

Wages, Cost of Living and Minimum Wages in Syria

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A4-Summary

Targets of the minimum wage(s):

1. Avoid increasing poverty among workers
2. Insure sufficient participation of the lowest wages to economic growth
3. Support productivity
4. Avoiding “unfair” competition through wage dumping

Limits of action of a minimum wage:

1. Efficiency of applying minimum wages (effective enforcement)
2. Does not cover self-employed, unemployed and informal sector; inactive persons
3. Is independent of the worker’s family situation.
4. Can mean strong shock for some sectors (agriculture, services, construction) => macroeconomic reactions on employment and inflation.

Setting the level of the minimum wages:

1. 2 USD-PPP/day = 1 335 SYP/month in 2004 (with +24% inflation: 1 655 SYP/month in 2007). *Source: UNDP¹ 2005.*
2. Food-Poverty line = between 1 282 and 12 429 SYP/month (depending of the region and size of the household) => 1 590 and 12 429 SYP/month in 2007. *Source: UNDP 2005.*
3. 50% of the median wage = no data are available; instead 50% of median expenditure per capita = 1 685 SYP/month (2007). *Source: HIES²-2007.*
4. 50% of overall productivity = the overall productivity (GDP per capita) is estimated to be between 4 000 and 4 500 USD-PPP/year. This would be equivalent to a minimum wage between 3 000 and 4 125 SYP/month in 2007, depending on conversion rates). *Sources: World Bank 2008³ and IMF 2007⁴.*

Necessary additional steps:

1. Provide non-covered poor persons (self-employed, unemployed, informal sector, inactive) with social benefits => task of the welfare fund. For ex. Child-allowance.
2. Enforce the effective payment of minimum wage, esp. regarding informal sector but also with regard to avoiding strategies.
3. Evaluation of the correct level of the minimum wage and its effects on the low-paid, the poor in general and on wages, prices and employment at the micro- and macroeconomic level should be done.

¹ United Nation Development Programme. "Poverty In Syria: 1996-2004 ~ Diagnosis and Pro-Poor Policy Considerations", Heba El Laithy and Khalid Abu-Ismaïl, UNDP, June 2005.

² HIES: household incomes and expenditure survey. Published by the Syrian central Bureau of Statistics.

³ World Bank database; <http://siteresources.worldbank.org/>

⁴ IMF 2007: IMF Country Report No. 07/288.

1. Targets that can be (or cannot be) achieved by a minimum wage

a. Poverty, participation to social life, income inequality, fair competition

Objectives:

The first objectives of minimum wages (in France, the UK at the beginning of the 19th century and even USA between WWI and WWII) were to **avoid increasing poverty among workers** and very hard working conditions. The first regulations insured that only firms paying the minimum wages could enter public contracts. This is also the view of the first ILO conventions about minimum wages (1928); minimum wages were and should be created where collective bargaining defaults to establish proper working conditions and salaries.

In a second wave, minimum wages were created to **ensure sufficient participation of the lowest wages to economic growth**. In this aspect, minimum wages become an instrument to reduce wage inequality. This is for example how we can interpret the ILO-conventions of 1970 (but also the new minimum wages rules in France in the same year and most of the present minimum wage rules in Europe).

Other objectives can be also found in some countries; in UK the new minimum wage is thought as an instrument to **support productivity** increases. A minimum wage should give firms incentives to gain competitiveness through higher productivity than through low production costs. This aspect can be enlarged to the objective of **avoiding “unfair” competition through wage dumping** (case of USA for example, Germany very recently for the construction sector).

Limits of minimum wages:

Still the problem of the **efficiency of applying minimum wages** exists; the danger of firms and workers escaping in the informal sector and the lack of control should be considered. This makes minimum wages less effective. Esp. for Syria: can government impose and control a minimum wage in the private sector esp. in the agricultural sector? How big is the informal sector in Syria?

The question is raised if the minimum wage should also apply indifferently across sectors. A high **inter-sectoral minimum wage** could produce a big shock for the low-wage sectors, giving employers incentives to move to the informal sector. According to the UNDP-report (2005, Table A.3.38), the average wage of the poor in the rural areas and in the agricultural sector is more than 50% less than the average wage of the urban poor in the formal and private sector. Setting the private formal wage of the urban poor as the level of the minimum wage for all would mean a shock of more than 100% on the wages of the poor in the rural agricultural sector. This is a shock that cannot be implemented at once; it would have to be introduced very gradually.

A justification for a uniform inter-sectoral wage, however, considers gender issues; As women tend to be employed in low-paying sectors and are as such more vulnerable to poverty, an inter-sectoral minimum wage would give them a better protection.

The minimum wage can only protect employed persons. **Self-employed** (small shops in Syria) **and non-working persons** (jobless, inactive family members, old people, ill people) are not covered by definition. Again here, workers of the informal sector and to some extent also those of the private formal sector are neither covered. To attain these people, a policy of minimum wage is not appropriate. This is why welfare measures must accompany the minimum wage if the primary objective of the minimum wage policy is to reduce poverty and

insure a participation in growth. In these respects, we draw the same conclusions as the UNDP-report of 2005 as "occupationally, the highest poverty rates were among those self-employed in marginal and unskilled activities, or those who were unpaid workers. Agriculture and construction were over-represented (compared to their population share) within poor groups. Moreover, the poor were more likely to work in the informal sector, which employed 48 per cent of them. Unemployment rates were correlated with poverty, as poverty incidence for the unemployed was higher than average in urban areas."

Therefore implementing a minimum wage cannot be the panacea; job-creating policies and public transfers (welfare) must be implemented too.⁵

However, it is worth mentioning that Syria committed herself to promote minimum wage(s) within four ILO-conventions.

ILO conventions about minimum wages

There are several ILO-conventions on minimum wages, starting in the year 1928 (#26), through 1951 (#99), 1962 (#117) and 1970 (#131).

The 1928's convention (*Minimum Wage Fixing Machinery Convention*) states that the ratifying countries should "undertake to create or maintain machinery whereby minimum rates of wages can be fixed for workers employed in certain of the trades or parts of trades (and in particular in home working trades) in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low." Trade means here manufacture and commerce.

