

The minimum wage policy and Future steps in Jordan

Introduction

Minimum wage policy is one of the labor market key interventions, mostly used by Government and state administration to set the foundation for labor market relationships. It regulates the supply and demand in areas related to workforce and employment among the different sectors and the different economic activities.

This policy is established upon set of elements that ensure proper and healthy relations between employers and employees. It provides clear guidelines about compensation for entry level workers in addition to other benefits, so basically it avoids any potential scenarios of exploitation in the labor market.

The policy when initiated for the first time in Europe, meant to protect the interest of landlords during the medieval era with a maximum wage set. Reformed later on to include a minimum wage set as well. Over the years and with the evolution of workers movement and the establishment of trade unions, the policy changed a lot and led to the minimum wage policy nowadays. At the beginning it was selectively implemented in low skill sectors and later on it applied to all economic sectors.

The policy is widely adopted with certain variation between among countries but 90% of ILO member countries are applying this policy. Some countries have various rates depending on number of states or provinces. For example in India, they have over 1200 rates for minimum wage calculation.¹

Advantages and disadvantages of the policy

There are different opinions when it comes to dealing with this policy especially in areas related minimum wage annual adjustments, hence there are some benefits and drawbacks for it.

Economists who are in favor of this policy, argue that this policy when adopted, will boost the standards of living for workers, reduce poverty and reduce inequality. It will also urge business to become more efficient.

Opponents of this policy claim the opposite, adopting this policy (associated with periodic increases) will lead to increases in poverty and unemployment rates particularly among unskilled workers. Also, any increases that may occur in the future on minimum wages will force businesses to raise prices of their product or service to cope with the extra expense related to paying higher wages. This eventually, will increase the cost of living and poverty especially among this particular group of workers.

¹ https://en.wikipedia.org/wiki/Minimum_wage

Definition

According to many research institutes, Minimum wage is defined as the lowest wage paid or permitted to be paid; specifically : a wage fixed by legal authority or by contract as the least that may be paid either to employed persons generally or to a particular category of employed persons.² So basically it is defined by local law/ authority for specific group of workers.

ILO defines minimum wage as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.³ This definition emphasized the nature of the employment agreement between employers and workers, regardless of the type of work and fair earning for workers especially female workers.

So basically, minimum wage as a policy supplements and reinforces social policies in any country especially for unskilled worker and working women.

When defining a minimum wage, it is important to be specific about the components of the wage that can be counted in the minimum, the extent and conditions under which payment in-kind can be allowed, how the minimum is calculated for workers with piece rate pay, and if the minimum is an hourly and/or a monthly rate.⁴

Minimum wages are normally set through different ways and means; statute, decision of a competent authority, a wage board, a wage council, labor courts or tribunals. In some countries, minimum wages can also be set by giving the force of law to provisions of collective agreements in specific sectors for electricity, mining and quarrying workers.

Calculation methodology

The given minimum wages refer to a gross amount, that is before the deduction of taxes and social security contributions, which vary from one country to another. Also it is excluded from calculations are regulated paid days off, including public holidays, sick pay, and annual leave and social insurance contributions paid by the employer.

As mentioned earlier, the minimum wage can be calculated differently; hourly or monthly depending on the country's economic structure and activities, strength of workers' organization and labor market regulation.

² <http://www.merriam-webster.com/dictionary/minimum%20wage>

³ Minimum wage policy guide, ILO

⁴ Minimum wage policy guide ,ILO

Minimum wage earners

Globally wise, it is customized that earners of this minimum wage are teenagers, school student doing summer jobs, new entrants, part time employees and single mothers. This normally applies for developed countries like USA, Canada and Europe. In developing countries, the earners are basically the blue collar workers, workers entering the labor market for the first time, women and migrant workers. The application of this policy in developing countries is normally associated with acute discriminatory practices.

Jordan minimum wage policy

Jordan like many other developing countries adopted a minimum wage policy as part of its national regulatory framework in the early 60s. The policy set primary protection mechanism for the most vulnerable groups in the labor market and supposed to work as a part of the larger social protection policy canvas.

Although Jordan is considered an active member of ILO, yet, it ratified neither of ILO two major conventions that deal with minimum wage policy:

- Minimum Wage Fixing Machinery Convention, 1928 (No. 26),
- Minimum Wage Fixing Convention, 1970 (No. 131)

Both conventions encouraged countries to adopt minimum wage policy and propose a machinery with a fixing mechanism for member countries. Also, the two conventions provided clear elements to be considered when setting minimum wages mechanism in any country.

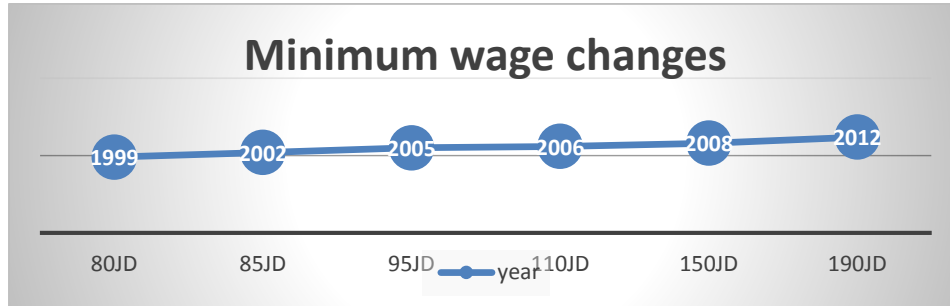
Article 3 of C131 defined elements clearly as 'The elements to be taken into consideration in determining the level of minimum wages shall, so far as possible and appropriate in relation to national practice and conditions, include

- (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;
- (b) Economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.'⁵

