

Minimum and living wages in Jordan and Tunisia

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WORKSHOP ON SOCIAL PROTECTION IN JORDAN

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Motivation

Social protection floors as a key policy and anti-poverty focus globally (UNDP, 2014)

- ▶ Creation and expansion of cash transfer programs targeted to the poor in low- and middle-income countries.
- ▶ Experimentation with universal basic income (UBI), a form of social protection floor (Hanna & Olken, 2018)
- ▶ Jordan and Tunisia social protection strategies and social contracts emphasize social protection floors, as key anti-poverty strategy
 - ▶ Joint with employment and earned income as well. For example, in Jordan:
 - ▶ The national social protection strategy has as two of its key pillars “opportunity,” namely “a just, private-sector-focused labor market based on decent working conditions and social security. Government enables families to be economically self-sufficient”
 - ▶ And “dignity,” namely “government provides targeted, temporary social assistance to citizens who are unable to be economically self-sufficient, allowing them to maintain a basic level of consumption” (Hashemite Kingdom of Jordan, 2019, p. 10).

Minimum wages and living wages

- ▶ Minimum wages are designed to help ensure workers meet their basic needs
 - ▶ Globally, in contexts with a sizeable informal sector, different effects of increasing minimum wages on different sectors
 - ▶ Increase wages in the formal sector but null to negative employment effects
 - ▶ Decrease or no change in wages in the informal sector, null to positive employment effects
 - ▶ Can increase prices
- ▶ Differences across countries in who receives minimum wages
 - ▶ Variation in coverage of minimum wages
 - ▶ Less likely for younger, less skilled, less educated, private sector, small firms.
- ▶ Minimum wages set by policy; living wages are metrics of what it takes to afford “a decent standard of living”
 - ▶ Both may be different from poverty lines, which are minimum expenditure levels

