Can the minimum wage meet our minimal expenditures?

written by Samir Aliyev

A minimum wage is the minimum amount of remuneration that an employer is required to pay wage earners. In other words, it is the price floor below which workers may not sell their labor. So, the minimum wage is the binding responsibility of a State or an employer to their workers. The purpose of the minimum wage is to avoid abuse and to protect workers against unduly low pay. It can also be one element of a policy to overcome poverty and reduce inequality.

Nation-wide minimum wage systems are currently applied in more than 90 percent of International Labour Organization (ILO) member countries (187 countries). These countries have established different systems to fix minimum wages, and approaches to minimum wage fixing depend each country's demand and priorities. A Uniform National Minimum wage (NMW) system has been established in some economies, while sectoral or regional systems in other economies. There is now legislation or binding collective bargaining regarding minimum wage in more than 90 percent of all countries. In the United Kingdom, the national minimum wage (NMW) was introduced in 1999, yet in 2016 an amendment to the act created an obligatory National Living Wage. Uniform minimum wage systems are applied in Organisation for Economic Co-operation and Development (OECD) member countries, such as Czech Republic, Estonia, Ireland, Israel, Poland, Slovakia, Slovenia, and Germany. In other OECD countries (Denmark, Finland, Norway, Switzerland) minimum wages are set by giving the force of law to provisions of collective agreements. Some developing and transition countries also have own mechanisms in setting minimum wages. A uniformly tired national minimum wage is introduced in in China and Malaysia, while a sectorally tired minimum wage in South Africa, Brazil and Uruguay, and a regionally tiered

minimum wage in Russia.

Minimum wages (MW) can be fixed at an hourly rate, or weekly rate, or monthly rate. Both hourly and monthly minimum wages, for instance, are practical in Belgium, Estonia, Luxembourg, Romania and Ukraine, while an hourly wage is introduced in the UK and the USA and a weekly wage in Malta. In Azerbaijan, employees are entitled to uniform monthly minimum wage by law. The MW rate is determined by a presidential order, stipulating that the minimum wage is set at AZN 130 ($ 76.7) from January 1, 2018.

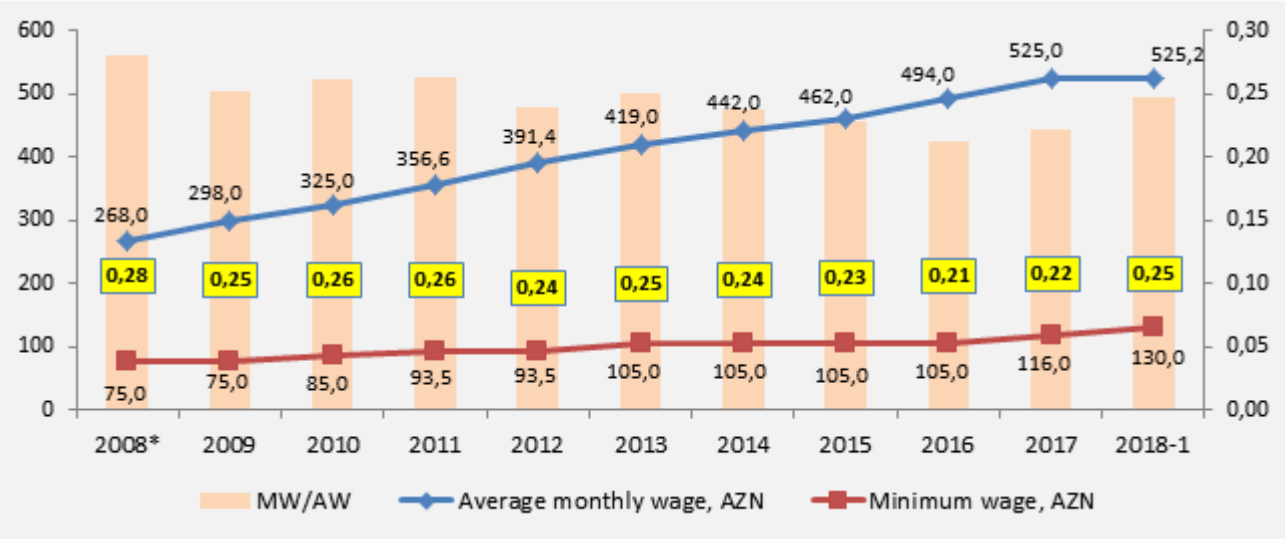
Azerbaijan remains the lowest-ranked among the countries of the Former Soviet Union (FSU) in terms of the ranking of the minimum wage. All three Baltic states (Estonia, Latvia, and Lithuania) have been seeking to raise minimum wage to catch up with those of other countries across the EU. **Estonia** has a minimum wage of $ 602; **Latvia** – $ 518 and **Lithuania** – $ 482. Azerbaijan lags behind **Russia** ($165), **Ukraine** ($142), **Turkmenistan** ($153), **Belarus** ($156), **Armenia** ($115) and **Moldova** ($144) in the ranking of the minimum wage. **Kazakhstan** $89), **Kirgizia** ($17.5), **Tajikistan** ($91), **Georgia** ($48 in the public sector, $12 in the private sector) and **Uzbekistan** ($21) are countries with lowest minimum wages.