In Jordan, this policy was adopted by the government in 1960 as part of country's first labor code that gave the cabinet full authority to set the minimum wage based on a recommendation from the minister of labor and social affairs at that time. In 1996, the law was replaced with a new one that stated the establishment of a tripartite committee that is comprised of representatives from Government, employers and workers organizations. This policy wasn't activated till 1999 when the first minimum wage decree

⁵ http://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_INSTRUMENT_ID:312276:NO C131: Minimum wage fixing convention/1970

issued by the council of ministers and set the wage at 80JD monthly at that time and increased, later on, to reach 190JD with exception to migrant workers in QIZs.(See the chart below)⁶



Under the current labor code, chapter VII: Protection of Remuneration, there are two major articles; 52 and 53 which deal with the minimum wage policy and its mechanism. Article 52 states the following:

(1) The Council of Ministers shall, upon the recommendation of the Minister, set up a committee consisting of representatives of the Ministry, workers and employers in equal numbers and appoint a committee chairman from the committee's members. The committee shall be in charge of fixing minimum remuneration in Jordanian currency either generally or for a particular area or trade. Members of the committee shall hold a two-year renewable mandate.

(2) The committee shall hold session as necessary upon invitation by its chairman, and shall submit decisions not adopted by unanimity to the Minister, to be referred to the Council of Ministers which shall adopt its decision taking into consideration the cost of living estimated by the appropriate bodies. Final decisions adopted under this Code and their date of entry into force shall be published in the Official Gazette.

As for article 53

An employer, or person acting on his behalf, who has paid a worker less than the minimum rate of remuneration shall be punishable by a fine of no less than twenty five and no more than one hundred Dinars in respect of each offense, and shall also be ordered to pay the worker the difference. The penalty shall be doubled every time the offense is repeated.

So, the foundation is set for this policy in the Jordan labor code, yet the law is very general when it comes to the revision mechanism, the role of the committee and the sectoral arrangement under this policy.

Currently, the minimum wage is set by an executive decree as 190 dinars (\$268) per month, with eight hours of work per day and 40 hours a week. ⁷

⁶ Jordan Ministry of labor data

⁷ <http://www.al-monitor.com/pulse/originals/2015/06/jordan-syria-refugee-crisis-unemployment.html#ixzz4Pz0yz5yF>

In late 2015, workers organizations and trade unions urged the government to review the current minimum wage to accommodate the inflation rates and changes in the cost of living. In 2016, the tripartite committee formed a technical committee comprised of representatives from the ministry of labor, Jordan central bank, ministry of Industry and Trade, Ministry of Finance, Department of Statistics, Social Security Corporation and Civil Service Bureau. In 2016, the tripartite committee formed a technical committee comprised of representatives from the ministry of labor, Jordan central bank, ministry of Industry and Trade, Ministry of Finance, Department of Statistics, Social Security Corporation and Civil service bureau.

The committee recommended a new increase (30JD) on the current minimum wage to reflect the inflation rate estimated around 22-26JD at its minimum.

When the recommendation was discussed at the tripartite labor committee meeting, the trade union, the agriculture union and the Jordan Chamber of Commerce recommended setting the minimum wage at 300JD, where the Jordan Chamber of Industry recommended 220JD. The disagreement among the members of the committee ended with no final decision taken, as a result, the recommendations report sent to council ministers to make the final decision that is still pending.

Conclusion

Jordan is a small developing Arab country with a very young population, about 37.3 percent of its population is within the age range 0-14 years; 59.5 percent of the population within the age range 15-64 years, and 3.2 percent of the population is 65 age and over and the population growth rate of 2.2 percent.⁸

Moreover, Jordan has suffered a lot from the consequences of many wars and conflicts in the Middle East region. These wars and conflicts not only negatively affected economic and educational reforms but also created other humanitarian and refugee problems such as the recent Syrian refugee's influx. In addition to all of that, the Jordanian economy developed its productive basis at a late stage, on the initiative of the state. It is still weak and comprises a few large public and quasi-private companies, mainly in mining and minerals production, and a vast majority of small and medium-sized businesses that provide the vast majority of employment in the private sector. Jordan has been facing many challenges, but the most important ones are, first, a high level of poverty and unemployment. Second, the stagnant growth in per capita income. Third, labor market distortions which mean a mismatch between education outcomes and labor market requirements, and large numbers of foreign labor. Fourth, the inability of the economy to attract the desirable levels of investment.

It is also characterized by a well-educated and trained labor force, which can be contributed to significantly by an efficient and effective employment and TVET system within the wider framework of life-long learning and socio-economic mobility and equity. Still, the latest official unemployment rate is

⁸ Jordan Department of statistics , Jordan in numbers, 2014

15.8 percent, the percent of people below the poverty line that is 14.4 and increased to reach 20 percent in 2013⁹ and the absolute poverty line (68JD monthly per person).

Department of Statistics poverty survey data also shows that the independency rate in Jordan is 1:4.¹⁰ This means that each worker is supporting four so, in a simple calculation method, the minimum amount to support a family of four is around 272JD.

Many economist and labor market experts urge the government to review the current minimum wage. They argue that increasing the minimum wage will stimulate the economy as it will enhance people's ability to buy goods and services and attract more Jordanians to participate in the labor market especially youth and females.

The new minimum wage, when reviewed, should consider the latest inflation rates calculation (11.3%) for the years 2012-2015 in addition to other recent economic indicators. The proposed increase in the current minimum wage should not be less than the absolute poverty line.

At the same time, the current minimum wage policy although covered in labor code, yet needs to be reviewed to add clear guidelines about the revision mechanism, the role of the committee and its capacity and the sectoral arrangements under such measure.

⁹ www.dos.gov.jo

¹⁰ www.dos.gov.jo