



منتدى الاستراتيجيات الأردني  
JORDAN STRATEGY FORUM

*Position Paper*

# **The Economics of Minimum Wage in Jordan: Observations from the Global Experience**

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# 1. Background

Within the context of the economic challenges that face Jordan, rising cost of living, efficiency and sufficiency of public services, falling aggregate demand, and the high unemployment rates, one can raise a number of questions about the minimum wage and its impact on the average citizens' financial burden and economic growth.

As a result, all labor ministers must deal with the subject matter of minimum wages. Indeed, this issue is important for several reasons. For example, setting minimum wages or increasing minimum wages can have significant impacts on **(1) employment, (2) informal employment, (3) wage distribution, (4) poverty, (5) labor productivity, and (6) inflation.**

Literally, there are thousands of scientific articles that deal with the economics of minimum wages. However, it is unfortunate to note the international evidence does not agree on the costs and benefits of raising minimum wages. The extent of setting a minimum wage, or increasing the existing minimum wage depends on a myriad of factors including the size of the minimum wage increase, economic environment, and labor market context.

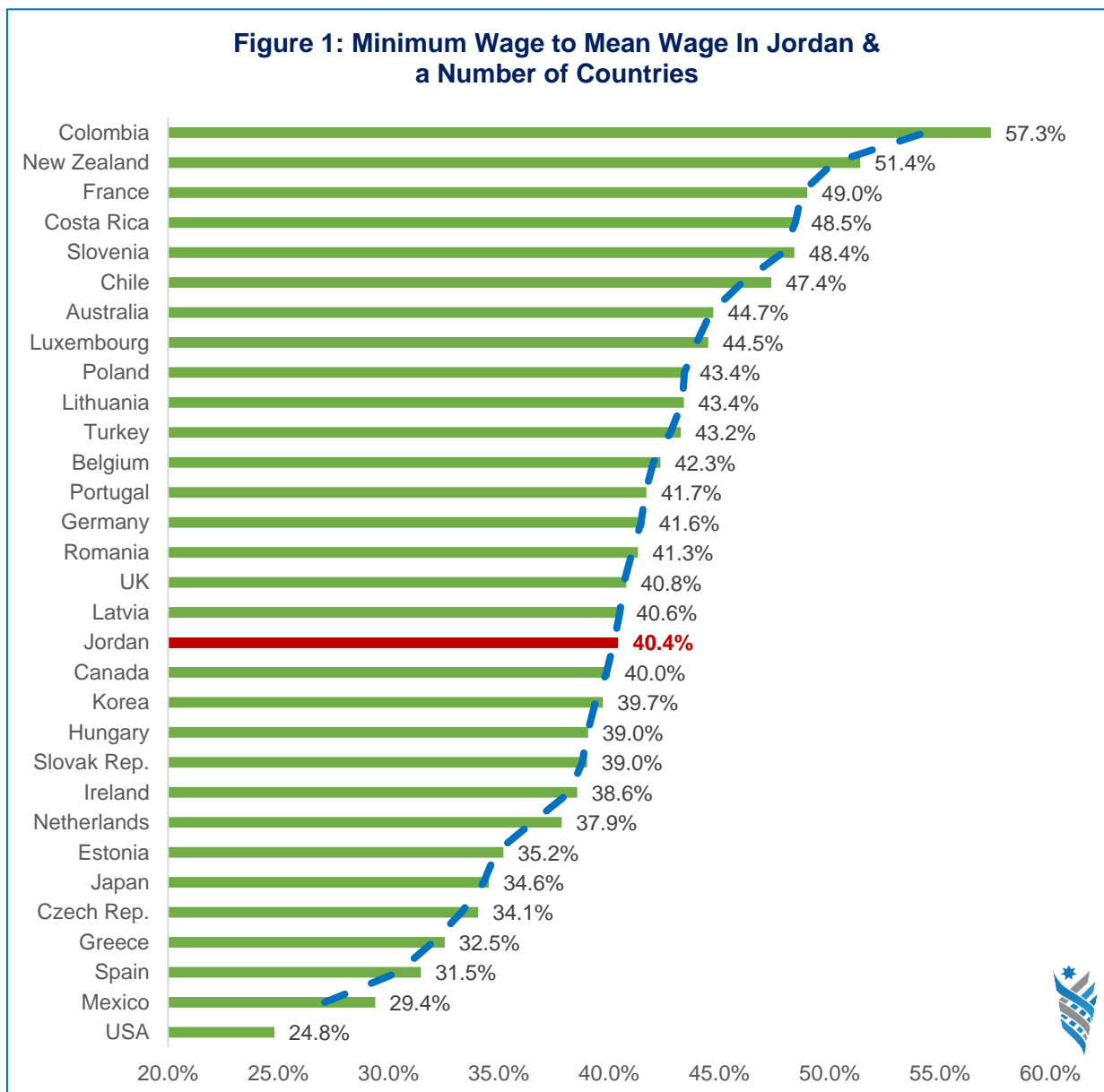
A minimum wage that is too low reduces the relevance of minimum wages in the first place. Too high minimum wage, on the other hand, might encourage firms to evade minimum wage legislation. In addition, too high minimum wage may have a negative impact on employment or may push vulnerable workers (low-skilled, young, and female workers) out of employment or into informal employment.

