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Minimum Wage in Transition Economies

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ABSTRACT

Minimum Wage has a broad implementation in the number of countries, and is one of the main of the policies against the discrimination in labor market. Minimum wages are usually established by the government or they may come as part of collective bargaining contract. Minimum wages try to protect employees in receiving the compensation in order to be able to meet the expense of basic needs in living. According to the ILO Minimum Wage Convention No. 131 it is emphasized that elements in determining the level of minimum wages conditions should take in consideration basic needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups. Mainly this way Minimum Wages should be determined and implemented when there is a possibility and depending on the relation to each countries national practices. Minimum wages have different dimensions and the comparison of some of South Eastern European countries which will be the main subject of this paper, with the main emphasis of implementation of Minimum Wages in countries that are still in transition. We found that there are some improvements regarding labor protection since the introduction of the minimal wages.

Key Words: Labor Policies, Minimum Wage

Jel classification;, J80 ,J38

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Introduction

Minimum wages are usually established by the government or they may come as part of collective bargaining agreement. Minimum wages try to protect employees in receiving the compensation in order to be able to meet at least the expense of basic needs in living.

Minimum Wages in Europe were firstly introduced in the end of 19th century. The United Kingdom was the first European country to introduce statutory minimum wage regulations, in 1908. Which initially was not introduced in all the European countries, and furthermore not to the all occupations.

These days almost all of the European Countries have minimum wages policies and statutory minimum wage regulations usually mostly based in the ILO Convention NO.131.

There are two basic mechanisms for setting the minimum wage.

- First, a statutory minimum wage is set by the government, possibly involving consultations with trade unions and employers.
- Second, minimum wages are determined through collective (tripartite or bipartite) negotiations.

As with most labor market policy measures, statutory minimum wages imply both benefits and costs. Effective minimum wages – by providing a wage floor – can reduce wage inequality in the bottom half of the wage distribution, limit low pay and reduce the gender pay gap.

While minimum wages can boost the earnings of low-income employees, they can also lead to unemployment where the minimum wage is above the market-clearing level and where it is actually binding. Their effectiveness in bolstering incomes of low-paid workers will also depend on their interactions with other policies designed to support low-income households. The different views on minimum wage policies essentially hinge on the relative weight attached to these positive and negative effects (Kuddo 2009).

Therefore, one of the recommendations of the (OECD 1994 Jobs Strategy) that addressed this issue was that wages and labor costs become more flexible by reassessing the role of statutory minimum wages and either switching to better-targeted redistributive instruments or minimizing their adverse employment effects by introducing sub-minimal differentiated by age or region and/or indexing them to prices instead of average earnings.

Also in OECD Jobs Strategy of 1994 it was mentioned that the Governments are faced with designing and redesigning a range of policies across the economy and society in order to help foster – or in some cases, stop hindering – adaptation to

evolving ways of production and trade. But governments cannot meet the challenge alone. A high degree of social consensus will be needed to move forward with the necessary changes. Businesses, trade unions and workers need to be innovative to develop the new products, processes, and ways of working that will create new jobs, and help to shape skills to fit with the jobs.

Without collective minimum wage regulation, many sectors would be permanently confronted with the possibility of pay cuts; this, in turn, would undermine the effective functioning of the labor market. Minimum wages, therefore, do not conflict with a functioning labor market; on the contrary, they are an important institutional prerequisite for this very functioning (Schulten 2004).

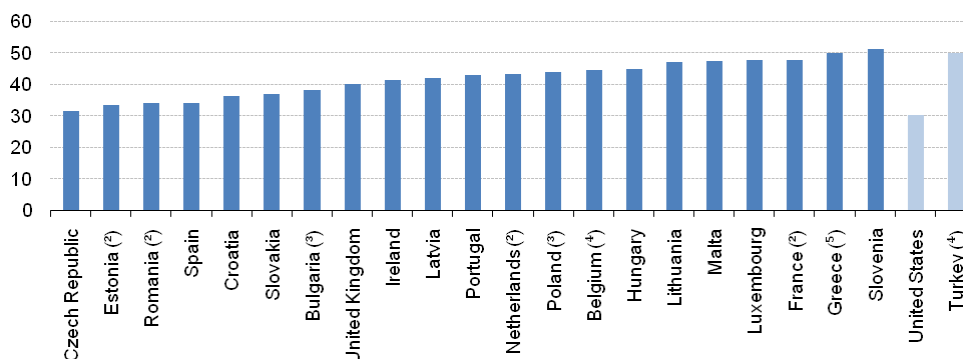
Minimum wages and their implementation in transition countries

Minimum Wage has a broad implementation in the number of countries, and is one of the main policies against the discrimination in labor market. Minimum wages are sometimes part of the Labor Laws, and as such they may come as part of collective bargaining contract. Minimum Wage policies are usually set and established by the governments.