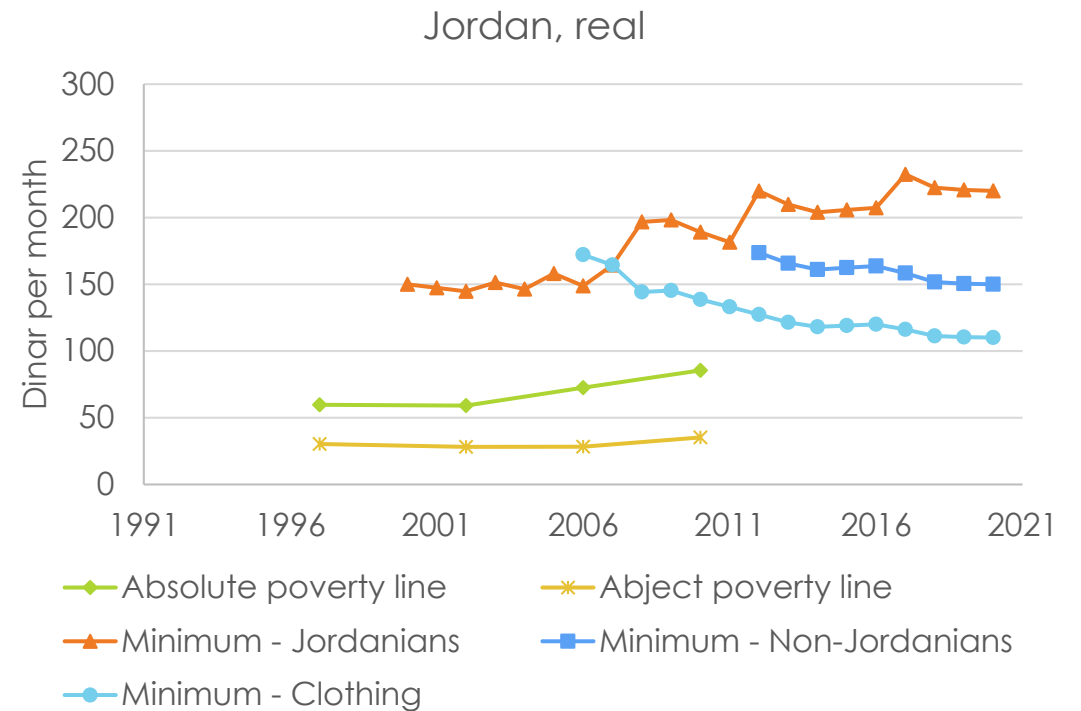
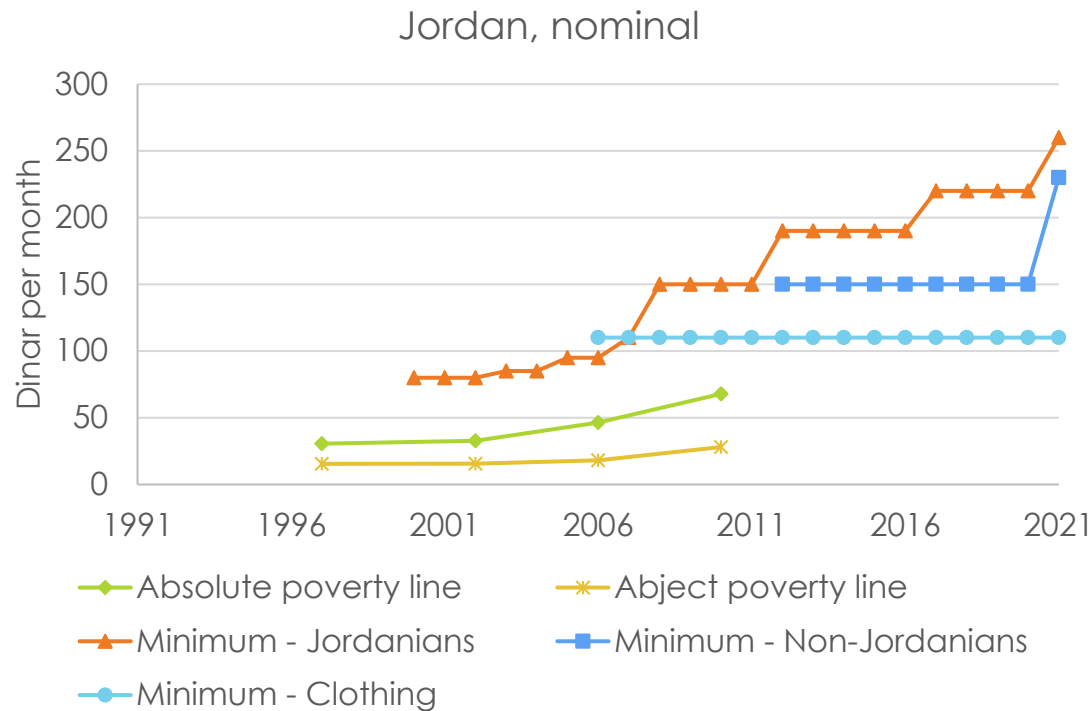
Context: Minimum and living wages in MENA

- ▶ **Labor market challenges:**
 - ▶ High youth unemployment rates,
 - ▶ Low female labor force participation
 - ▶ Sharp dualism between the formal labor market informal sector
- ▶ **The role of minimum and living wages in the MENA region**
 - ▶ Relatively high but incomplete coverage in Jordan (Alhawarin & Kreishan 2017)
 - ▶ 16.5% paid under the minimum wage, less likely for youth, less educated, etc.
 - ▶ Two recent measures of living wages, in Jordan (WageIndicator Foundation 2020) and rural Tunisia (Anker 2021).

