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THE MINIMUM WAGE & ITS EFFECTS ON EMPLOYMENT

As a developing country, Kosovo suffers from low quality of education, unskilled workers and high rates of unemployment. With a stroke of a pen the government has decided a statutory minimum wage in 2011. Was this a good or bad decision and how a minimum wage can affect employment is at the center of this policy brief.

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Contents

Contents.....	2
Executive Summary.....	3
Terms and definitions	4
Introduction	5
What is minimum wage?.....	8
How is the minimum wage calculated?.....	8
Minimum wage in Kosovo.....	10
Analysis	13
A hasty and foggy decision	13
The need for a minimum wage in Kosovo	14
What do theories say?.....	14
Kosovo.....	14
Minimum Wage and Youth – can minimum wage interfere with high education?.....	16
High or Low minimum wage, who losses and who profits?	19
Should we eliminate the minimum wage?	20
Economic overview – is there room for change of current minimum wage?	21
Conclusion.....	23

Executive Summary

This policy brief is intended as a discussion paper on a specific policy, namely minimum wage.

Minimum wage is a governmental policy tool to intervene in the labor market by setting a minimum level of wages that each employed person should receive. Around the world many countries have used this policy to set a statutory or sectorial minimum wage in order to ensure a minimum standard of living for workers.

In 2011 Kosovo has set a statutory minimum wage that applies nationwide, while it has also negotiated a collective agreement with labor unions on the minimum wage and wide spectrum of other benefits for workers.

This paper discusses how such a decision came about, was the public involved in a prior discussion and what are its positive and negative effects on employment, especially the youth.

The paper is intended to serve as a discussion document and that further in-depth research is encouraged prior to setting any new level of minimum wage in the future.

The paper finds that setting the minimum wage requires prior extensive academic research, acknowledging country's specificities, and other important aspects. It also brings strong hypothesizes which challenge that the belief that minimum wage should progressively increase. This is due to theoretical aspects based on facts that higher minimum wage would negatively affect employment, and therefore suggests that there should be unified indicators that take into account the overall economic performance prior to changing the current minimum wage.

Terms and definitions

Minimum wage – 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 (ILO).

Statutory Minimum wage – a minimum wage set and regulated by law which applies nationwide across all sectors under which workers cannot be paid.

Sectorial minimum wage – a minimum wage that is negotiated in each sector and can be different for each sector.

Minimum wage per hours – a minimum wage that is set per hour that not necessarily reflect the monthly minimum wage.

Monthly minimum wage – a minimum wage that regardless of working hours has to be reached for those working a full-time job.

Vulnerable groups – Youth, unskilled workers.

Young - are defined as workers age 15–24.

Unskilled - are those with no more than a primary education (“no school” are omitted).

Semiskilled - are those with no more than a secondary education.

Skilled - are those with a university education.

Introduction

The minimum wage is perhaps one of the most debated government policies. Depending on the ideological background of political parties, some parties pledge to increase the minimum wage and others to bring it down. Usually, those on the left of the spectrum who support social justice, support the increase of the minimum wage as a moral obligation, while those on the right of the spectrum, who prefer a free market with less or no intervention by government, prefer a low minimum wage where everyone gets what they are worth.

By the beginning of the 1900s with the industrial revolution which led to development of factories of large-scale production that required a lot of manpower, began also the exploitation of the workforce.

In some countries, the workforce began organizing into unions. In Sweden, which has most advanced welfare system in the world¹, trade unions began to appear in 1870. Sweden was among those countries which originally characterized collective agreements as merely giving rise to moral obligations. (Gunnarsson, Lilja Hanson, & Åkerlund, 2006).

Indeed, at the core of the minimum wage policy lies the idea of the government intervening in the labor market to protect those who are most vulnerable and at the poverty line, though in addition this is also thought to contribute to greater social cohesion and social justice. Almost all economists agree that those targeted by the minimum wage are those whose wages are close to the minimum, which usually are the unskilled labor force and youth who might be exploited in a free market without intervention by government.

Neumark notices that the minimum wage has been a core element of public policy for more than a century and how minimum wages affect employment has been the most prominent issue with respect to the evaluation of minimum wage policies, and indeed one of the most researched topics in economics (Neumark & Wascher, 2008).

As we will show below, the debate on minimum wage is not yet settled among scholars and it is part of the electoral debate among politicians, but today almost 90% of world countries have adopted a standard on minimum wage, either by making it a statutory through a law that applies

¹ <http://www.oecdbetterlifeindex.org/#>

nationwide, or by working hours (*the case of US*) or by collective agreements on each sector (*case of Nordic countries*).

Kosovo has adopted a law on a statutory minimum wage in 2011. What have been the effects of such statutory minimum wage on the economy - youth especially, is at the center of this policy brief.

Major theories do not agree with a high minimum wage and scholars from the left and the right generally agree that a high statutory minimum wage can have negative effects on employment and economic growth while hurting those who the minimum wage intends to protect – low skilled workers and youth.

When taking the decision on minimum wage, Kosovo seems to have disregarded any theories or literature and in absence of academic papers and or governmental strategic documents, is hard to know what were the arguments for deciding a statutory minimum wage at the levels that it was decided.

According to the annual report by Kosovo Agency of Statistics (KAS), the wages in the private sector have changed yearly since the decision of the government in 2011 to introduce statutory minimum wage. All sectors have raised their average wage while the minimum wage has remained untouched. The increase of the average wage in the private sector, gives hints that an increase in the current statutory minimum will not have negative effects.

Nevertheless, this policy brief, in absence of official data on the minimum wages from each sector, falls short in giving strong suggestions with regard to substantial increase of current minimum wage. If large sectors such as textile, are willing to offer wages only at the current minimum than any increase would be associated with a slower employment pace or possible unemployment.

This policy brief is organized as follows; first introduces some terms and definitions, it gives a definition of minimum wage and how it is calculated and then continues with an analysis of minimum wage in Kosovo. It highlights the current facts and figures, including the arguments surrounding the current minimum wage in Kosovo, legal framework and economic indicators. It analyzes the effects of the current minimum wage in the economy (employment) with regard to low skilled workers with a special emphasis on the youth.

What is minimum wage?

According to International Labour Organization (ILO), minimum wage is defined 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” (International Labour Organization, 2016)

For Arpaia, et al., the minimum wage sets a floor to earned labor income and in that way, can reduce the risks of in-work poverty associated with low pay. It may also reduce wage inequality, especially at the bottom of the wage distribution. (Arpaia, Cardoso, Kiss, Van Herck, & Vandeplass, 2017).

Minimum wage is also a public policy tool for governments to intervene in the labor market in order to protect the most vulnerable groups, usually unskilled labor, in order to provide a minimum living standard for workers.

How is the minimum wage calculated?