The level of statutory minimum wages is increasing, moving further into Europe: **Bulgarıa** ($312), **Romania** ($496), **Czech Republic (**$574), **Hungary** ($529), **Slovakia** ($576), **Poland** $600, **Croatia (**$546). The level of this minimum wage, however, varies greatly from one country to another in Western European countries. Since the national minimum wage in **Portugal** remains fixed at $780 per month, while in **Greece** $703, in **Malta** $883, in **Spain** $991, in **Slovenia** $966, in the UK $1,625, in **Ireland** $1,876, in **France** $1,776, in **Germany** $1,798, in **Netherlands** $1,862, in **Belgium** $1,875, in **Luxemburg** $2,399. For comparison, the monthly minimum wage in **the USA** is $1,258.

For international comparisons, some statistical indicators are

used to assess the role of minimum wages in ensuring the population's social protection. One useful and widely used statistical indicator is the ratio of the minimum wage to the median wage. Unfortunately, the ratio of minimum to median wages is not officially calculated in Azerbaijan. Another indicator the ratio of the minimum wage to the average monthly wage. While conducting assessments through this indicator it becomes known that the difference between the two indicators in the country is becoming greater, and the growth rate of the average wage is surpassing the growth rate of the minimum wage. An analysis of 2008-2018 data showed that the ratio of minimum to median wages is becoming smaller, not exceeding 0.25 over the past seven years **(Figure 1).**

Figure 1. Dynamics of minimum and average monthly wage by year



Source: CBA

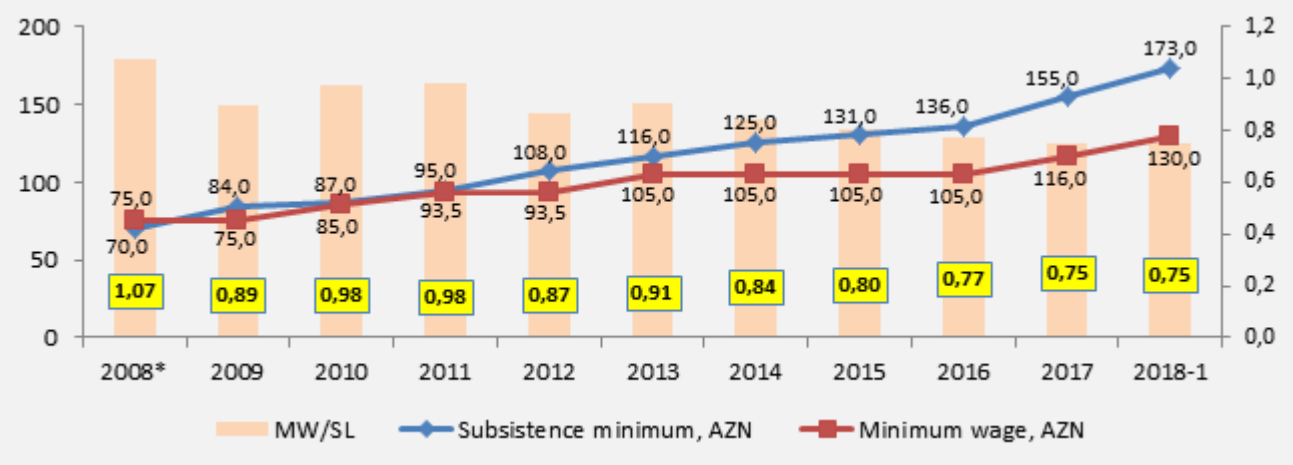
*** -MW rate has been set at AZN 60 as of 1 September.**