In 2013, the level of gross minimum wages across the EU Member States varied from almost 31,5% in Czech republic to just over 50 % of average [gross monthly earnings](#) for those persons working in industry, construction or services (Activities of households as employers and extra-territorial organizations and bodies are excluded) as it is presented in the figure 1.

The data from the Eurostat, refer to national minimum wages. The national minimum wage usually applies to all employees, or at least to a large majority of employees in a country. It is enforced by law, often after consultation with social partners, or directly by a national inter-sectoral agreement.

Figure 1: Minimum wages as proportion of the mean value of gross monthly earnings, 2013 (*)



Source: Eurostat 2013 (online data code: earn_mw_avgr2)

Most of the minimum wages criteria in transition countries are set according to the

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ILO Minimum Wage Fixing Convention No. 131 (1970), which is one of the first and main documents that has the basis from which has been applied to the most of states in SEE. Which states that 'the elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include:

(a) The needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and

(b) Economic factors, including the requirements of economic development, levels of productivity, and the desirability of attaining and maintaining a high level of employment.

Some of the standard issues of the convention No. 131 are that minimum wages should apply to everybody, that are used as protection for workers, and that they should be developed in collaboration with the social partners in each countries.

In Albania Minimum wage has been ratified since 2004 from the Government, through the Ministerial council, and In compliance with the requirements of ILO Convention No. 131. They have set the first minimum wage to be applied for all the sectors inclusive public or private. Firstly it was set Albanian Leke 20,000 (approx. 150 Euros¹⁵²) (ADWCP 2012-2015).

They have also included the social partners; in compliance with the ILO Convention No131. Social partners have regularly advised the government to include in the minimum wages also other issues that are very important for the labor market. For example changes in economic circumstances such as price increases, evolving living standards, and economic growth and productivity to be considered and included in minimum wages.

However within the segments of population that tends to receive lower wage offers, the impact in labor market outcomes could possibly be substantial. The labor market participants most likely to be paid the minimum wage are recent labor market entrants and low skilled employees (j. Flinn 2010).

Minimum wage policy in general poses a traditional trade-off. Raising the minimum wage allows for the possibility of increasing the earnings of workers at the lower tail of the wage distribution by more than average and thus promoting positive effects in labor supply, especially among low-skilled workers. However, a minimum wage set above the market-clearing price of labor will lead employers to move back along their demand curves, causing a reduction in employment.

Evidence of imperfect competition in Macedonia (due to high levels of discrimination and low mobility) leads to the hypothesis that firms may be paying

¹⁵² ALBANIA DECENT WORK COUNTRY PROGRAMME 2012-2015

workers, and especially low-skilled women, below their marginal product of labor, which causes their supply of labor to be below that in a competitive setting. If so, the introduction of a minimum wage at or below the competitive market wage would likely increase the overall level of employment (Angel-Urdinola, D 2008).

The first law on Minimal wages in Macedonia was introduced in 2012, which indicated a very important step to protection of the employees in this country. In this law it is emphasized that the minimal wage should be at least 39,6 % of the average gross salary . The minimal wage is announced each year by Ministry of Labor and social welfare. But for some of the industries as textile and leather clothing, where the skills of the workers are lower, the adaptation of this law was to be implemented for three years.

Where in Kosovo the Minimum wage obligation is also set by the government and it is part of the Labor Law No.03/L –212 more exactly in the Article 57 regarding Minimum Salary is said that:

1. The Government of Kosovo shall define a minimum wage at the end of every calendar based on the proposals from the Social- Economic Council.
2. When defining the level of minimum salary, the following shall be taken into account:
 - 2.1. The cost of living expenses;
 - 2.2. The percentage of the level of unemployment;
 - 2.3. General state in the labor market; and
 - 2.4. General level of competitiveness and productivity of the country.
3. Minimum salary shall be defined on the basis of working hours, for a one (1) year period, which shall be published in the Official Gazette of Republic of Kosovo.
4. Minimum wages may be determined by collective agreements at national, branch and enterprise level, but shall not be less than any minimum wage determined according to paragraph 1 of this Article

As we can see main compliances with the requirements of ILO Convention No. 131 are also included in this law.