The 1951's convention (*Minimum Wage Fixing Machinery (Agriculture)*) states that the ratifying countries "undertake to create or maintain adequate machinery whereby minimum rates of wages can be fixed for workers employed in agricultural undertakings and related occupations."

The 1962's convention (*Social Policy (Basic Aims and Standards)*) encourages among others "the fixing of minimum wages by collective agreements freely negotiated between trade-unions which are representative of the workers concerned and employers or employers' organisations".

The 1970's convention (*Minimum Wage Fixing*) is more specific towards developing countries. It stipulates that the ratifying countries should establish a system of minimum wages which protect and which cover all groups of wage earners whose terms of employment are such that coverage would be appropriate. The definition of the groups should be established with the representatives of both employers and employees and the minimum wages should have the force of law. "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.

Not all countries did sign these conventions; France did sign most of them but the USA none, although it has a national minimum wage. Germany signed only the first two but has no national minimum wage. The UK did sign also only the first two but denounced the first in 1985 and the second in 1994. **Syria ratified the C26 (1928) in 1960, C99 (1951) in 1965, C117 (1962) in 1964 and C131 (1970) in 1972.**

⁵ This is the conclusion of the UNDP (2005): " As most of the poor were self-employed in the agricultural sector, wage policies enacted by the government and public enterprise sectors may have little impact on poverty. Likewise, legislation regarding minimum wages paid by private employers would affect only a fraction of the poor. Still, policies to reduce poverty must be aimed at self-employed workers in agriculture, particularly in rural areas."

b. Macroeconomic Effects: Inflation, Employment, Growth, Distribution

Effects on wages and distribution

The intuitive effect of minimum wages on distribution is to narrow the wage distribution on the left. To put it statistically, it should reduce the discrepancy between the middle decile (D5) and the first decile (D1). However the D5/D1-ratio will be narrowed only if the minimum wage is increasing more than the average and median wage. This was the case in the UK when the minimum wage was introduced in April 1999. The wage inequality, which had increased from 1978 to 1997, then reduced from 1998 onwards (Metcalf 2007). This is also confirmed by a large empirical literature for the French case and for other countries like the USA (CERC 1999, p. 83).

The effect of minimum wage on overall wage level should be small. Depending of the coverage rate of the minimum wage, the effect will be very small or just small; if the minimum wage covers say 5% of the jobs (UK figures of 1999), the immediate impact will be rather small. If it covers more than 15% (French figures of 2005) the effect will be higher but still small for the aggregate data. Assuming that all employees would be eligible for the minimum wage (no informal sector, no exemption) and that the coverage rate of the minimum wage would be 5%, then by definition, an increase of the national minimum wage by 1%, will increase the average wage directly by $1\% * 5\% = 0.05\%$. This is not much.

However, another effect has to be mentioned and is called “diffusion effect”; as soon as the minimum wage will increase, the wages immediately above the minimum wage may increase too. Indeed it is likely that the employers will want to keep the wage structure and therefore increase all lower wages also, so that there is still a difference between the new minimum wage and these wages. In France, this diffusion process is estimated to imply for a 1% increase of the minimum wage an increase by 0.05% to 0.15% of the average wage (CERC 1999, p. 82-83). This is not much.

Effects on inflation

Linked to the effect on wages, the minimum wage will have an effect on inflation. As it increases the overall wage level, it should increase the inflation at least by this amount. Here a circle reaction (this new inflationary push will feed back to the overall wages and this will increase inflation again in a second round) can start and the overall effect on inflation and wages is not clear. From the experiences in UK, France and USA, the inflationary effects did not have had sizeable effects (Metcalf 2007 for the UK, p. 32ff).

If the overall inflation should not be that much affected, it is more interesting to think in terms of relative prices; the goods produced by the minimum wage workers (in Syria it will be the prices in the construction and agricultural sectors, as well as the price for social services) will experience a cost push higher than the one for other goods. It will induce a change in the demand pattern. The size of this effect will depend on the price-elasticity of the demand for these goods and the possibility for employers to pass through the wage increases. The more elastic the price-elasticity is, the less the possibility for the employer to pass through wage increase is. Then it will reduce profits and will have lower inflationary effects.

Effect on employment

The effects on employment are the most controversial ones. The proponents of the standard (=neo-classical) labour market theory start from a model with perfect competition and knowledge to derive that a minimum wage will have a negative effect on employment if it is above the equilibrium wage (cutting labour demand for less productive workers) or at best no effect if it is below. This model was criticized on several points.

First, the assumption of a perfect competitive labour market is not in line with reality. Much more likely, monopsonistic competition (large numbers of workers for small numbers of employers, meaning that employers have a higher market power than the workers) is better representation of real labour markets. This causes the wages to be below the competitive wage. Thus implementing a minimum wage removes the monopsonistic rent of the employer toward the workers and thus increases their labour supply and thus increases the employment level. Especially here, workers differ from each other (working mother against male single against young worker) in having different working time and working conditions preferences as well as geographical inflexibilities, so that even if the employers is paying low wages, the employees will not quit (the employer have the power to impose the wage that the employee cannot escape in quitting to move to another firm). See: Alan Manning: *"Oligopsony and Monopsonistic Competition in Labor Markets"*, *Journal of Economic Perspectives*, 2002, vol. 16, issue 2, 155-174. Alan Manning: *"A Generalised Model of Monopsony"*, *Economic Journal*, 2006, vol. 116, issue 508, pages 84-100.