Generally, there is no standard formula that is used in calculating and determining the minimum wage which would be used worldwide, rather it is often negotiated and is different in different countries.

In United Kingdom, there is a manual of 52 pages titled “*National Minimum Wage and National Living Wage – Calculating the minimum wage*, showing the complexity of not just deciding but also calculating the minimum wage.”

What the literature points to is that the following factors have to be taken into account when determining the minimum wage:

- a) needs for workers and their families;
- b) demand for living wage,
- c) wage adjustment vis-à-vis Consumer Price Index (CPI),
- d) cost of living and changes therein,
- e) needs of workers and their families and
- f) comparable wages and incomes.

Most of the time, the minimum wage is a compromise between stakeholders, involving all social partners.

In EU, the proposed minimum wage rates are done according to the Kaitz index, which is 50 per cent of the national average.

Kaitz index is a new minimum wage variable that measures the statutory minimum wage as a percentage of the median wage, it's a ratio of nominal minimum wage to average wage.

This index proposes different wages for certain groups, where some sectors that have higher productivity would be paid more.

With regard to Kosovo, which has a statutory minimum wage, Kaitz index can be useful, because it aims that the end the numerator of the index to be same for all employers. Turning the wage system into sectorial, the government according to this index can make also a minimum wage depend on age. Since in Kosovo youth contain a huge percentage of the workforce, the Kaitz index could be useful in determining the minimum wage on the age and merit.

$$Kaitz_{it} = \frac{SectoralMinWage_{it}}{Median(StateWage_{it})}$$

Minimum wage in Kosovo

According to the World Bank, Kosovo is a lower-middle-income country. World Bank takes note of the slow economic growth in Kosovo but it asserts that such growth has not been sufficient to sufficiently reduce the high rates of unemployment; provide formal jobs, particularly for women and youth; or reverse the trend of large-scale outmigration. The current growth model relies heavily on remittances to fuel domestic consumption.

“Kosovo’s current growth strategy needs to be focused on addressing the infrastructure bottleneck in energy, creating an environment more conducive to private sector development, equipping its young population with the right skills to make them attractive to employers, and building up governance and the rule of law to fully reap the benefits of EU integration, unleash productivity gains, and create quality jobs and inclusion”².

In no sentence does the World Bank mention the minimum wage as a policy that Kosovo needs to pursue in order to stimulate employment or economic growth.

Nevertheless, in 2011 with a decision by the government, Kosovo has set a statutory minimum wage³⁴. According to that decision, the minimum wage is binding nationwide and there are only two distinctions with regard to the age, those aged until 35 will receive a minimum wage of 130 Euro, and those above 35 – 65, will receive a minimum wage of 170 Euro.

The legal base for the decision is said to be the Constitution of Kosovo, article 92 paragraph 4 and article 93 paragraph 4.

According to the law on labor, factors that are taken into account when deciding the minimal wage in Kosovo are the following:

- 1) Living cost prices
- 2) Unemployment rate
- 3) The overall situation in the job market
- 4) The productivity and competition level

² <http://www.worldbank.org/en/country/kosovo/overview>

³ http://www.kryeministri-ks.net/repository/docs/Vendimet_e_mbledhjes_se_33-te_te_Qeverise_2011.pdf

⁴ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=10274>

According to the administrative instruction NO.09/2013, in deciding the minimum wage the average wage in the private sector should also be taken into account⁵.

According to the administrative instruction, the conditions for change of the minimum wage are the following:

1. When the overall inflation of CPI⁶ (12-month average from October till October) is above 2%
2. When real effective exchange rate (12-month average from October till October), published by Central Bank of Kosovo is lower than 0.5%, and

A set of slightly different criteria are set by another important legally binding document called Collective Agreement in Kosovo concluded by Employers' Organizations (Kosovo Chamber of Commerce and Kosovo Businesses Alliance), Workers' Organization (Union of Independent Trade Unions in Kosovo) and Government of the Republic of Kosovo (Ministry of Labour and Social Welfare) as members of Economic-Social Council (ESC):

1. Living cost prices;
2. Needs of the workers and their families;
3. Living standard of the workers, and
4. Economic development level.

Although the criteria are binding for the government and for the all parties involved, it is not yet clear if the Social Economic Council (SEC) will take into account the above criteria when deciding for any change in the future of the current minimum wage.

According to article 71 of the Collective Agreement, parties involved in agreement are obliged to implement and observe provisions of the present Collective Agreement.

⁵ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=10274>

⁶ consumer price index

But article 90 of the Labor Law leaves it to the discretion of companies to decide whether or not they want to take up the responsibility of implementing the provisions of the General Collective Agreement.

Collective Agreement in Kosovo

What is the definition of the collective agreement?

Article 3 of the Law N0.03/L-212 on Labor states that the term "collective contract" means an agreement between employers' organizations and employees' organizations regulating the rights, duties and responsibilities deriving from employment relationship on the basis of the agreement reached.

How many levels of bargaining are there?

Collective contract may be concluded at three levels: the state level, the branch level, and the enterprise level.

Is collective bargaining freely decided or mandatory?

It is freely decided.

Who can be parties to the collective agreement?

Organization of employers and their representatives and Organization of employees or, in cases where there are no such organizations, the agreement may be concluded by the representatives of employees.

Scope of collective agreements?

Provisions of the contract are binding to the parties of the Agreement, at private, public and state sector (at general level, branch level and company level).

What jobs, professions or branches are concerned?

All kind of jobs, professions and branches except from employment relationships within international missions, diplomatic and consular missions of foreign states, International Military Presence established in the Republic of Kosovo under the Comprehensive Proposal for the Status Settlement and international governmental organizations.

Minimum Wages?

Collective Contract contains only conditions for setting minimum wage, while Government of the Republic of Kosovo, by December of each calendar year, sets the Minimum Wage in Kosovo for next year.

Hours of work?	Yes
Vacation?	Yes.
Overtime and fixed wages?	Overtime Yes, fixed wages No
Part-time work?	Should be determined at Branch or Company level.
Minimum rest time and maximum work time?	Yes
Rights of an employee who is on sick leave?	Suspension of performance of the contract of employment? Yes.
Discipline?	Yes
Vocational training	No

Remedies against breach of collective agreements

The collective contract has no provisions that regulates the breach of agreement.

Which body or authority ascertains violations?

Unspecified on Collective Contract.

Is there a policy promoting collective bargaining and contractual collective law?

No.

Are there problems concerning the relationship between contract of employment and collective agreements?

No because the contract of employment should be in compliance with Collective Contract and the Law on Labor.

Does the connection between law and collective agreements operate in favor of employees (principle of favor, ratchet effect), or does it allow less favorable conditions?