Research questions

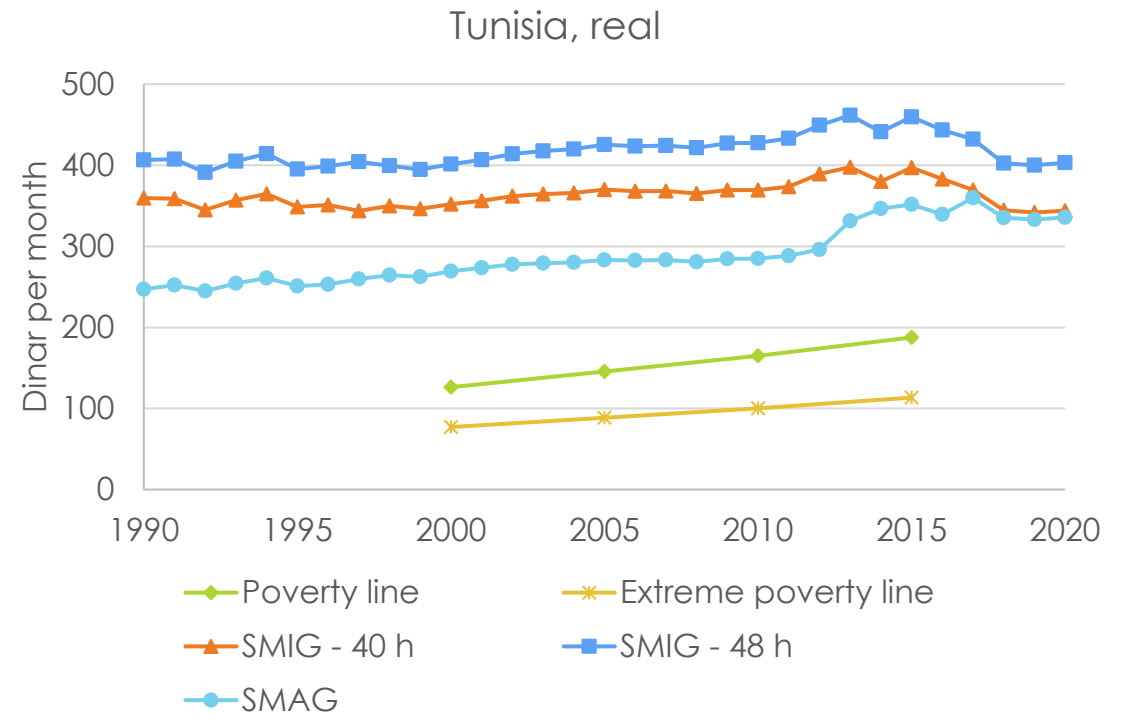
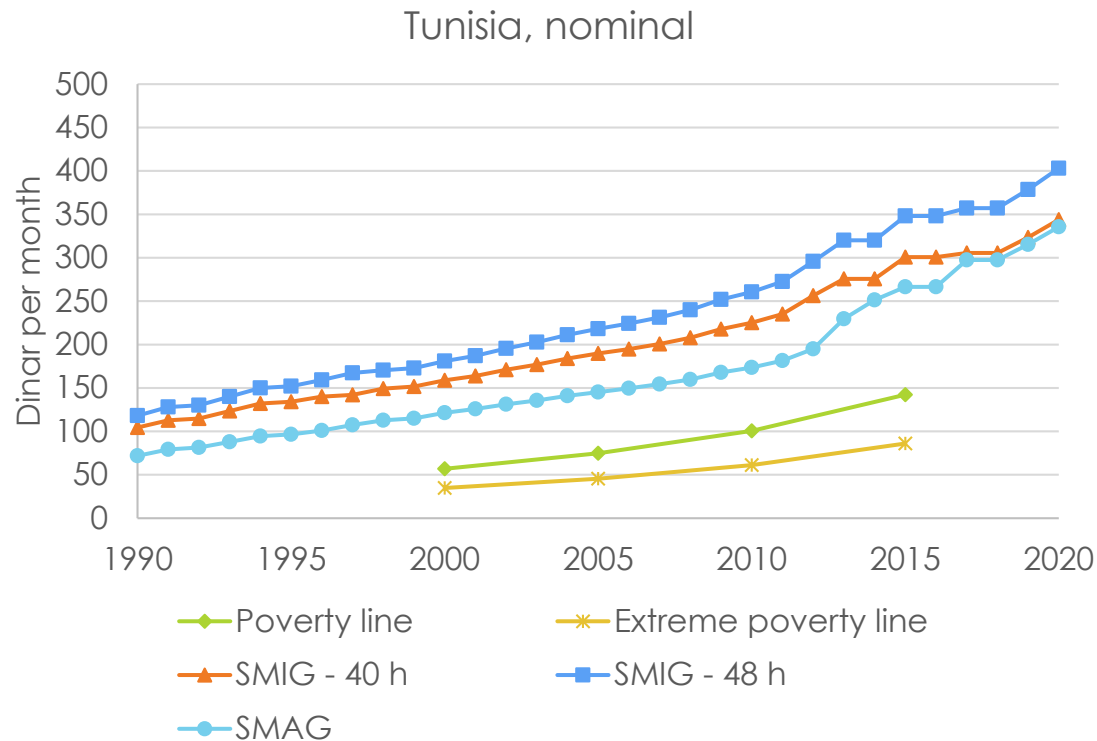
- ▶ Which wage workers receive **minimum, poverty, and living wages?**
- ▶ What is the gap between the wages workers receive and **minimum wages, poverty lines, and living wages?**
- ▶ What would it **cost** to provide a UBI to these levels, or (targeted) cover these gaps
 - ▶ And how does this compare to current **social assistance spending?**
- ▶ Comparative approach: Jordan and Tunisia