Second, the link from productivity to wages was put in question by the efficiency wage theory and postulates that at least the other causal direction is possible. Because the higher wages are, the higher the incentives for both the worker and the employer to invest in costly human capital (education, training, innovation) will be. This in turn boosts overall productivity, growth and wages (without inflation!). See: Shapiro, C., Stiglitz, J. E. (1984): *"Equilibrium Unemployment as a Worker Discipline Device"*, *The American Economic Review*, 74, 433-444; Yellen, J. L. (1984): *"Efficiency Wage Models of Unemployment"*, *The American Economic Review*, 74, 200-205, *Papers and Proceedings of the Ninety-Sixth Annual Meeting of the American Economic Association*; Rebitzer/Taylor (1991), *"the consequences of minimum wage laws: Some new theoretical ideas"*, Working paper, n° 3877, octobre. NBER. Besides, it is very difficult to measure the individual and marginal productivity of the employees. In most cases, the production process involves complementarities so that each contribution is not separable from the other. Especially for services it is furthermore difficult to measure productivity. Here it becomes evident that productivity has also something to do how each work contribution is valued. This emphasizes once again that wages, opposite to what the neo-classical theory tells, is not only a matter of absolute valuation but also of relative valuation i.e. of social conventions.

Third, parts of the labour costs that were formerly not counted as wages may diminish in line with the increase of minimum wage, so that the overall wage costs remains the same.

However, it may be a good idea to compare the minimum wage with a measure of labour productivity. The World Bank and the IMF use two measures: GDP/capita and GDP per employee. The first measure is lower than the second and has the advantage to partly include informal sector and unemployed but includes also the inactive (like children or elderly). The second one is an upper bound measure and does not include inactive but also neglects part of the employment that is actively involved in the value added process (self-employed and informal sector). In Syria it seems that the first measure gives a range of 4 000 USD-PPP per year (GDP/cap) and the second 17 500 USD-PPP (IMF figures for 2005 and from the country report 2007, p. 14).

2. Experiences from abroad: Arab neighbours and France and UK.

c. Experience from some Arab neighbours: Lebanon, Jordan and Egypt

Table 1: Minimum Wages and Per Capita GDP in Emerging Markets, 2002 (IMF)

	Minimum wage (1)	Per capita GDP (2)	Ratio (1)/(2)
(In U.S. dollars per month)			
Lebanon	199	401	50%
Syria	173	100	173%
Turkey	135	231	58%
Mexico	116	535	22%
Jordan	113	148	76%
Paraguay	110	82	135%

Source: From the Lebanon Country report (2006, IMF); ILO online database, Lebanese authorities; IMF estimates.

Lebanon: a minimum wage was introduced in Lebanon in 1996. The Government sets a legal minimum wage, currently (2007) about \$200 (300,000 Lebanese pounds) per month and this was not increased for years. The minimum wage applies in theory to all workers, both salary and wage-earners, of at least 20 years of age in both the public and private sector other than those specifically excluded. The following workers have been excluded: domestic servants employed in private houses, workers in some agricultural corporations, workers in family businesses employing solely family members and casual or temporary workers in public administration. The law seems not to be enforced effectively in the private sector. In theory the courts could be called upon by the labour inspection services to enforce it, but in practice they are not. Trade-unions actively however attempt to ensure the payment of minimum wages in both the public sector and the large-scale private sector.

The minimum wage is likely insufficient to provide a decent standard of living for a worker and family and trade-unions claimed for a tripling of the minimum wage because of increasing food and fuel prices at the beginning of 2008. But the finance minister saw this critically because of the danger of inflation⁶. However, the latest figures⁷ seem to be 500 000 LP/month or 37% of GDP/cap in USD-PPP (measure of overall labour productivity).

Sources: ILO-minimum wage database; IMF-country report; BBC; Country Reports on Human Rights Practices for Lebanon (1999, US-Bureau of Democracy, Human Rights, and Labour); Wikipedia.

Jordan: Jordan introduced a minimum wage in late 1999 at 80 JD/month. It was increased by JD 5 on Jan. 1, 2003 (85 JD), by another JD 10 in 2005 (95 JD) and finally by another 15 JD in 2006 (110 JD), level which is still effective at the beginning of 2008. The Jordanian

⁶ <http://www.lebanonundersiege.gov.lb/english/f/eNews/NewsArticle.asp?CNewsID=1173>

⁷ <http://www.naharnet.com/domino/tn/NewsDesk.nsf/>

getstory?openform&8E2E3ACF7F235EE3C22574410018A9C0; cited by Wikipedia. As this is a proposal packed together with the decision of labeling "illegal and unconstitutional" a private telecommunications network set up by Hizbullah on Lebanese territory, it is not clear if this proposal has taken effect now.

minimum wage applies to all workers except domestic servants, those working in small family businesses, and those in the agricultural sector. It represents 68% of GDP/cap in USD-PPP (a measure of overall labour productivity; Wikipedia 2007). Interestingly the last increase in the minimum wage followed a lift of the fuel subsidies from government, a situation faced recently also in Syria. At that time the government also planned to support low family income (lower than 1000 JD/year). In Jordan the government wanted to smooth the effect of removing fuel subsidies on the poor with the minimum wage and targeted social benefits assistance policy.

It was claimed by the trade-unions at the time of its introduction that the minimum wage was too low as the poverty line in this year (1999) was calculated for a family at 117 JD/month and the grant for needy families from the National Aid Fund was 82 JD/month. Another line of complains is along the practical enforcement of the minimum wage law. Nevertheless as about 30% of the population lived under the poverty line; it was an important step for the anti-poverty policies as most low-paid workers received a wage about 50 to 60 JD/month. There is a committee composed of representative of workers and public as well as private employers that give advices about how the minimum wage should be raised.

Sources: Jordan times; IMF; World Bank; Wikipedia.

Egypt: The minimum wage in Egypt is set by the government. Since the 80's, it was not revised, meaning that its purchasing power decreased (6.40 USD/month or 115 EP/month). This gave rise to the Mahalla strikes and protests already at the end of 2006 and that pursued this year. The textile workers demand its raise to at least 1 200 EP/month (what is still below 2 USD-PPP/day) and better working conditions. The minimum wage in Egypt is not only very low, but also poorly enforced. The government agreed to increase the minimum wage by 30% in the 1st of May 2008. It was also increased in 2006 for government and public sector employees and increased to \$ 28.4 (174 LE) per month for a 6-day, 36-hour workweek.