Article 4 of the Law on Labor states that provisions of the Collective Contract, Employer's Internal Act and Labor Contract shall be in compliance with the provisions of the Law. Also Collective Contract shall not include any less favorable rights for the employee and employer than the rights defined by Law, but it may contain provisions defining more favorable rights and terms than the rights and terms defined by the Law on Labor.

#CollectiveAgreement #NotInForce #NotBindingforbusinesses

Analysis

A hasty and foggy decision

The process of setting the minimum wage was done with a stroke of pen back in 2011. To date, no one can find a single document by a governmental working group or by a parliamentary committee or any other institutional body that proves that a prior discussion took place before the than prime minister, Hashim Thaqi inked the decision.

Still today it is a puzzle how such a decision came about and how no one was consulted. Many questions remain to be answered. Why 130 and 170 were considered a good minimum wage? What calculations were made or what formula was used to decide or was it an arbitrary decision by the government officials?

What bases were used to divide into two groups of ages and why one group was up to 35 years old? Is this division discriminatory given the fact that the majority of workforce is found within the 35 years old? This and many other questions remain answered.

Unfortunately, we will not be able to give answers to so many questions, in fact we will add more questions, but it seems fitting that now we address such questions and start looking for answers that are long overdue.

Let's begin with age thing. The decision has set the lowest minimum wage of 130 EURO for a crucial age, thus under 35 years old. First, it is not clear from which age one is supposed to receive a 130 EURO minimum wage. Is a teenage who is still in the high school eligible for a 130 EURO minimum wage? Does the minimum wage apply to those doing a paid internship, to those in the training program, to those who are studying and looking for a part-time job? Does the minimum wage encourage young people to drop studies and settle for a minimum wage?

We don't know since there was not debate in any level of the society on the costs and benefits of the minimum wage. We know for a fact that the youth age is between 15-24⁷ as decided by law on youth. The decision is not clear on how the wages were set and it seems that it was more about scoring political points rather than solving a problem.

⁷ http://www.mkrs-ks.org/repository/docs/Liqji_03-L-145_per_Fuqizim_dhe_Piesemarrje_te_Rinise.pdf

The need for a minimum wage in Kosovo

What do theories say?

From a theoretical point of view, setting the minimum wage requires a prior analysis on its effects on the economy. Mainly there are two theory streams that go pro and against minimum wage.

One is liberalism/neoliberalism and Keynesianism and post-Keynesianism. For Palley, neoliberalism asserts that free markets will not let valuable factors of production—including labor—go to waste. Instead, prices will adjust to ensure that demand is forthcoming and that all factors are employed (Palley, 2004). Neoliberalists believe that the economy even when is in downfall, will eventually sort itself out. When the economy is down, then the prices will go down to the point that citizens can afford to pay. They predict that the wage will increase if those in the supply side – employer – are faced with low demand as a result of low paying jobs. (Neumark & Wascher, Minimum Wages and Employment, 2007) (Neumark & Wascher, Minimum Wages, 2008) (Cunningham, 2007) (Palley, 2004).

Post-Keynesians argue that income distribution depends significantly on institutional factors. They argue that an increase in real wages leads to an increase in consumption, which in turn increases the demand for labor and decreases unemployment. As a result, an increase in the minimum wage and in the average wage will have beneficial effects on employment and the overall economy (Lavoie, 2006).

Neoliberalism, Keynesian (neo-Keynesian) and neoclassical model all agree that when a minimum wage is imposed above the equilibrium wage the effects in employment will be negative. And if the minimum wage is raised too high, it can even cause unemployment, because it would cost too much for the firms to keep their original number of workers.

Kosovo

World Bank lists Kosovo with lower/middle incomes and with an unemployment rate of 27%. With such unemployment rates, one asks whether the minimum wage is even required. If the current minimum wage (*given that we remove the discriminatory age thing*) is set at a level that is below the equilibrium (*market value*⁸) than it does not have any effect in the employment.

⁸ The wage which the market is willing to pay

But we don't know the real market value for jobs due to the enormous size of the informal economy. The majority of the low-skilled workers and youth are assumed to work in the informal sector. This means that at least one of the criteria – the average wage in the private sector as given by Kosovo Tax Agency - is not accurate.

Therefore, in absence of more reliable data, to some extent in this policy brief, we are unable to determine the average wage in different sectors as there are no official statistics or surveys with regard to the low-skilled workers and youth. In annex A, attached to this report we give the major statistics according to the Kosovo Agency of Statistics, where the average wage in the private sector is given, but we don't know the minimum wage that was paid by the sectors and the number of people willing to work for that minimum.

Textbooks suggest that the low-skilled workers are more likely to be found in the sectors where no education or a minimum education is required.

From a neoliberal point of view, increasing the minimum wage while unemployment is high is a wrong policy. The presumption is that if those on the demand side – workers – are willing to accept a job under the minimum wage, then by setting a minimum wage at the above equilibrium, the government is keeping unemployment rates high, or at least is not encouraging employment. Neoliberals predict that the wage will increase if those in the supply side – employer – are faced with low demand as a result of low paying jobs.

Since the majority of theories do not support a high minimum wage, then we should shed more light on the current minimum wage level for Kosovo. From a Post-Keynesian point of view, increasing the minimum wage would result in more consumption and as a result in more spending which in return would drive the demand for products, but either post-Keynesian theorist believe that by increasing it above the equilibrium it would affect negatively the low-skilled and especially the youth.

Minimum Wage and Youth – can minimum wage interfere with high education?

Both Kellerman and Neumark (Kellermann, 2017) (Neumark & Wascher, Minimum Wages, 2008) argue that increasing minimum wage prospects set higher incentives for youths to leave the educational system or abandon a low-paid professional training program in order to earn the higher minimum with a full-time employment and that minimum wage encourages youth to drop school, since they could get a good paying job without the necessary skills.

The minimum wage in Kosovo is not considered to be very high in order to drive young people to leave education. Nevertheless, the decision of the government in 2011 to set a minimum wage didn't take into account the effects that minimum wage would have in the education of youth. As we pointed out above, one cannot find a single document that was put for a discussion with the public on the necessity and the right level of minimum wage and its positive or negative effects.

Since there was no discussion neither in the public, nor in the academia, one can say that the decision by the government for deciding minimum wage was not based on scientific analysis and research and it seems more as an impulsive decision to score political points.

This policy brief falls short in evidencing the real effects of the minimum wage in the youth⁹ due to its format and because there is no prior and past official statistics of the job market with the focus on youth and there is a lack of surveys as well.

The paper is intended to serve as a discussion document and that further in-depth research is encouraged prior to setting any level of minimum wage in the future.

From a theoretical point of view, to know the effects of the current minimum wage on youth employment and effects of the minimum wage on youth education we need to know whether the current minimum wage is above the market equilibrium.