In the economics literature, there is no magic formula that sets a minimum wage level. However, some indicators can be used as a reference (World Bank, 2015) and these include **(1) The minimum wage relative to the median or mean wages and (2) The share of workers affected by the minimum wage.**

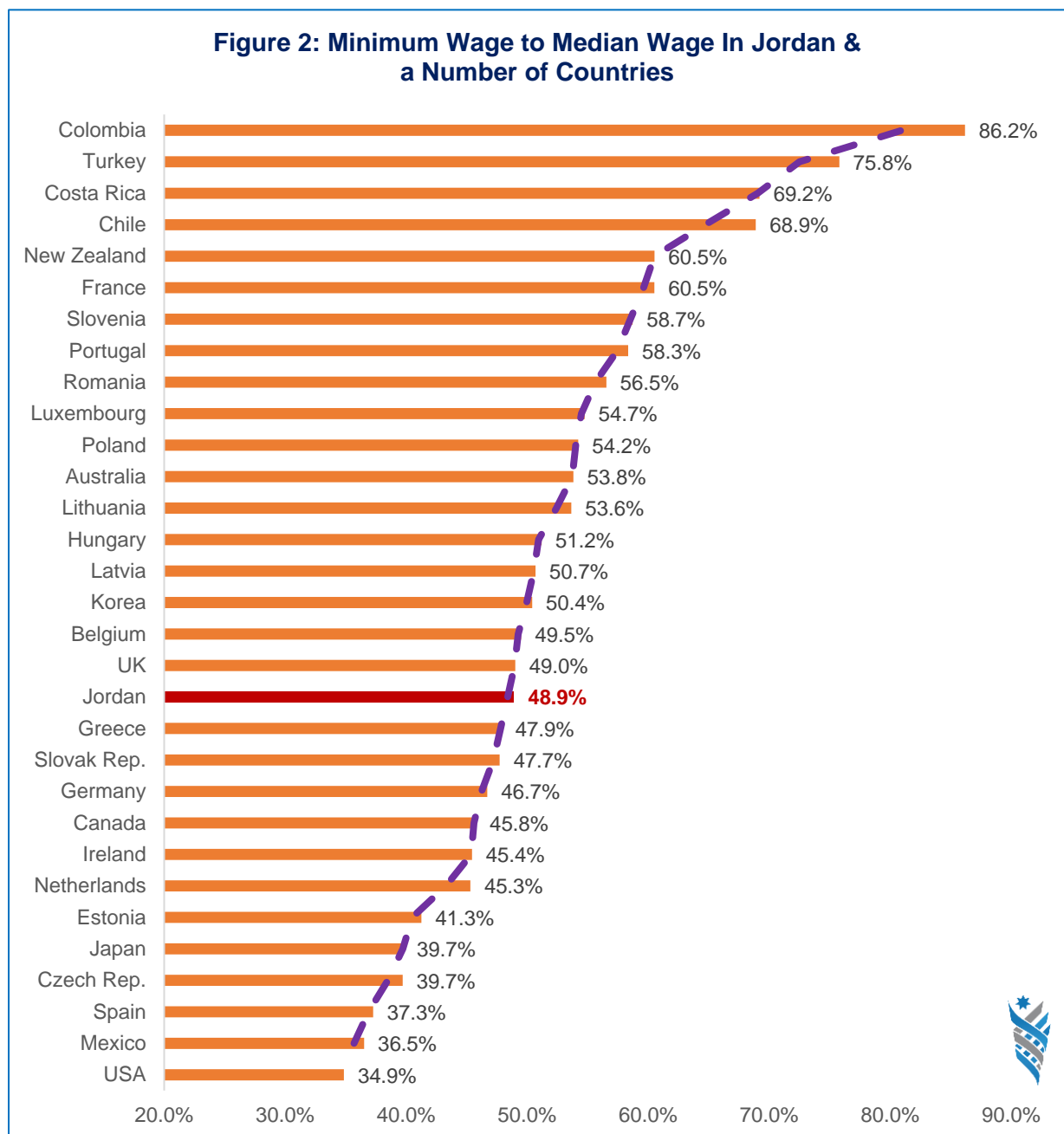
## 2. The Minimum Wage in Jordan and the World: Observations

As mentioned above, whilst it is not easy to establish where the minimum wage should be, or by how much to increase the existing minimum wage, it is interesting to make the following observations about the minimum wage issue in Jordan.