Sources: IMF; OECD; Country Reports on Human Rights Practices for Egypt (2003, US-Bureau of Democracy, Human Rights, and Labour).

d. Experience from two European countries: France and UK.

Experience from France (1950-2007)

In 1950, the introduction of a minimum wage was designed within a commission (trade-unions' and employer representatives). Whereas the employers' representatives wanted to limit the objective of the minimum wage to insure basic living costs (food, rent and clothes), the trade-unions wanted to enlarge this objective to participation in social life (culture, sport, vacation, ...). As no agreement could be found, the government decided at the end to fix the SMIG (minimum wage guaranteed across sectors) on the basis of a standard worker household (single worker of the metal industry in the Paris' suburb). At the beginning different rates across regions were defined, but from 1968 onward only one unique rate subsisted.

Already in 1952 the French minimum wage was indexed to inflation; as soon as the inflation rate from the last date minimum wage had been changed cumulated above 5%, the minimum wage had to be increased by 5% also. As this implies a strong lag of minimum wage behind

inflation developments, this threshold was diminished to 2% in 1957 and is still in power nowadays.

Although not only inflation but also participation in overall wage and growth developments were mentioned in the first law of 1950, the second part of the indexation found no practical implementation in the first years. Only with the transformation of the SMIG into the SMIC (minimum wage for inter-sectoral growth) in the year 1970, this was applied. The aim was then explicitly to secure workers with low-wages and this indexation rule is still in power in France now. It encompasses three mechanisms:

1. The 2%-inflation threshold. It means that in period of high inflation, minimum wage will be increased more often. The inflation index used is CPI without tobacco since 1992.
2. Each 1st July, the government has to ensure that the participation of the lowest wages is in path with the general wage increase. By law, at least half of the increase in the purchasing power of the blue-collar workers hourly wage rate should transmit to the purchasing power of the minimum wage. This is the minimum increase.
3. The government can always decide to increase the minimum wage more than this rule and indeed it did in most of the years.

French rule is: Increase of the SMIC = Increase of the inflation since last change + ½ (increase of Blue-Collar Hourly wage – inflation)

The evolution of the French minimum wage (SMIC) can be seen in the following Charts.

Chart 1: SMIC, workers salaries and prices between 1980 and 2007. (Source: French Ministry of Labour, DARES).

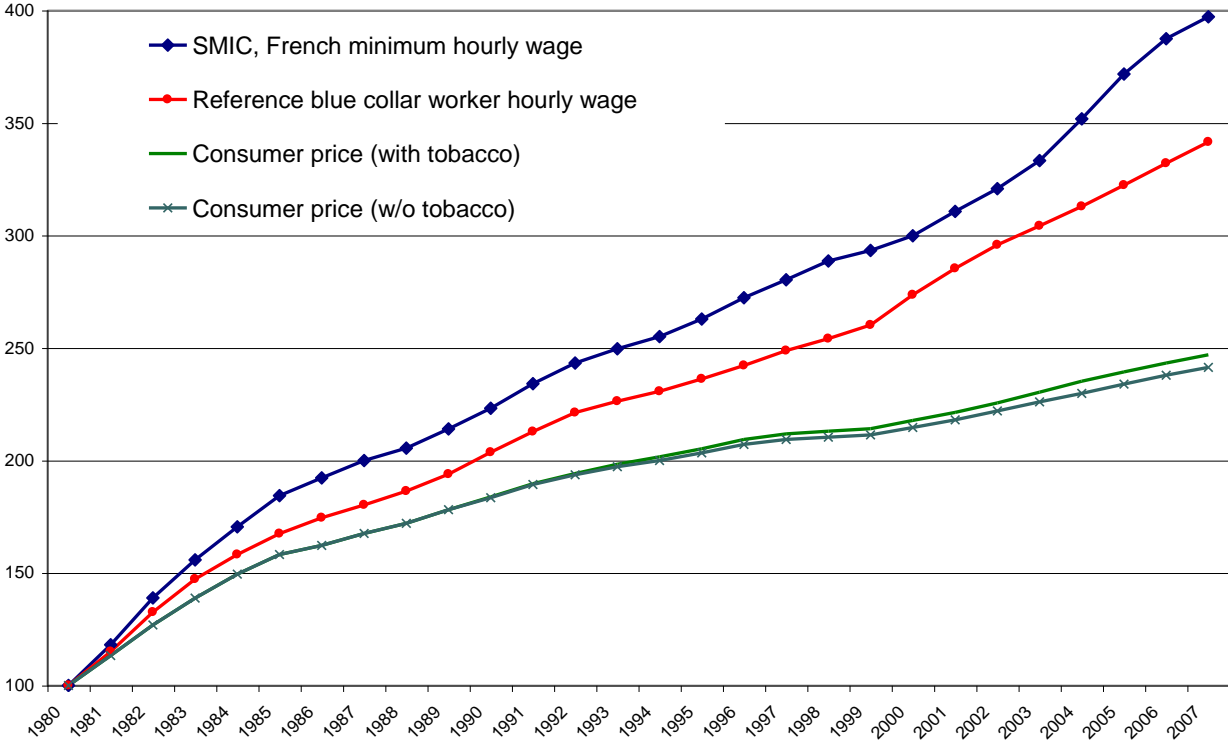


Chart 2: SMIC as % of the median wage (Source: French Ministry of Labour, DARES and French Ministry of Finance and Industry).

Black line = SMIC at employer costs/median wage; blue line = SMIC after tax (employee side) / median wage.