⁹ According to the law No.03/L-45, youth is the age between 15-24

If the minimum wage of 130 Euro falls below the market value than it is not expected to have any negative effect on youth employment, but if it is above the equilibrium it is expected to have negative effects.

According to the 2015 “*Market Assessment for the Construction Sector*” survey, in 2013 the average salary in the construction sector was estimated at 388 Euros, the 4th highest salary among all other sectors. (Strategy & Development, 2015, p. 2).

If the wage in the construction sector would be taken as the market equilibrium than any raise that falls under such equilibrium is not expected to have negative effects on youth employment.

But this begs the question, is this average representative? What about other sectors?

TAB 14. 5: PAGA (BRUTO) MESATARE MUJORE NË SEKTORËT EKONOMIK SIPAS VITEVE 2008-2014

		(€)						
Sektorët	Përshkrimi i sektorëve ekonomike	2008	2009	2010	2011	2012	2013	2014
B	Xehtari dhe gurëthyes	348	357	382	383	561	461	470
C	Prodhim	228	228	227	248	275	332	326
D	Furnizim me energji elektrike, gaz, avull dhe ajër të kondicionuar	486	469	555	557	564	608	610
E	Furnizim me ujë, kanalizim, menaxhim mbeturinash dhe aktivitete revitalizimi të tokës	197	197	210	214	219	360	361
F	Ndërtimtari	216	221	227	275	360	319	329
G	Tregtia me shumicë dhe pakicë, riparimi i mjeteve, motoçikletave	218	207	206	252	274	305	305
H	Transporti dhe magazinimi	257	260	262	263	263	366	379
I	Akomodimi dhe aktivitete të shërbimeve me ushqim	208	217	221	220	269	266	265
J	Informacion dhe komunikim	776	783	792	829	852	707	708
L,M,N,R,S	Aktivitete të shërbimeve tjera	235	238	255	302	334	273	293
Gjithsej		275	272	280	309	338	349	352

Table 1. Average monthly (bruto) sectorial wages in the private sector 2008 – 2014. Source: Kosovo Agency of Statistics

As we can see in table 1, almost all private sectors of the economy have had an increase in the average wage. But the table still does not show us how the average is calculated. If the majority of people worked for a minimum wage, then any statutory increase would affect those workers immediately.

From a theoretical perspective, to set a national statutory minimum wage, one has to take the lowest paying jobs in the job market. The alternative is to have sectorial minimum wage.

In fact, if Nordic countries are to be taken as an example, then minimum wage should not be statutory but rather regulated in each sector through separate collective agreements.

Sectorial minimum wage would ensure a fairer and better minimum wage that respects the education level of each person, productivity of the sector and the experience of workers.

With regard to youth employment, we need data on specific sectors where we expect youth to be employed. According to “*Market Assessment for the Construction Sector*” (Strategy & Development, 2015), youth represents 27% of the total workforce in the construction sector, but there are not data on other sectors, especially those where the youth are believed to be more employed, such sectors could be waiting sector, catering, fast foods and supermarkets and textile factories.

In order for the minimum wage to take such indicators into account, they need to be official. Indicators from EYE are based on the survey by Strategy & Development Consulting and are not official statistics from Kosovo Agency of Statistics.

The youth employed in the construction sector are believed to be part of the informal economy, meaning that they do not pay income tax and are not subject to either minimum wage or the benefits provided by the law on labor.

If the work in the informal sector is of higher percentage among youth and the wages are also higher, this could be an indication for raising the minimum wage. As Cunningham suggests (Cunningham, 2007), a higher minimum wage in the informal sector, is binding also in the formal sector. That is because the formal sector increases wages to attract workers to work in the formal sector.

If this is the case, setting the minimum wage too low, while the market is willing to pay more, leaves the possibility for the employers to evade social contributions and taxes.

As Van Klaveren et.al. observe “*Governments often have an interest in maintaining a certain minimum wage level, as the minimum wage in a number of free professions is the minimum basis for taxation. Governments have a further fiscal interest to maintain a solid minimum*”

wage, because in various CEE countries some employers declare their employees at the minimum wage and then pay the rest of their wages in 'envelopes' so as to circumvent social security contributions."

From a point of view where the size of the informal sector is significant as in Kosovo one has to study and gather more evidence in order to come with stronger suggestions.

According to some government officials, who were not willing to identify in the report, there are workers (*contracted by private companies*) working in the public sector for a minimum wage of 130 Euro¹⁰. Given that the informal sector is willing to pay higher wages, it is important to conduct more research and shed more light on the workers willing to work for lower wages in the formal sector. Unless we are dealing with the “*envelope*” kind of wages where employers pay the minimum and give the rest on the envelope so as to evade social contributions.

High or Low minimum wage, who losses and who profits?

Cunningham notes that despite small positive effects on those earning close to minimum wage (*thus low-skilled and youth*), in countries with relatively high minimum wages, the minimum wage can increase wages of higher earners, increase unemployment among the poor, cause greater poverty among the poor, and cause an increase in household labor income inequality. Thus, whereas a high minimum wage may serve a social justice objective, setting it too high can have the opposite effect (Cunningham, 2007, p. 3).

The goal of minimum wages is to improve individuals' abilities to support their families and avoid welfare (Ellwood, 1988), but the textbook model of supply and demand predicts that such wage gains come at the expense of lower employment levels (Brown, 1988).

Such conclusion is in accordance with the predictions of neoliberals who note that changes in the statutory minimum wage affect only those workers whose initial wage is close to the minimum (Alaniz, Gindling, & Terrell, 2011)

¹⁰ Among them are security guards who guard institutions and those working in the cleaning sector.

The general opinion is that to see who loses and who wins from a higher minimum wage, one has to focus the studies on labor market outcomes in specific sectors of the economy that tend to pay workers close to the minimum.

Often, minimum wage is perceived as an issue related to developing countries. This is due to the fact that many developing countries have low wages and as a result a higher percentage of people willing to work for a low minimum wage and therefore the setting and increasing of minimum wage can have direct impact on the workers and their living standard. But minimum wage cannot be seen from the lenses of developing countries and as a policy that only helps the poor. As the Nordic example teaches us, minimum wage can be set for each sector specifically and categorized by the skills and age so that incomes and earnings reflect the education level, productivity of the sector and experience of workers.

Although developing countries who struggle with low skilled labor due to poor education system and low wages are in need the most for a statutory or sectorial minimum wage, paradoxically almost all theories go against minimum wages in such countries. Almost all theories predict a decline in the demand for low-skilled labor in response to an increase in the minimum wage and according to Page et.al. since welfare spells are frequently precipitated by employment loss, a fall in job opportunities should lead to a rise in the number of welfare recipients (Page, Spetz, & Millar, 2005). So, an increase on the minimum wage not only causes unemployment but it can add the number of welfare recipients.