Notably, this ratio ranges from 0.41 to 0.50 in France, Germany, Australia, Britain, Chile and Poland; from 0.31 to 0.40 in Greece, Spain, Czech Republic, Japan, Korea, Hungary and Turkey; from 0.21 to 0.30 in Mexico, USA. Among the FSU countries this rate is equal to 0.48 in Ukraine, 0.36 in Belarus, 0.56 in Tajikistan, 0.33 in Armenia, and 0.19 in Russia and Kazakhstan,

The Government targets to avoid the gap between minimum wage

and subsistence minimum. Since the minimum income gained in terms of social protection should be able to meet the minimum needs. Although most countries have achieved it, there are still countries that have not yet obtained the expected results. In Azerbaijan, the minimum wage was only higher (1.07) than the subsistence level in September-December 2008, the only increase within the past 10 years. The gap between the minimum wage and subsistence minimum began to rise in following years, standing at 0.75 as of the beginning of 2018 **(Figure 2)**.

Figure 2. Dynamics of minimum wage and subsistence level by year



*** -MW rate has been set at AZN 60 as of 1 September.**

Despite the fact that the Law of Azerbaijan Republic on the Minimum Subsistence Amount, which came into force in 2004, has failed to achieve this goal, despite the government's commitment to raising the minimum wage level to the minimum subsistence amount across the country. *As a rule, the General Collective Agreement concluded between the Cabinet of Ministers of the Republic of Azerbaijan, the Confederation of Trade Unions of the Azerbaijan Republic and the National Confederation of Entrepreneurs (Employers') Organizations of the Republic of Azerbaijan every 2 years envisages such a commitment*. However, non-inclusion of this commitment to the last General Agreement covering the years 2018 and 2019 indicates that the government does not have a plan to reach

the minimum subsistence level in the near future.

While the minimum wage prevails minimum subsistence amount in Ukraine (2.2) and Belarus (1.5), it is equal to minimum subsistence amount in Kazakhstan (1.0), and Russia (0.92) plans to equalize it in May 2018. Furthermore, the ratio of MW to the minimum subsistence amount is 0.87 in Georgia and 0.21 in Kyrgyzstan.

Surveys unveil that MW loses its role as both economic and social indicators in Azerbaijan. For a long time, the relationship between the increase in MW and salary increases has been halted. As a consequence of amendments to the Tax Code in 2012, the amount released from tax deductions started to be determined not on the basis of the minimum wage, but of the minimum subsistence amount. Actually, an increase in minimum wages causes mandatory state social insurance premiums in some areas.

Today, the approach to the MW should change in Azerbaijan. **Firstly**, it is necessary to abandon the amount of a single minimum wage, payment for labor should shift to a sectoral system of the minimum wage amount like in several countries. That is, the amount of MW for individual sectors should be different. Minimum wage of those who work in education sector should be distinguished from the MW paid to the employees involved in the chemical industry. **Second,** the minimum wage should be switched not to the monthly system, but to the hourly definition system applied worldwide. **Third,** the amount of MW should be substantially increased. At least, it should be brought to the minimum subsistence amount (AZN 173) in the initial period. On the other hand, according to the European Social Charter, which Azerbaijan has also joined to, the minimum wage should not be less than 60% of the average monthly wage. At the next stage, it should be anticipated to bring MW to the extent required by the Charter.