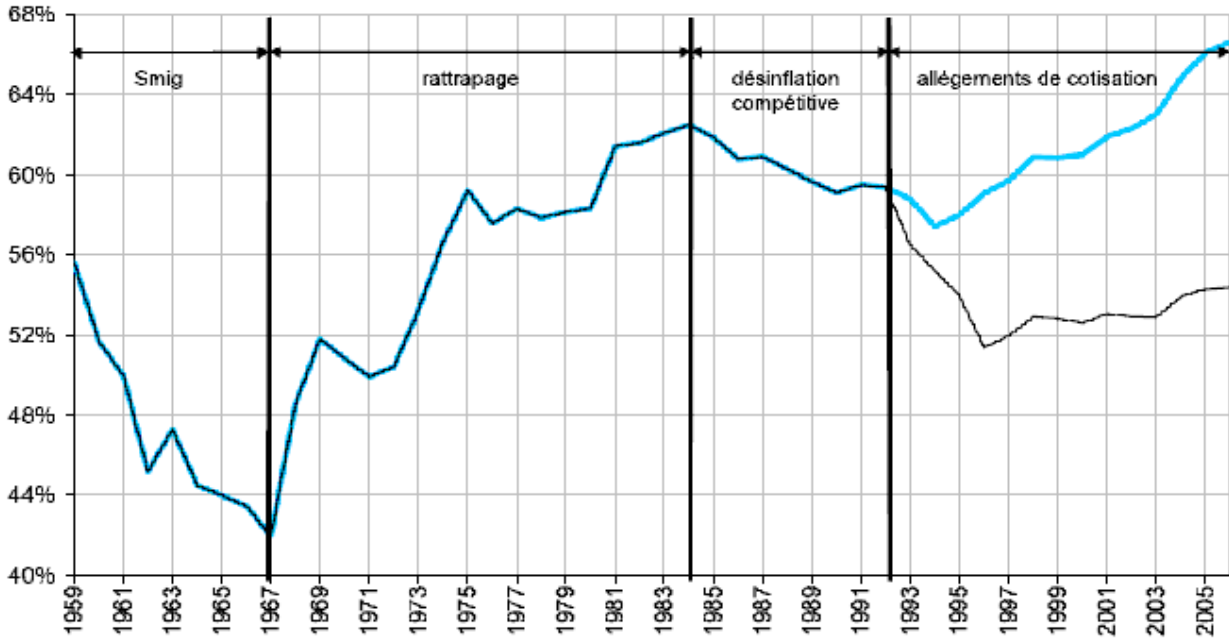
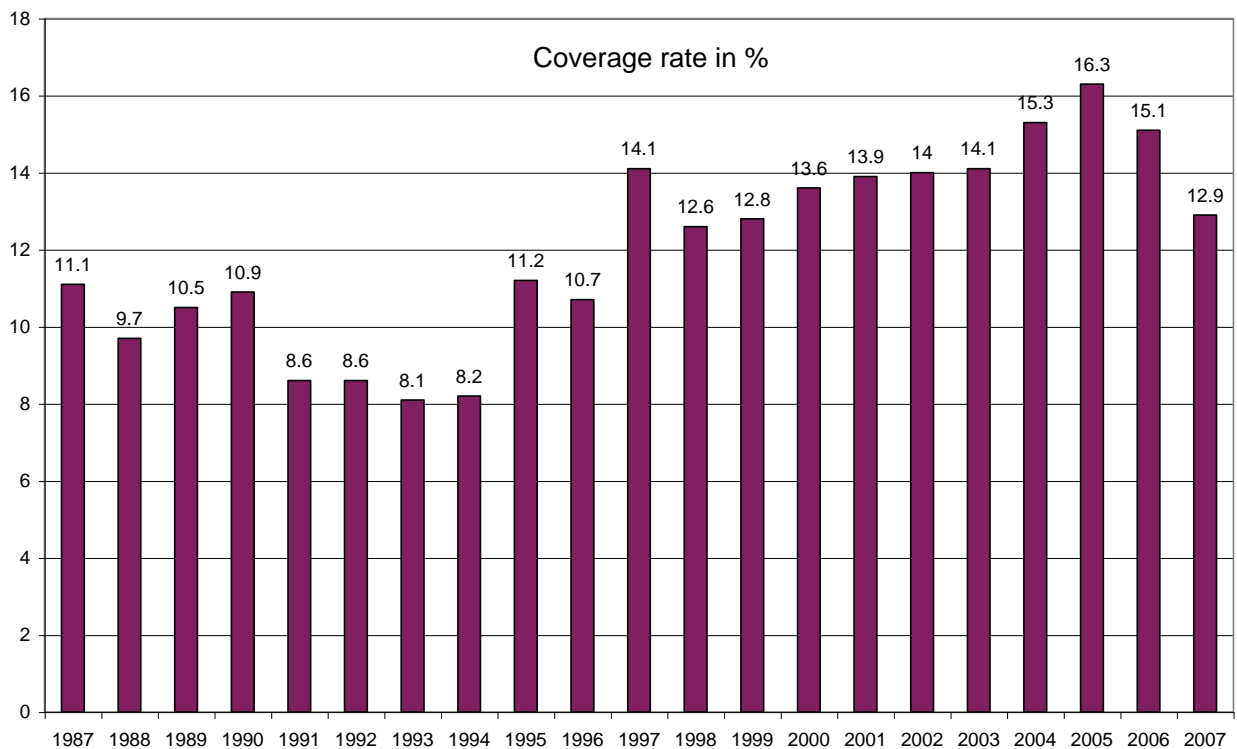


Chart 3: Percentage of persons covered by the SMIC (Source: French Ministry of Labour, DARES).



Several lessons can be learnt from the minimum wage policy in France:

The higher the SMIC is increasing both in absolute terms and in relative terms, the more the wage compression is pronounced (less inequality) and consequently the more workers fall into the minimum wage. This can be seen for the period 1994-2005 where the SMIC increased strongly and so did the percentage of workers receiving it. Overall the wage inequality decreased in France in the last years and main responsible for it was the high increases in the SMIC.

If a government wants to reduce the wage inequality, then the minimum wage has to grow more rapidly than the average wages.

If costs for employers at the level of minimum wage are thought to be a problem in terms of competitiveness, one solution could be to reduce the wage tax at this level. However this can be costly for the public budget and also creates a stronger minimum wage trap (people get stuck at minimum wage level and have no opportunities to go upwards).