Should we eliminate the minimum wage?

This is a question posed by Neumark and Wascher on their lengthy study on the minimum wage. Their conclusions imply that a higher minimum wage will impose costs on low-skill workers and low-income families without delivering benefits that offset these costs. For example, reducing the minimum wage from a level that is already below the market wage for low-skilled labor might be expected to have little or no effect on employment or incomes because few individuals would be affected by the change. Thus, Neumark and Wascher are skeptical that eliminating the minimum wage would, as non-economists sometimes argue, lead to a widespread decline in wages to subsistence levels. In most labor markets, wages are set by labor supply and labor demand, and not by the unconstrained wage offers of employers.

Marginean et.al. in the other side, from their research on Romania find no evidence that an increase in minimum wage causes unemployment or employment. She asks: So, why should we care about minimum wage? There is a paradox: even minimum wage is a restriction imposed on labor market but the effects are on other markets. When we raise the minimum wage, nothing happens in terms of employment and unemployment, she argues, so we have to think there are other parts of the economy and other markets that support the effect. (Marginean & Stefania Chenic, 2013).

Marginean must have left out the market equilibrium issue, which is important, especially in the developing countries. Danziger, argues that there is a close connection between the desirability of raising the minimum wage rate to improve the welfare of low-wage workers and the inelasticity of the demand for their labor. The motivation for many empirical studies of the demand for low-wage labor is the desire to evaluate the efficacy of a legislated minimum wage rate for combatting poverty. (Danziger, 2007)

Minimum wage cannot be seen from the lenses of employment/unemployment but as Gunnarsson et.al. (Gunnarsson, Lilja Hanson, & Åkerlund, 2006) suggest, it is also a moral obligation to protect those who are most vulnerable and can be exploited by the market.

Therefore, setting or eliminating the minimum wage is also an issue of political and social approach. In many countries, minimum wage is a political issue on the election where candidates and political parties divide.

In Kosovo, we haven't seen the minimum wage become an electoral issue since the majority of the political parties do not have a clear ideological stand in all issues and they prefer to leave important issues that divide the electorate untouched so as to not lose voters.

Economic overview – is there room for change of current minimum wage?

Annexed in this report are the economic indicators which that show the performance of the economy since the minimum wage was decided back in 2011. Any debate on the need for change of the current minimum wage should be based on some reliable economic indicators. Indicators for the

change of minimum wage as required by law are set on the law on labor, Administrative Instruction NO.09/2013 and Collective Agreement¹¹.

From the graphs in the Annex A it can be inferred that the current minimum wage should have changed if the indicators set in the law of labor, Administrative Instruction NO.09/2013² and Collective Agreement are to be taken seriously.

The graphs show that while economic indicators have been more or less steady in the past seven years, the net average salary in public¹² administration has almost doubled, the unemployment rate seems to have softened and average wage in the private sector has moved up.

Since all three documents foresee different indicators for reconsidering the change in the minimum wage it is very hard to know which of the indicators will be taken into account and if there is a need for a review of the current indicators.

This policy brief suggests that there should be unified indicators that take into account all such economic indicator accompanied by a public discussion while all the way taking into account academic research on the positive and negative effects of setting and raising minimum wage.

¹¹ We asked The Union of Independent Trade Unions of Kosovo (BSPK), whether the General Collective Agreement has been suspended or not. In their response, they said that the Agreement was never suspended, even though the Kosovo Chamber of Commerce, as a part of Economic and Social Council, has asked to discuss about private sector, but for other Council parties (*namely the government and BSPK*) this was unacceptable, and therefore the Agreement is still in force. They also said that the Agreement has not been entirely implemented in private sector. The Council is waiting for constitution of the Kosovo Government to sign the new Agreement.

¹² Average wage in public administration is not considered an indicator when reconsidering the minimum wage.

Conclusion

The aim of this policy brief has been to provide some basic research on the issue of minimum wage that would serve as a discussion paper for all stakeholders. The paper tries to shed more light on a crucial governmental decision back in 2011 that introduced a statutory minimum wage in Kosovo.

While it acknowledges some research done in this area, it also finds that there was no research and discussion prior to taking the decision for setting the minimum wage and that there is very poor research afterwards on the effects of such decision.

The paper is focused more around the effects of the minimum wage for low skilled workers where youth are considered be part of. Given the percentage of youth in the labor market, the findings in this policy brief should spark a discussion not only on the academic level but in the decision-making levels as well.

In short, the conclusions of this policy paper are:

- a) The government has not engaged in a public discussion prior to setting the minimum wage which makes the decision more about scoring political points rather than providing relief for poor families.
- b) Major economic theories do not support higher minimum wages, especially in developing countries
- c) The current statutory minimum wage in Kosovo is arbitrary and discriminatory since it puts two age categories that are nowhere to be found expect in Kosovo. Such differentiation harms the low skilled labor that is not in the youth category.
- d) The data from the average wage in the private sector by the KAS shows that an increase in the current minimum wage would not have adverse effects on the employment as major sectors of the economy have already increased their average wage and therefore the percentage of those working for the current minimum could be very low.
- e) There is need for further research to test the hypothesis in this policy brief. Such research should also be accompanied with official data and surveys where official data are lacking.