Minimum wages and poverty lines: Jordan



Source: Department of Statistics (DoS) (Jordan), Qandah (2020), Ministry of Labor (2021)

Minimum wages and poverty lines: Tunisia



Measuring Living Wages

- ▶ Living wages are from Global Living Wage Coalition (2021) based on the Anker method in Tunisia and from WageIndicator Foundation (2020) in Jordan.
 - ▶ Anker
 - ▶ Food costs for a low-cost nutritious diet using typical local foods; Housing costs based on UN-Habitat standards for decent housing; Cost of other essential needs (extrapolated); Small margin for unseen events
 - ▶ WageIndicator
 - ▶ Based on food, housing, transport, healthcare, education, water, clothing, phone, 5% margin
 - ▶ Adjusted by the typical size family, typical number of workers per family
 - ▶ The figures were adjusted to 2016 (for Jordan) or 2014 (for Tunisia) using inflation rates
 - ▶ In Tunisia, where we only have a rural living wage, we use the ratios of poverty lines in rural to small and medium cities and large cities to map the living wage across areas.

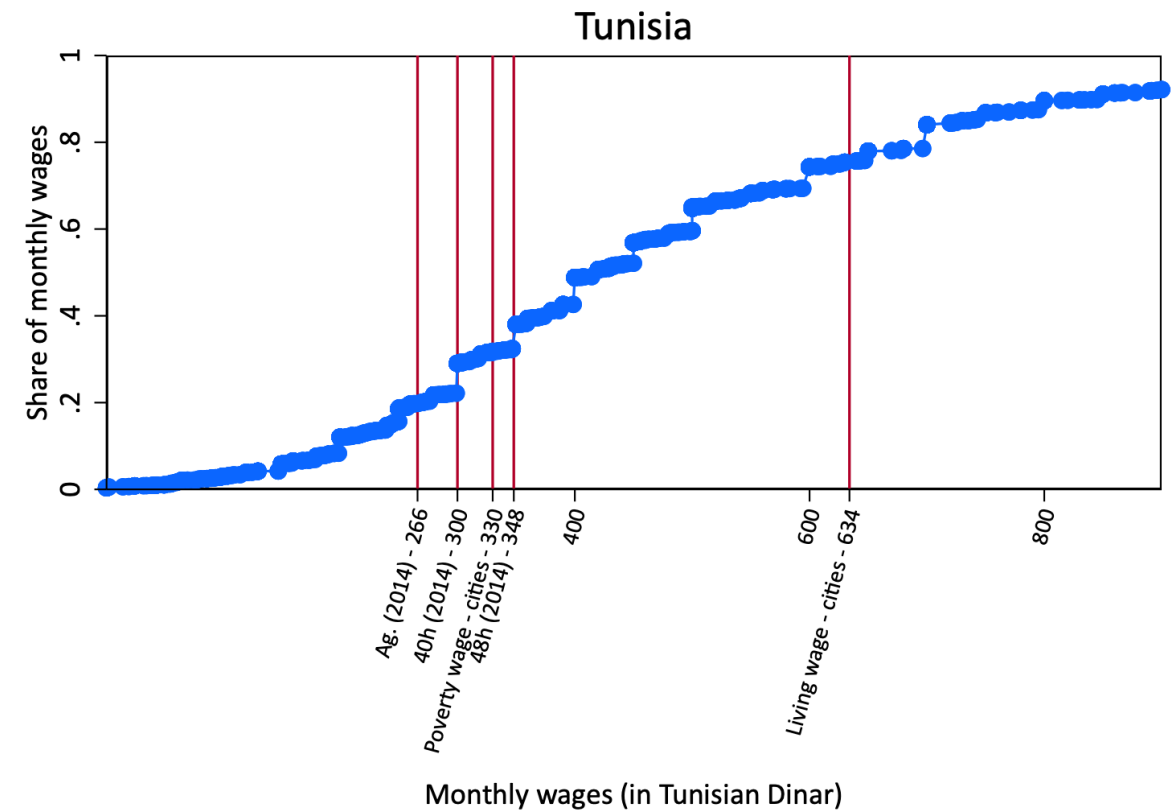
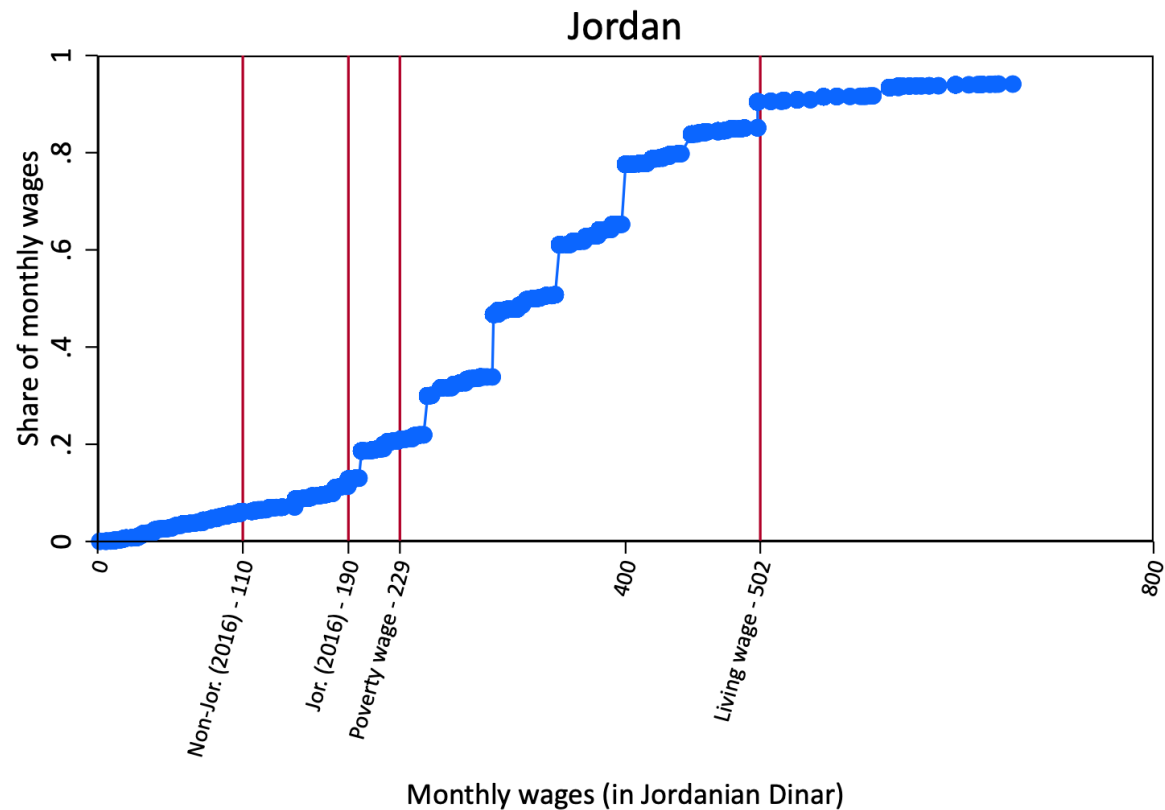
Data, outcomes, and methods