Literature: regular publications of the DARES about the SMIC (Premières informations, premières synthèses) ; Conseil supérieur de l'emploi, des revenus et des coûts (1999): Le Smic; Salaire Minimum de Croissance. ; Dominique Demailly / Sylvie Le Minez (1999) : Les salariés à temps complet au voisinage du SMIC de 1976 à 1996. INSEE Premières, N° 642 – Avril 1999.

Experience from UK (2000-2007)

The UK is an interesting case because this country used to have a minimum wage system⁸ regulated by the collective bargaining (wage councils) but was abolished by the conservative government of Margaret Thatcher in 1993. As poverty and the redistribution of the growth benefits became a political issue and with the entry of a neo-socialist government with Tony Blair, the need and will for a minimum wage was present again.

The National Minimum Wage (NMW) was introduced in 1999. At first a commission was created in 1997 – the Low Pay Commission (LPC) – to evaluate at which rate the NMW should start and by how much it should increase after its introduction. The aim of the LPC was explicitly to “have a minimum wage that helps as many low-paid workers as possible without any significant adverse impacts on inflation or employment”. The LPC is composed of 3 representatives of the employers, three representatives of the workers and three independent persons (researchers). Till 2007, its recommendations have always been unanimous. The LPC is also in charge of the evaluation of the impact of the NMW on pay, employment and inflation. A special focus is put on the low-pay workers and sectors, as they are the most affected ones.

The NMW was introduced in April 1999 with 3,60 GBP/hour (standard rate), represented 47.6% of the median wage and covered 1.2 million jobs or 5.5% of all jobs. In October 2006 it already covered 9.7% of the jobs and increased to 52% of the median. Wage inequality had increased from 1978 to 1996, but decreased from 1998 onward. In these respects, the NMW – as the French SMIC – had a strong impact on low wages and reduced wage inequality. This went hand in hand with an increasing coverage and over-proportional increases of the NMW in absolute terms (more than inflation) and relative terms (more than the other wages).

⁸ Although it did not cover all workers and all sectors.

Table 2: UK national minimum wage (NMW): Hourly Rates, 1999–2008. (Source: LPC 2008).

	16–17 Rate		Youth Development Rate (Age 18–21)		Adult Rate (Age 22 and over)	
	NMW	Change (%)	NMW	Change (%)	NMW	Change (%)
April 1999–May 2000	–	–	£3.00	–	£3.60	–
June 2000–September 2000	–	–	£3.20	6.7	£3.60	0.0
October 2000–September 2001	–	–	£3.20	0.0	£3.70	2.8
October 2001–September 2002	–	–	£3.50	9.4	£4.10	10.8
October 2002–September 2003	–	–	£3.60	2.9	£4.20	2.4
October 2003–September 2004	–	–	£3.80	5.6	£4.50	7.1
October 2004–September 2005	£3.00		£4.10	7.9	£4.85	7.8
October 2005–September 2006	£3.00	0.0	£4.25	3.7	£5.05	4.1
October 2006–September 2007	£3.30	10.0	£4.45	4.7	£5.35	5.9
October 2007–September 2008	£3.40	3.0	£4.60	3.4	£5.52	3.2

Table 3: NMW relative height. (Source: LPC 2008)

		Adult NMW (£)	Adult minimum wage as % of					
			Lowest decile	Lowest quartile	Median	Mean	Upper quartile	Upper decile
ASHE without supplementary information	1999	3.60	83.9	65.1	45.7	36.6	30.4	21.1
	2000	3.60	81.2	64.2	45.4	35.7	29.8	20.6
	2001	3.70	80.3	63.0	44.2	34.7	29.0	19.9
	2002	4.10	85.2	67.5	47.2	36.5	30.8	21.0
	2003	4.20	82.4	65.8	46.5	35.9	30.5	20.8
	2004	4.50	84.9	67.6	47.5	37.2	31.3	21.4
ASHE with supplementary information	2004	4.50	85.6	68.3	48.1	37.7	31.6	21.7
	2005	4.85	88.0	69.9	49.4	38.5	32.3	22.1
	2006	5.05	87.5	69.9	49.4	38.4	32.3	22.1
ASHE 2007 methodology	2006	5.05	87.5	70.0	49.7	38.5	32.5	22.3
	2007	5.35	89.2	71.8	51.1	39.6	33.6	22.9

Source: LPC estimates based on ASHE without supplementary information, standard weights, UK, April 1999–2004, ASHE with supplementary information, standard weights, UK, April 2004–2006 and ASHE 2007 methodology, standard weights, UK, April 2006–2007.

Notes:

1. Direct comparisons before and after 2004 and those before and after 2006 should be made with care due to changes in the data series.
2. Those jobs where pay was affected by absence in the reference period were removed before the percentiles of gross hourly pay excluding overtime were calculated.

What can be learnt from UK? The same points as in France and also that setting a different rate along the age can be a good idea for supporting job opportunities of young workers.

Literature: Metcalf (2007), Why Has the British National Minimum Wage Had Little or No Impact on Employment? CEP Discussion Paper No 781. David Metcalf was a member of the Low Pay Commission between 1997 and 2007; Reports of the Low Pay Commission (2007 and 2008 especially.).

3. Which level(s) can be thought of for the Syrian minimum wage?

e. Surviving levels

By definition this is the amount needed to buy food equivalent to a certain amount of calories/day. The UNDP for example uses such a concept to construct poverty lines for Syria. The poverty line(s) estimated by UNDP is household-specific, depending on its size, the age of its members, its gender composition and even its location. The caloric needs are accordingly different. This is called the absolute poverty line or food-poverty line. Besides that, a non-food component (rent, clothes, ...) is calculated based on the household incomes and expenditure survey (HIES) and yields a total poverty line.

These measures however fulfil only the surviving or basic physical needs, just enough to avoid starvation and begging. Clearly it does not secure any participation in social life and in general it cannot fulfilled any of the objectives of the minimum wage (poverty is a social concept not only linked to being alive or not). Anyway it defines a level that cannot be undergone.

The national (food and total) poverty lines are defined for Syria between 1 458 and 2 052 SYP/month (2004) averaging across households and regions. The food poverty line (lower) defines the minimum physiological needs and the total poverty line (upper) adds some amount for non-food items like clothes and rent based on estimations from the HIES.