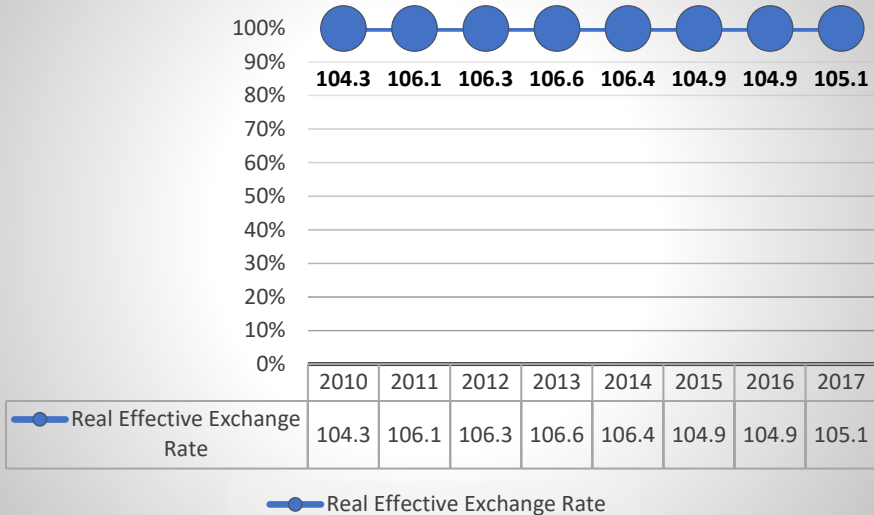
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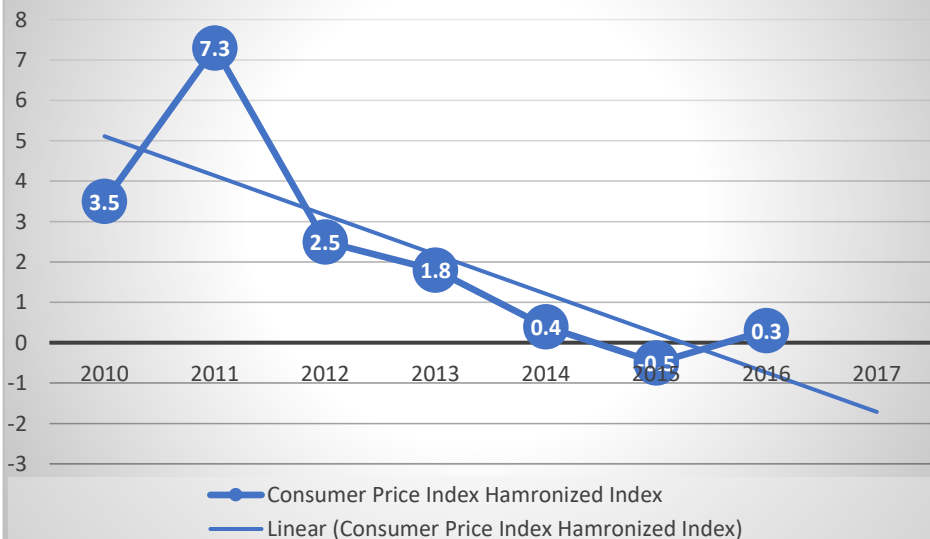
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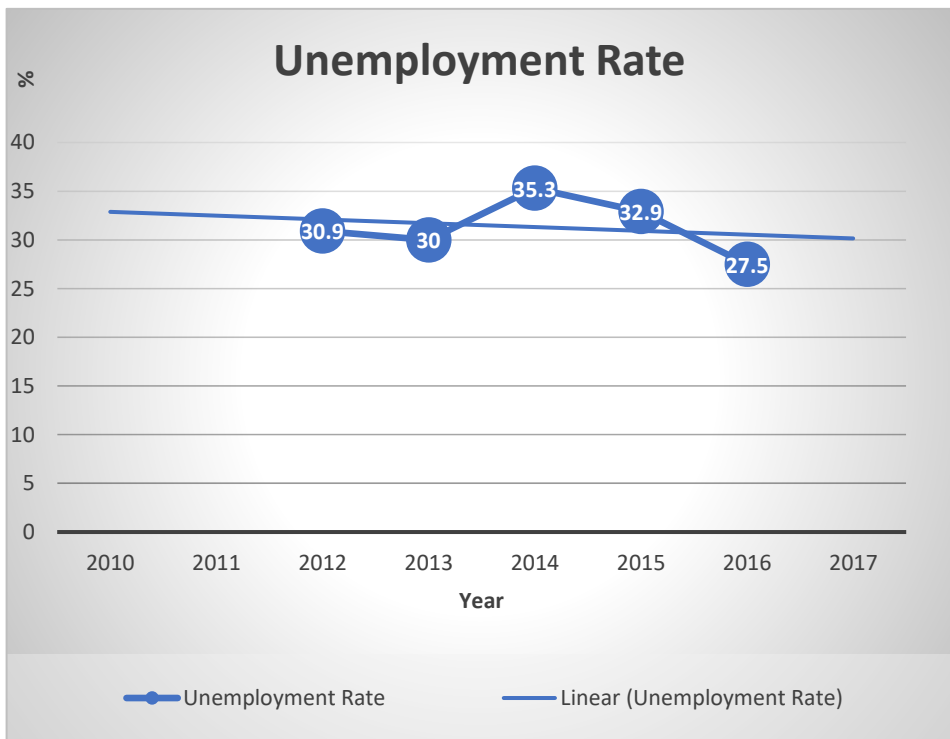
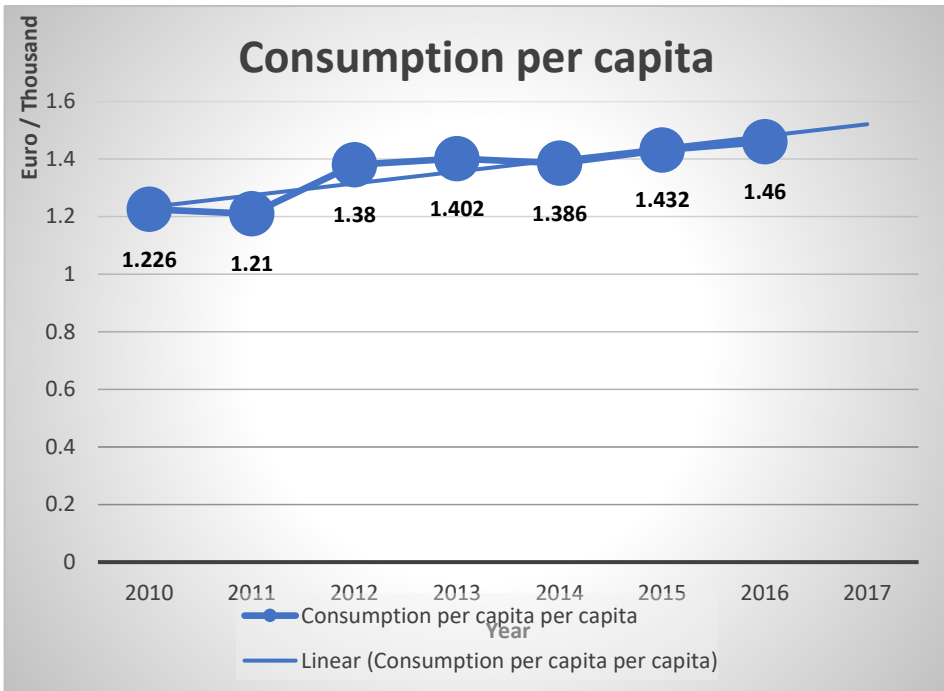
Annex A – Economic Indicators in Kosovo 2010 - 2017