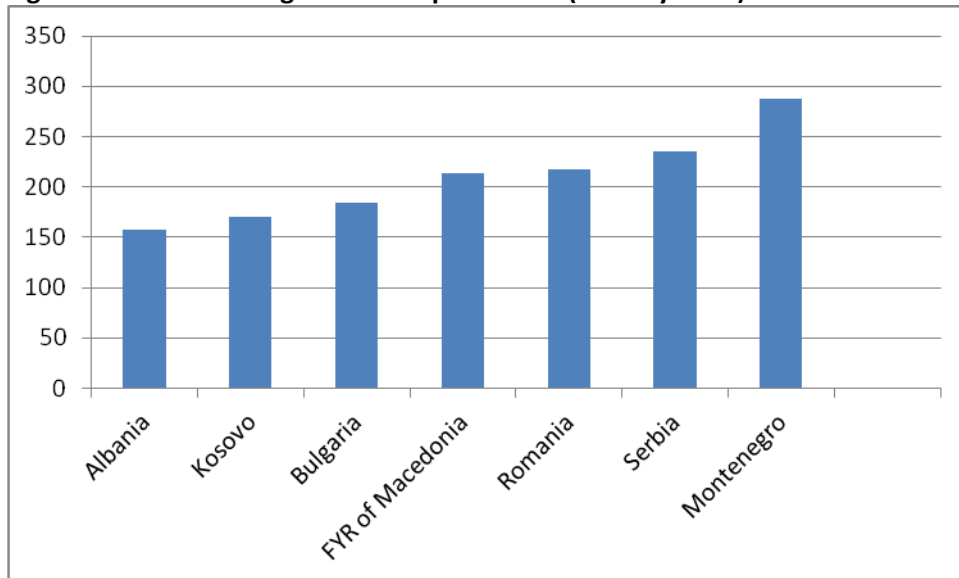
In Kosovo the minimum wage is firstly introduced in 2011 and it is set for all sectors and trades, and does not differentiate among different types of work, skills or qualifications for different categories of workers. The Ministry of Labor and Social Welfare (MLSW) have set the same levels of minimum pay (130 for youth and 170 for persons over 24). Although it is point out that the minimum wages will be reviewed each year even in 2015 they are at the same level.

Minimum wages are generally presented as monthly wage rates for gross earnings, that is, before the deduction of income tax and [social security](#)

contributions payable by the employee; these deductions vary from country to country.

As we can see from the Fig 2 below if we compare some of the SEE countries we can see that the level of minimum wages is very low with the lowest range in Albania with only 157euros to the highest in Montenegro with 288 Euros, we can see that also Romania which is part of the European Union enlargement has a very low minimum wage from 218 Euros, for the year of 2014.

Figure 2: Minimum wages In Euros per month (January 2015)



Source; Eurostat , for Kosovo data from Ministry of Labor and Social Welfare, Kosovo

Although According to some studies comparison between countries is not valid without conditioning on the skill distribution. If a country has a large dispersion in its level of skills, then it would have a wide dispersion and a lower ratio of the minimum wage to the mean wage, and vice versa

Most of these countries are aiming to become part of the EU; therefore they are still in the process of implementing the right legislations regarding minimum wage and labor regulations in general. In this countries there are also high level unions and they also try to influence in wage determinations and achieve better collective agreements.

Conclusion

As a conclusion of this study we can say that the implementation of the minimum wages in some of the transition countries has moved forward the protection of the employees in these countries, considering the high level of the informal economies. Some of the countries that are still in transition as Kosovo and Macedonia, have recently developed the legislation for Minimum wages 2012 respectively 2011 for Kosovo, compared to Albania which has enforced the minimum wages from the year 2004. The transition countries that are the subject of this study they have considered and based their legislation in accordance with the ILO Convention No131. According to (Kuddo 2009) , Social charters have defined that the 60 % of net earnings as the threshold but as we can see from the figure 1 that not even in EU members this is not the case but the range is from 33 % to 50 %. However for countries in transition enforcement of minimum wages and collaboration with social partners and union, as also reaching of collective agreements have reached some improvements, in reducing the informal economy and higher protection for employees, and we can say that it is a step forward considering labor protection .

Recommendations:

- The higher collaboration of the governments in transition with their social partners in setting the minimum wage level in their countries.
- Consideration of the changes in important economic issues, such as price increases, evolving living standards, and economic growth and productivity to be considered and included in minimum wages.
- Reaching the agreements for all the employees in all the sectors, taking in consideration also sectors where workers have lower skills like industries, and agribusiness.
- Reassessing the minimum wages annually in transition countries especially in Kosovo where there was no change from the introduction of minimum wages by taking in consideration also the cost of living, inflation and increase in prices.

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