pay data for Canada in the ILO database covering the year 2011 is given as $3250, but for the same population the mean (average) data is $836.3. This error is probably because the mean data is weekly – although it is specified as monthly.

The best approach to determining market rates would be through a club survey approach. This would allow a company to determine how its rewards stack up relative to known rival companies. In practice, however, few companies will wish to share sensitive remuneration and benefit data with known competitor organizations. Moreover, if individual data can be traced to its originating company – or worse to particular jobholders – then there will be major data protection issues, as well as labour relations difficulties if the survey report is obtained by trade unions or works councils.

Ends/