Real Effective Exchange Rate

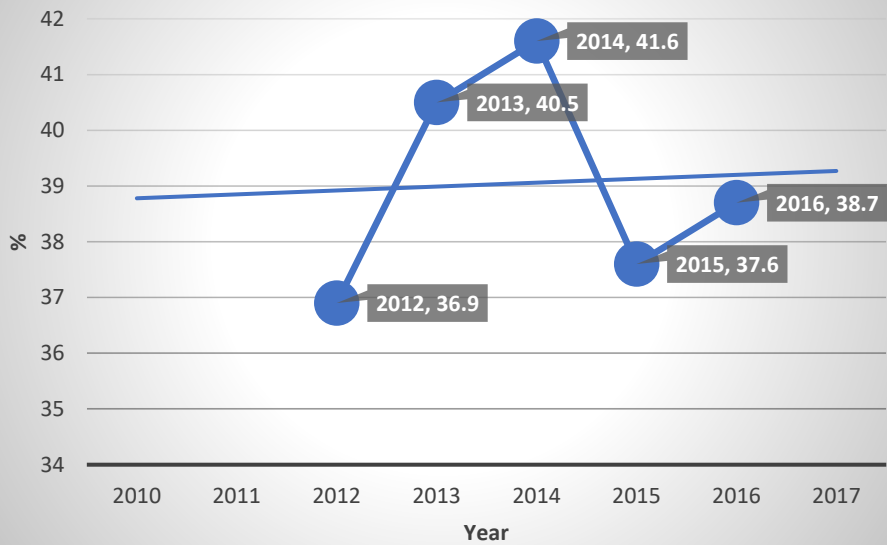


Consumer Price Index - Harmonized

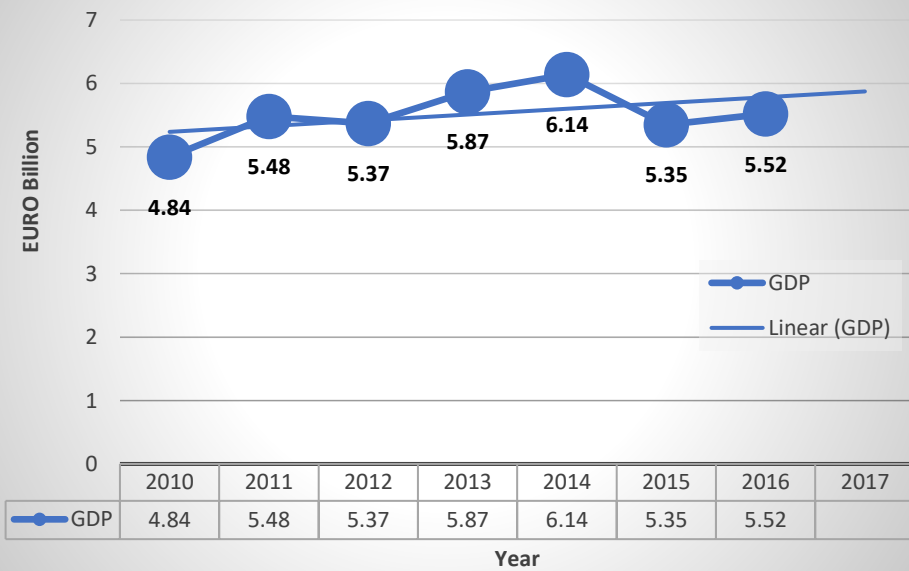




Economic Active Labour Rate

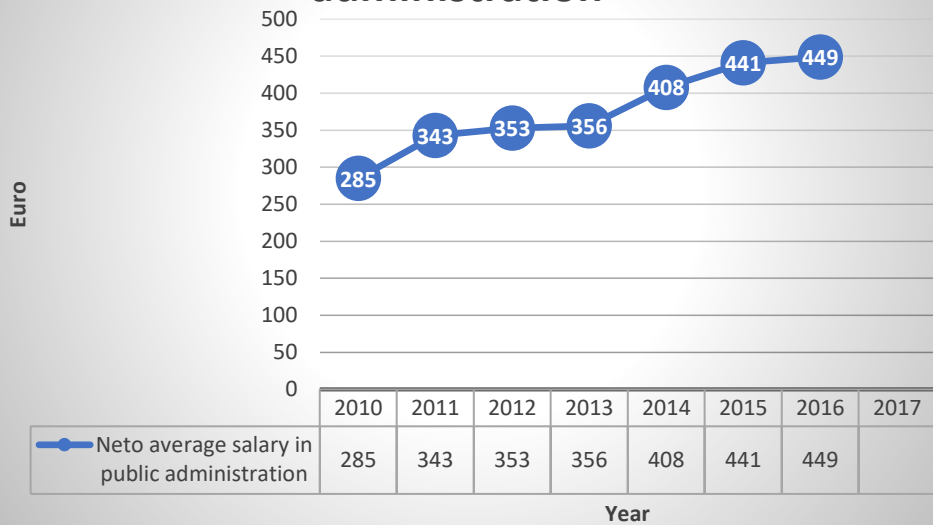


GDP

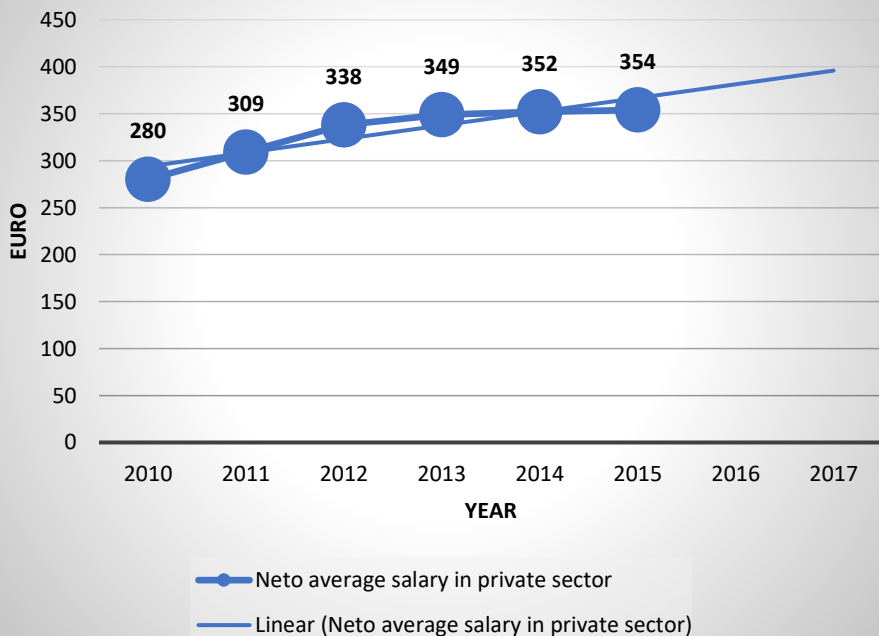


	2010	2011	2012	2013	2014	2015	2016	2017
● GDP	4.84	5.48	5.37	5.87	6.14	5.35	5.52	

Net average salary in public administration



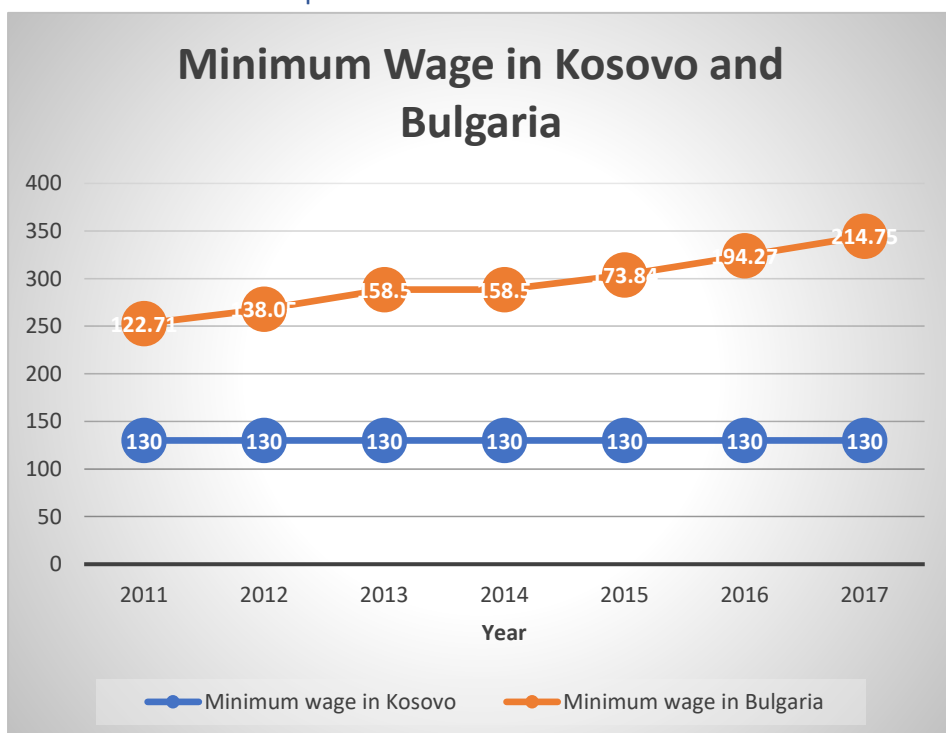
Neto average salary in private sector



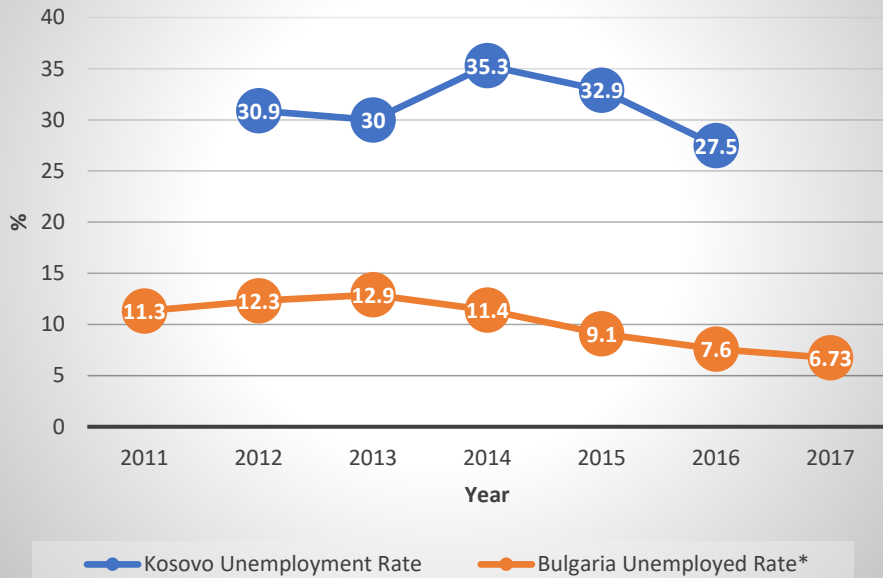
TAB 14. 5: PAGA (BRUTO) MESATARE MUJORE NË SEKTORËT EKONOMIK SIPAS VITEVE 2008-2014

		(€)						
Sektorët	Përshkrimi i sektorëve ekonomike	2008	2009	2010	2011	2012	2013	2014
B	Xehtari dhe gurëthyes	348	357	382	383	561	461	470
C	Prodhim	228	228	227	248	275	332	326
