

## Minimum Wage in Transition Economies

Theranda Beqiri

Phd (c) SEEU, Lecturer University "Haxhi Zeka", Kosovo

Merita Begolli Dauti

Phd (c) UET, Teaching Ass. University 'Haxhi Zeka', Kosovo

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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 so they can at least have for expenditures that are needed for of basic needs in living. According to the ILO Convention No. 131 of Minimum wages in which are developed the main conditions for setting the wages, and where it is emphasized that minimum payment should at least include the cost for essential and necessary expenses for the employees and their families, and should include also the level of salaries and their standard of living. 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 that are still in transition and which will be the main subject of this paper, with the main emphasis of implementation of Minimum Wages in those countries. We found that there are some improvements regarding labor protection since the introduction of the minimal wages.

**Keywords:** Labor Policies, Minimum Wage, Transition Countries

### 1. 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 initiated and developed at the end of 19<sup>th</sup> century. This 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.

Minimum wages can be set in two forms;

- Government set's a minimum wage in the country, after discussions with workers and trade unions. and
- Minimum wages can be set through collective dialogues

Minimum wages have they advantages when they are implemented in the countries, but also they have some disadvantages since they can require costs for their implementations. Minimum wages are important since they do protect workers with lower skills, which usually are in the lower end of the hierarchy in the organizations and in their relevant labor market, it also very important because it can reduce gender wage inequality.

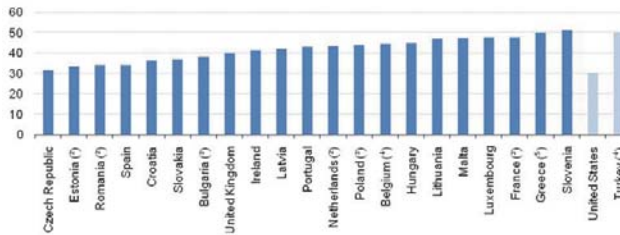
Minimum wages when they are putt in practice can increase the remuneration of the workers with lower incomes, but they can also increase unemployment if the standards of living in those countries are high and average salaries are also in the high range, putting in practice minimum wages also depend from other labor policies that are implemented in those countries. Therefore, depending on their country of implementation minimum wages can have both positive and negative impact (The World Bank, 2009)

Therefore, one of the recommendations of the (OECD, Jobs Strategy.1994) regarding minimum wages is that flexibility of the costs that are involved with minimum wages depends on how the minimum wages are introduced if they are implemented in average earnings, they can have their effect in employment so they should take into account also different patterns as indexing them to inflation and prices, age or even different regions in country.

## 2. 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.

During the year 2013, the rate of gross minimum wages throughout the European Union Member States were wide-ranging from 31,5% in Czech republic to more than 51 % of average gross earnings for monthly payment, which was also dependent of the nature of work that they were engaged (Eurostat.2013), as it is presented in the figure 1.



**Figure 1:** Minimum wages for the year 2013 in European Union countries

**Source:** EUROSTAT 2013 (online data code: earn\_mw\_avgr2)

Most of the minimum wages criteria in transition countries are set according to the ILO MWC No. 131 (1970), which is one of the first and main documents that has the basis and standards for setting the minimum wages, from which has been applied to the most of states in SEE. Which points out that the elements and standards to be taken in establishing and setting the level of minimum wages when they are in line with other legislations and possibility of implementation should consist of?

- Minimum payment should at least include the cost for essential and necessary expenses for the employees and their families.
- Economic growth regarding the rates of productivity and their intention to keep a standard and stable the rates of the 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 Euros) (ADWCP- ALBANIA DECENT WORK COUNTRY PROGRAMME 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).

From some research in Republic of Macedonia there are indications that there is no perfect competition and employees with lower level of skills and particularly female employees are paid with very low salaries which are under the marginal production. Therefore, implementation of a minimum salary would probably increase the level of employment in general (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 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 implied,

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 (Kosovo assembly the Labor Law No.03/L –212) regarding Minimum Salary is said that:

Minimum wages will be determined by the government of Republic of Kosovo, each year from the Social Council recommendations

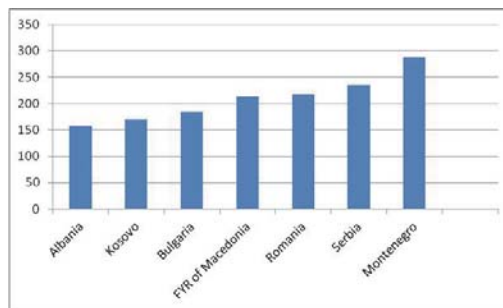
In determining the level of minimum wages, they should take in to consideration:

1. When defining the level of minimum wages for Kosovo, the following shall be taken into account: "The cost of living expenses; Percentage of the level of unemployment; General state in the labor market; and General level of competitiveness and productivity of the country".

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 unified for all employees, and does not have any difference depending on the type of employees that is applied too, lower or higher qualifications of skills are at the same level. In Kosovo, 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.

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 if we compare the minimum wages, we should have in mind also that they might have different level of employees regarding their age and skills, if the distinction of this two attributes in employees is wider than also variation of minimum salaries compared to average salaries will be higher.

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.

### 3. Conclusion and Recommendations

As a conclusion of this study we can say that the implementation for minimum salaries 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 (The World Bank , 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.

#### 4. 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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