Table 4: Estimated Poverty Lines for 2003-2004 using Different Approaches (SYP/month)

	Southern		North-Eastern		Middle		Coastal		Total
	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	
1 Elderly adult	1483	1470	1433	1334	1302	1282	1352	1362	1403
1 Adult male	2021	2052	1919	1846	1838	1739	1939	1918	1939
2 Adults, male and female	3813	3694	3471	3285	3392	3132	3566	3603	3501
2 Adults - 2 children	5913	5515	5265	4666	5254	4634	5621	5444	5328
2 Adults - 3 children	7375	6678	6491	5655	6565	5648	7021	6675	6562
1 Adult female - 3 children	4912	4573	4071	3959	5051	4057	4633	4495	4554
2 adults - 5 children	10023	9176	8718	7654	8872	7677	9346	8981	8505
Lower Household Specific:									
Average per capita	1664	1500	1454	1279	1482	1304	1591	1584	1458
Upper Household Specific:									
Average per capita	2441	1978	2144	1694	2047	1748	2412	2303	2052
Lower Per Capita Poverty Line	1664	1507	1454	1278	1480	1305	1591	1582	1459
One dollar at *PPP a day	667.7	667.7	667.7	667.7	667.7	667.7	667.7	667.7	667.7
Two dollars at PPP a day	1335	1335	1335	1335	1335	1335	1335	1335	1335

*PPP = Purchasing Power Parity

Source: UNDP 2005.

The appropriate amounts are higher nowadays as prices increased by 24% between 2004 and 2007 as very rough calculation (rough because the basket behind the consumption prices does not represent exactly the average consumption pattern of the poor households; for ex. food should have a higher weight).

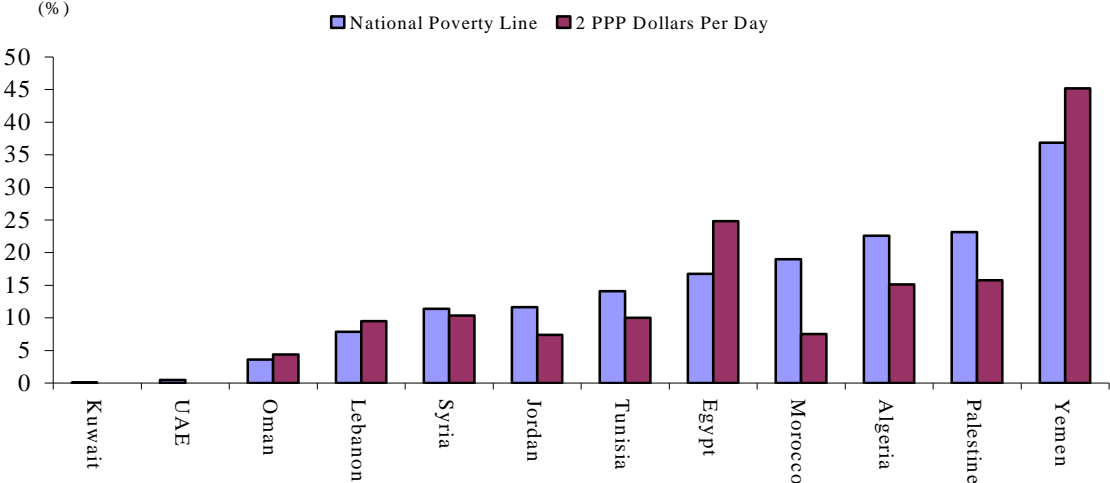
f. Other standard definitions of poverty

The World Bank defines an “intuitive” measure that is easily comparable between countries and thus well adapted for international comparisons. It is defined as the amount in national currency of 2 USD in purchasing power parity (PPP) equivalent and per day. PPP ensures that inflation differentials, exchange rate movements and price differentials are corrected for. It gives the amount of money needed in each country to buy the same goods basket that one could buy with 2 USD in the USA. This measure suffers however from the following problems: (i) it ignores the ‘economies of scale’ within households – non-food items can be shared among household members; (ii) it is calculated for Syria as a whole, and thus ignores the significant differences in consumption patterns and prices that exist between different regions in Syria; and (iii) it does not account for the differing ‘basic needs’ requirements of different household members – young versus old, and male versus female. [UNDP-2005]. 2 USD/day at PPP were equivalent to 1 335 SYP/month in 2004.

Accordingly, the idea is not to define a social norm (how much one needs to live decently) but to draw a line that divides the population into two groups (earning income below or above this threshold). It shows how many very low income-earners are present in the society. It serves more for international rankings than to define an appropriate minimum wage level. As for the surviving minimum, it can only be an absolute minimum that cannot be undergone.

In the following graph the use of these poverty lines is well illustrated; a ranking between comparable countries is made; Syria accounting for ca. 11% of poor, according to both measures (2USD-pp a day and total poverty line).

Chart 4: Poverty Rates for Syria and Other Arab Countries



Source: El-Laithy and Abu-Ismaïl (2005) from UNDP-2006 Report.

g. Relative measures

The relative definitions provide an indicator for the income distribution. As it is always relative to some reference level, it can be seen as a social norm (i.e. dependent of the other incomes in the society).

As income esp. in the right tail of the distribution (=high incomes) can include very large outliers, the average income or wage is heavily affected by those very high incomes. This is why often the median is preferred as the reference income or wage. The median divides a population into two equally large sub-groups (in terms of deciles, this is the value where the D5 ends and D6 starts). Therefore the median is less sensible to big outliers. If one wants to reduce income inequality, the income in the lower tails must increase more rapidly than the incomes in the higher tails.

According to the HIES of 2007, the average expenditures of the D5-incomes was 20 394 SYP/household and per month, whereas the average expenditures of the D6-incomes was equal to 23 073 SYP/month. The median expenditures per household and per month can be assumed to be about 21 734 SYP/month. If one defines a social poverty line of being below 50% of the median expenditure level in Syria – 10 887 SYP/month and household – around 10% of the Syrian households live below this line. The average size of such a household is 6.5 persons.

