Definition: **wages** from *QFinance: The Ultimate Resource*

Money in return for work; a form of pay given to employees in exchange for the work they have done. Traditionally, the term wages applied to the weekly pay of manual, or nonprofessional workers. In modern usage, the term is often used interchangeably with salary.

Summary Article: **Salaries and Wages**

*From Encyclopedia of Business in Today's World*

Wages and salaries are the main forms of payments made to an employee for her/his work or services performed. Salary is a fixed periodical payment paid to an employee for regular labor or services, generally into a bank account, while wages are habitually paid by the day or week for casual work or services that are of a more irregular nature, and are generally paid in cash. However, the terms **wage** and **salary** are generally used interchangeably.

Robert Torrens defines wages as "the articles of wealth which the labourer received in exchange for his labour." Torrens adds that "when the quantity of necessaries and comforts which the labourer receives is large, wages are said to be high; when it is small, they are said to be low."

Pay structures have changed considerably in recent years, with moves away from basic rates to more incentives payments, such as bonuses and fringe benefits such as pension and health contributions. In addition to the basic rate, employees often receive other payments—the most common examples are overtime pay, shift pay, merit, seniority, cost of living allowance, performance-related (such as bonuses), and special additions that are paid to workers during abnormal working circumstances (such as danger).

**Minimum Wages**

The minimum wage is a statutory and generally legally enforced minimum below which wages are illegal. It was established for the first time in Australia and New Zealand. Minimum wages vary country to country, and also may be restricted to certain industries or limited to workers above a particular age. Most countries have some sort of national minimum wage and it is upgraded periodically.

France introduced the statutory minimum wage with the *salaire minimun interprofessionel garanti* (SMIG) in 1950, and it was designed based on a special survey that identified an hourly rate to cover the basic needs of individual unskilled workers. The SMIG was replaced by the *salaire minimun interprofessionel de croissance* (SMIC), including provisions against inflation, adjustment to the national economic growth, and a national commission composed of equal proportion of government ministers, confederation of employers, and trade union representatives to revise the SMIC annually.

The United States has had a federal minimum wage since the Fair Labor Standards Act (FLSA) in 1938. The FLSA is enforced by the Wage and Hour Division of the U.S. Department of Labor. It establishes minimum wage, overtime pay, recordkeeping, and youth employment standards affecting workers in the private sector and in federal, state, and local governments. According to the latest FLSA signed on May 25, 2007, covered workers are entitled to a minimum wage of not less than $6.55 per hour.

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effective July 24, 2008, and $7.25 per hour effective July 24, 2009, to be paid in cash or equivalent.

Overtime pay at a rate not less than one and one-half times the regular rate of pay is required after 40 hours of work in a workweek. In the case of the United States, there are two types of coverage:

- **Enterprise coverage**, in which if a company of more than two employees and a turnover of more than US$500,000 is covered by the FLSA, then all its employees are entitled to FLSA protections.

- **Individual coverage**, in which even if a company is not covered by the FLSA, individual workers may be entitled to the FLSA protections.

There are exceptions to the FLSA in the United States, such as employees working in small-scale construction companies, and small independently owned retail or services businesses.

In economics terms, the minimum wage is a price floor regulation applied to labor markets that makes it illegal to trade a price lower than the set minimum wage. It is widely presented in economics textbooks influenced by George Stigler that if a minimum wage is set above the equilibrium wage, the minimum wage is in conflict with market forces, and it does affect the labor market, and as a consequence, if the minimum wage is increased, employment will decrease. However, more recent econometric evidence shows that there is no evidence linking an increase in minimum wage and unemployment.

**Equal Pay**

Equal pay is the principle that the pay for any job should be independent of gender, ethnic origin, religion, age, sexual orientation, or other characteristics; employees are to be free from discrimination in their compensation. Equal pay requires that employees will be given equal pay for work that requires equal skills, effort, and responsibility under similar working conditions in the same establishment. Equal pay for women and men is legally binding and protected with equal pay legislation in countries such as Australia, the United States, and the United Kingdom. Nevertheless, the enforcement of equal pay has been very difficult except when employees have identical employment contracts.

**Pay Systems and Pay Practice**

Pay has been a key conceptual and analytical human resource (HR) framework, aligned with other HR activities such as recruitment, communication, involvement, work design, and appraisal. In general terms, firms set wages using administered wage policies that emphasize job assignments, seniority, and education. Typically, jobs are rated using job evaluation and analytical schemes and assigned a corresponding wage range. Merit and other performance-related rewards complement the job evaluation. Wages are periodically calibrated to the competition using pay and other market surveys. Nearly universally, wages are nominally downward rigid.

Pay structures are designed to provide internal order and hierarchy of jobs within a specific organization, and provide a clear path for career development. According to Armstrong and Murlis, there are seven different types of pay structures:

1. **Graded salary structure**, which consists of a series of salary ranges; each of them has a defined maximum and minimum.

2. **Individual job range** is used where flexibility in response to market pressures or rapid organizational change is required. These are generally used for senior positions or for rapidly growing companies.
3. Progression or pay curves related to competency levels are used when job evaluation and analysis or market rates cannot discriminate between grades. This pay structure links pay to deliverable results with the market rate for specific individuals. It is used mainly in research and development departments.

4. Job family systems are oriented toward market rates for different categories of staff and individual competences.

5. Spot rate is when a specific rate is allocated to a job. Spot rate structures are generally referenced by market rates or by negotiations with trade unions.

6. Pay spine is a type of pay structure that is generally used in the public sector. It consists of a series of incremental point-based scales from the lowest- to the highest-paid jobs within the system.

7. Rate for age scale is an incremental scale in which the pay bracket is linked to the age of the employees in specific jobs. It is considered an out-of-date concept because it contradicts the equal pay principle.

Pay systems are the mechanisms founded on the principles of time and performance. Time-based pay is when employees are paid to work for stipulated periods of time (hourly rate, weekly wage, and annual salary). Performance-based pay is when the pay depends on collective or individual performance linked to a quantifiable and tangible measure such as piecework, commission, individual bonus, profit sharing, individual performance-related pay (IPRP), and employee share ownership schemes.

Rewards management is the process of designing, developing, implementing, and monitoring strategies, policies, and systems for financial and nonfinancial rewards to employees while increasing their motivation and commitment; at the same time being congruent with corporate strategy, values, beliefs, goals, and performance; and anchored in the realities of the labor market in which it operates. The areas in which rewards policies are formulated generally are market rates, flexibility, relationship of rewards to business performance, the level of rewards, equity, performance-related rewards, pay structures, delegation and control, and financial and nonfinancial motivators.

See also
Benefits, Compensation, Employer-Employee Relations, Holidays, Motivation, Perquisites

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Gonzalez-Perez, Maria-Alejandra

EAFIT University

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