D	Furnizim me energji elektrike, gaz, avull dhe ajër të kondicionuar	486	469	555	557	564	608	610
E	Furnizim me ujë, kanalizim, menaxhim mbeturinash dhe aktivitete revitalizimi të tokës	197	197	210	214	219	360	361
F	Ndërtimtari	216	221	227	275	360	319	329
G	Tregtia me shumicë dhe pakicë, riparimi i mjeteve, motoçikletave	218	207	206	252	274	305	305
H	Transporti dhe magazinimi	257	260	262	263	263	366	379
I	Akomodimi dhe aktivitete të shërbimeve me ushqim	208	217	221	220	269	266	265
J	Informacion dhe komunikim	776	783	792	829	852	707	708
L,M,N,R,S	Aktivitete të shërbimeve tjera	235	238	255	302	334	273	293
Gjithsej		275	272	280	309	338	349	352

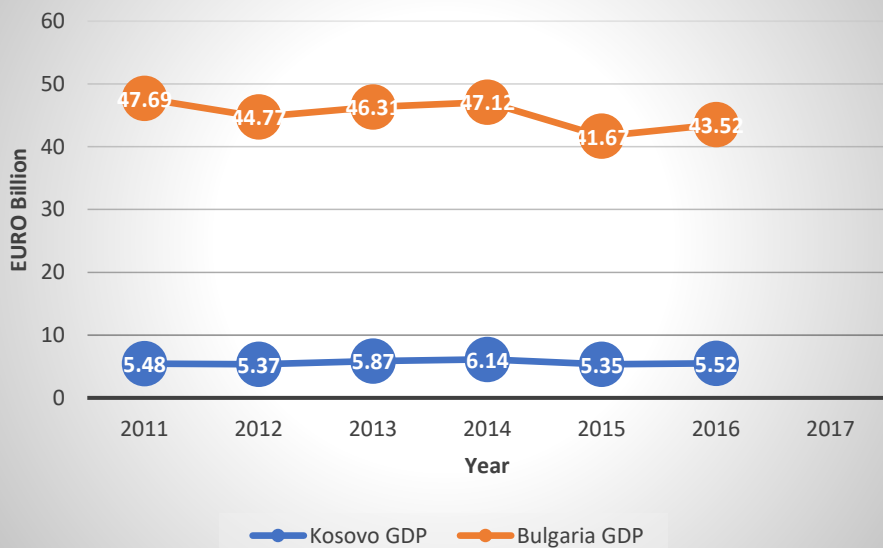
How Kosovo compares



Kosovo and Bulgaria Unemployed Rate



Kosovo and Bulgaria GDP



Kosovo & Bulgaria Consumption per capita per capita