- ▶ Jordan Labor Market Panel Survey (JLMPS) 2016 and the Tunisia Labor Market Panel Survey (TLMPS) 2014
 - ▶ Nationally representative after the application of weights
- ▶ Outcomes:
 - ▶ Whether earn a minimum wage, poverty wage, or living wage (logit)
 - ▶ Minimum wages changed mid-way through fielding, use based on visit date
 - ▶ Poverty wages adjusted for typical wage earners, family size, as with living wages
 - ▶ For those who do not earn these benchmarks, distance between what they earn and various benchmarks
 - ▶ Model in log form using OLS (percentage interpretation)
 - ▶ Use the size of gaps as an input into simulations of potential cost of different social assistance approaches

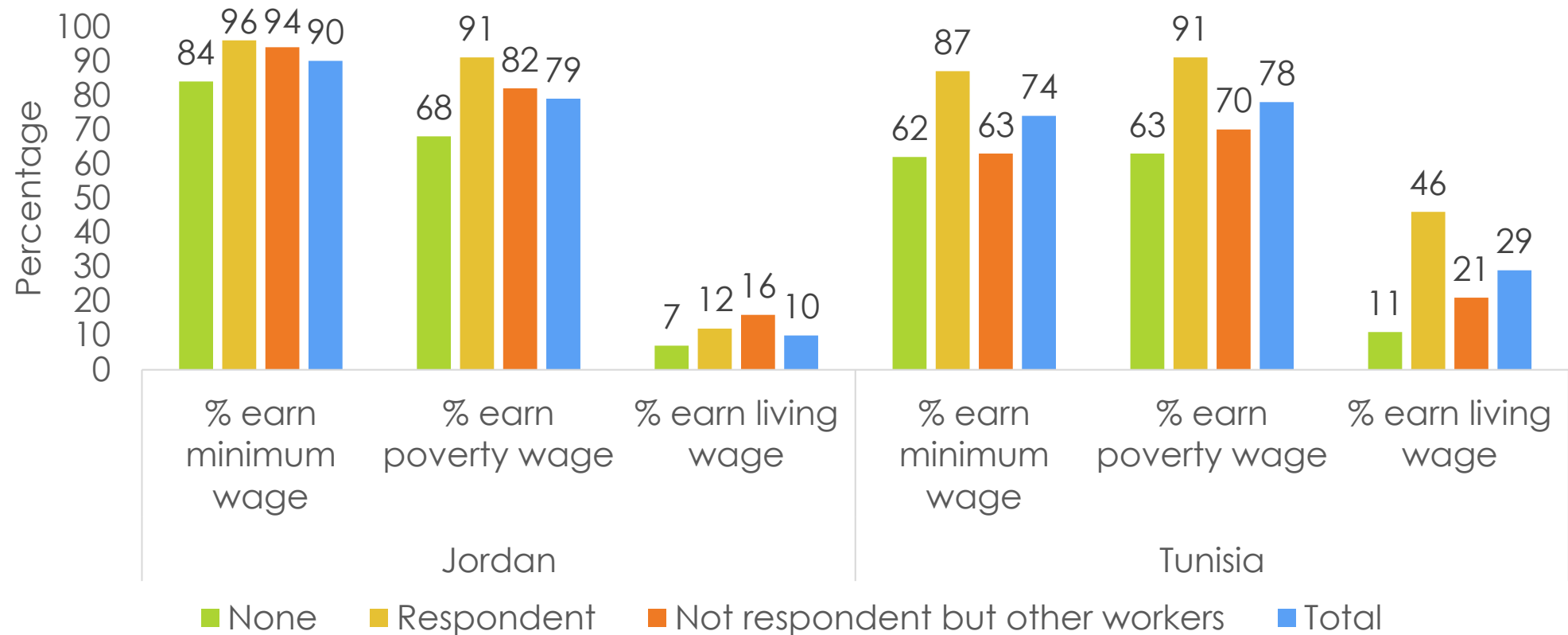
Covariates

- Characteristics of workers :
 - Nationality; age group; sex; marital status; education level, work experience and the location of residence (in terms of urban/rural and region).
- Characteristics of jobs:
 - Social insurance, type of contract; the regularity of the job; job inside or outside an establishment; the required education level; and the number of years in the specific job
- Characteristics of employers:
 - Economic activity; the firm size; the percentage of female workers in the firm and whether the firm is public or private sector.