Another way of calculation could be to let the minimum wage depend of the productivity. As the usual measures of productivity (GDP at constant prices divided by the employment figures) do not include the informal sector involved in the production process nor the unemployed, another possible and conservative (in the sense that the productivity will be lower than effectively) is to take the GDP per capita in constant prices as an approximation. Once the overall “labour” productivity is known, one possibility is to set the minimum wage

as let say 50% of it. 50% is an arbitrary figure. As the minimum wage in Lebanon and Jordan is respectively 50 and 76% (IMF figures of 2002), it is a comparable level that would not distort too much the competitiveness of Syria towards these two countries.

For Syria, the GDP per capita in USD-PPP in 2005 was estimated by the IMF with 4000/year. With the figures of the GDP in USD-PPP for 2006 from the World Bank, forecasts of the IMF for 2007 and own calculations, we can obtain similar figures (GDP: 85,196 millions USD-PPP/year, population in 2007: 20,8 millions persons under which 19,3 millions Syrians). Dividing by 12 to obtain the monthly productivity, multiplying by 18 or 22 to obtain the figures in SYP-2007 and dividing by two because only half of the productivity level is considered, it yields a minimum wage between 3000 and 4125 SYP/month.

Calculations of the GDP/cap and the 50% level for the minimum wage:

		USD-PPP	USD
2005 (World Bank Database for 2005 publisher Feb. 2008)	GDP/cap	4059	1535
	GDP in billion	75	28.4
	pop in million	18.49	
2006 (World Bank partly updated data + IMF-country report 2007)	GDP/cap	4020 (4339)	1638 (1768)
	GDP in billion	81.998	33.407
	pop in million	20.4 (18.9 w/o Iraqi)	
2007 (IMF-country report 2007, own forecasts)	GDP/cap	4096 (4414)	1669 (1798)
	GDP in billion	85.196	34.710
	pop in million	20.8 (19.3 w/o Iraqi)	

2007

GDP/cap in USD-PPP	4 000	4 500
GDP/cap in USD-PPP per month	333	375
50% of GDP/cap/month	167	188
in SYP/month (1USD-PPP =18 SYP)	3 000	3 375
in SYP/month (1USD-PPP =22 SYP)	3 667	4 125

h. Target levels for minimum wage: household vs. persons, private sector vs. public

The more straightforward way to avoid poverty would be to define the minimum wage of being 10 900 SYP/month. But such a policy would generate problems: the non-employees are not covered by this measure, the fiscal budget for the public employers would be charged and for the private employers would face cost problem; and the size of the household is disregarded.

It makes a big difference if a household has one or two or even more income earners. Therefore it would not be necessary for all households to have such a high minimum wage to avoid poverty. But one cannot define a minimum wage dependent on the number of income earners. This is not applicable. Regarding to the cost problem, the expected reaction in the private sector to such a high minimum wage level is twofold. Companies would try to increase labour productivity and would reduce its staff. As long as there is labour shortage but enough alternative job opportunities still exist for the newly unemployed persons, every thing would be fine. The economy could grow much faster. But, in the present situation, those people loosing their jobs because of a high minimum wage would probably not find a new job in the formal sector. The second and most likely effects to set the level of minimum wage too

high would be to reduce employment in the formal private sector and to increase employment in the non-protected informal sector as the employers move from formal to informal production. And lastly, an important number of poor persons – unemployed, employees working in the informal sector, self-employed with low earnings, old and ill persons – would not benefit at all from a minimum wage. These two last problems are heavy critics for using increases of the minimum wage as a pro-poor policy. Besides that, it is not compatible with other policy strategies because it increases the burden of the public budget that finances other pro-poor instruments.

i. Combine a (low) minimum wage with public transfers to the families

Therefore it is recommended to combine a somewhat low minimum wage with welfare measures which would address the problem of poverty in a more accurate way. Such a combination could be done as follows: Set the level of the minimum wage between 5 000 and 6 500 SYP/month and exempt it from tax. There could be a difference depending on the region (rural or urban). And introduce a generous welfare scheme for kids in all households, so for the first three kids, each household would receive a considerable amount of money. So for example each household could receive 1 500 SYP for the first kid, 1 000 SYP for the second and 500 SYP for the third kid. This should be done by and financed through the newly established welfare fund. The revenues from the reductions in energy subsidies should be used and directed in that way. This is more efficient than using petrol vouchers which can be sold.

The benefits from the welfare fund could be associated with other pro-poor and long-run development policies; for example the benefits could be made conditional to the participation to other programs (the family has to prove that the children go to school for getting the grants).

Such a welfare policy would cost up to 5 % of GDP. The combination of higher energy prices because of the reductions in explicit and implicit subsidies and the direct support of families seem to be the most appropriate way to reach two different targets at the same time: Reduction of misallocation of resources and reduction of poverty and a more appropriate distribution of income. It should be possible to finance the family welfare through the cuts in subsidies. And by doing this, one would generate a redistribution of income. People would be charged for their extensive use of energy (cars, AC, ...) while families with children could still afford to buy food and would have guaranteed a minimum standard of living. Such a policy would be more appropriate compared to the one concentrating entirely on the very poor households alone. The reductions in food and energy subsidies are a burden for all households in Syria. Instead of very high wage increases in the public (and private) sector, which we observe just now, an increase in the direct transfers to all families (limited to the first 2-3 children to avoid wrong long run effects for the population growth rate) would reallocate the money in a better way and avoid new distortions.

Still this does not solve every problem; the agriculture and industry are penalized already by the higher energy prices. At the same time these sectors would be hit by an increase of the wage bill through the increase of the minimum wage. The question is how the firms will respond to these price and cost-pushes. Do they use the incentives to use energy in a more efficient way and increase (labour) productivity? Second, poor persons without family would not be compensated. Here another strategy of help is necessary (for example an increase of the pensions) that is compatible with the other development objectives. The overall results depend on the concrete mixture of the minimum wage level and the welfare schemes.