Cumulative distribution functions of monthly wages (in Jordanian and Tunisian dinar) and minimum, living, and poverty wage cutoffs



Earning wage benchmarks by social insurance



Results: Multivariate models for receiving minimum wages: Worker characteristics

Characteristic	Jordan	Tunisia
Age	Only 20-24 vs. younger	Inverted U
Sex	Women more likely	Women less likely, driven by single women
Marital status	Married more likely	Married men less likely
Education	Secondary and post-secondary, illiterate women	Post-secondary women
Work experience	No sig. diff.	No sig. diff.
Location	No sig. diff.	No sig. diff.
Nationality	All other nationalities more likely to earn (different!) minimum	N/A

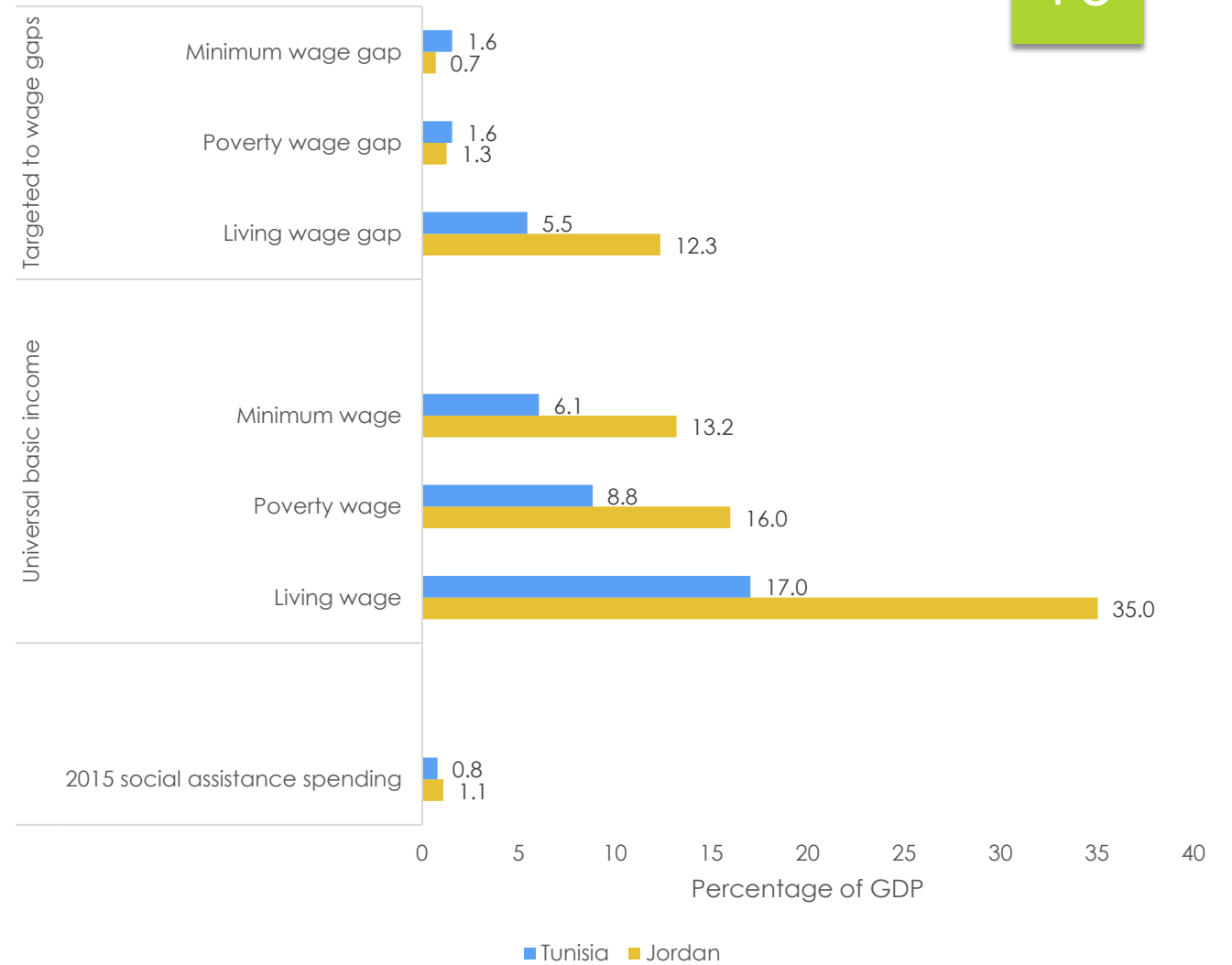
Results: Multivariate models for receiving minimum wages: Job characteristics

Characteristic	Jordan	Tunisia
Social insurance	Respondent has more likely	Respondent has more likely
Contract	Indef. dur more likely	Indef. dur more likely
Regularity	Regular more likely	Regular less likely
Establishment	Est. more likely	No sig. diff.
Required ed.	Univ. sig.	Preparatory and up sig.
Years in position	No sig. diff.	No sig. diff.
Skills	Fitness, literacy (not technical, math, or computer)	Literacy (not fitness, technical, math, or computer skills)

Results: Multivariate models for receiving minimum wages: Firm characteristics

Characteristic	Jordan	Tunisia
Economic activity	No sig. diff.	No sig. diff.
Size	100+/DK sig. more	10+ sig. more
% female	½+ sig. less	No sig. diff
Public	Public more likely	Public less likely

Simulations of universal basic income and targeted wage-gap transfers



Summary

- ▶ Only a minority of workers earn a living wage (fewer in Jordan than Tunisia)
 - ▶ Minimum wages do not guarantee living wages
- ▶ The majority of workers earn at least minimum and poverty wages (more so in Jordan)
- ▶ Determinants of reaching wage benchmarks (and wage gaps) are varied
 - ▶ Demographic characteristics of workers
 - ▶ Job skill/ed. requirements
 - ▶ Social insurance, regularity, work contracts, firm size, sector important
- ▶ UBI and even targeted transfers to address living wage gaps require far more social assistance spending than is currently undertaken

Policy implications and options – minimum wages

- ▶ Relatively high coverage of minimum wage, but enforcement gaps remain
 - ▶ Increased enforcement has potential tradeoffs (increase wages/decrease employment)
- ▶ Large gap between living and minimum wages
 - ▶ May want to raise; same tradeoffs – future research on living wages needed
- ▶ Indexing to inflation (Tunisia more closely tracked, but Jordan did not)
 - ▶ Improve predictability, better cover basic needs, but can diverge from fundamentals (e.g. productivity)
- ▶ Hourly minimum wages (scale monthly wages to hourly)
 - ▶ Monthly disincentivizes part-time (harms women). But may preclude living wages, lead to more variable monthly income
 - ▶ Hourly wages also could make Jordanians and Syrians more competitive with immigrant workers, who work long hours
- ▶ Unifying across sectors
 - ▶ Simplification can improve effectiveness and enforcement (but may make specific sectors less competitive)
- ▶ End nationality specific wages
 - ▶ Disincentivizes Jordanian employment. Could lead to higher prices for goods and services and specifically harm Syrians.

Policy implications and options – UBI, transfers, and social protection floors

- ▶ Not fiscally feasible to implement a UBI that would eliminate poverty
- ▶ Countries are considering UBIs at much lower levels,
 - ▶ Tunisia looking at 350 dinar per year/child (29 dinar per month)
- ▶ Eliminating subsidies for specific goods and instead providing cash transfers can help
 - ▶ Jordan has made substantial changes in this direction; Tunisia has not
 - ▶ UBI and even large cash transfers (e.g. =29% of expenditure in Iran) don't show large labor disincentives (Baird, McKenzie, & Özler, 2018; Salehi-Isfahani & Mostafavi-Dehzoeei, 2018)
- ▶ Important political and poverty-reduction tradeoffs between smaller, universal UBI and larger targeted transfers

Assistance appreciated

- ▶ Are there aspects of policy design (minimum wages, social protection floors) that we have overlooked for Jordan?
 - ▶ Or characteristics of workers, jobs, firms that we did not consider and are key for wage-setting?
- ▶ Are there current policy debates in Jordan we could/should link our results to?