1. Based on the 2017 Social Security Corporation’s annual report, the mean wage of all subscribed individuals (1,122,843 persons) is equal to JD 545. The median wage is equal to JD 450.
2. The current minimum wage (JD 220) is equivalent to 40.4% of the mean wage.
3. The current minimum wage (JD 220) is equivalent to 48.9% of the median wage.
4. The minimum wage in Jordan to the mean wage (40.4%) is close to the overall average of all the countries reported in Figure 1 (40.8%). In addition, this proportion in Jordan is higher than that in many countries including Canada, Netherlands, and the USA.



- The minimum wage in Jordan to the median wage (48.9%) is close to the overall average of all the countries reported in Figure 1 (52.2%). In addition, this proportion in Jordan is higher than that in many countries including Canada, Netherlands, and the USA.



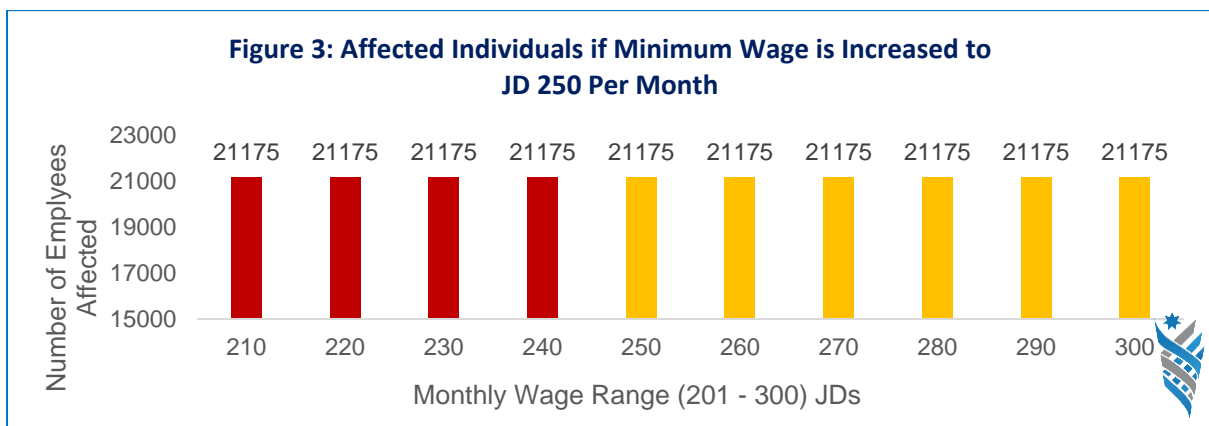
- If we increase the currently existing minimum wage from JD 220 to JD 230, the ratio of the minimum wage to the median wage would increase to 51.1%.
- If we increase the currently existing minimum wage from JD 220 to JD 240, the ratio of the minimum wage to the median wage would increase to 53.3%.
- If we increase the currently existing minimum wage from JD 220 to JD 250, the ratio of the minimum wage to the median wage would increase to 55.6%.

9. The total number of Jordanians in 2017 who are subscribed to the SSC and working is equal to 1,122,843 persons. The monthly income of 3.7% of these individuals (41,749) earn less than or equal to JD 190 per month. The total number of subscribed individuals who earn JD 191-JD 200 and JD 201- JD 300 are equal to 17,420 and 211,749 respectively (Table 1).

**Table 1: Number of Subscribed SSC Individuals and their Income Range**

Income Range	Number of Individuals	Proportion of the Total
Less than or equal to JD 190	41,749	3.7%
JD 191 – JD 200	17,420	1.6%
JD 201 – JD 300	211,749	18.9%
JD 301 – JD 400	188,074	16.7%

Relative to those employees who earn less than the current minimum wage (JD 220), it is useful to note that most of them work at the Qualifying Industrial Zones (QIZ). Certain industrial sector at the QIZ are exempted from the minimum wage law. In other words, if we increase the minimum wage in Jordan from JD 220 per month to JD 250, the number of employees who will be affected is equal to only 84,700 individuals (21,175 + 21,175 + 21,175 + 21,175) or 7.5% of all SSC subscribed individuals! This is based on the assumption that those who earn between JD 201 – JD 300 are equally divided into 10 income levels (JD210 till JD 300). In addition, increasing the minimum wage from JD 220 to JD 250, is expected to results in a “proportional” increase in the wages of those who earn less than the minimum wage, and those who earn more than the minimum wage.



### 3. Conclusions & Recommendations

1. Based on the above-mentioned observations and arguments, the JSF recommends increasing the minimum wage from JD 220 per month to either JD 240 or 250 per month.
2. It is only natural that minimum wage rates should be adjusted from time to time if only to take account of changes in the cost of living. However, such changes should not be frequent and their level (changes should be moderate (World Bank, 2015). The following criteria are usually used for the adjustment of minimum wage rates: cost of living, existing general level of wages, economic situation, productivity, level of employment; economic competitiveness, and financial capacity of enterprises (World Bank, 2015).
3. If the minimum wage is increased (and its resultant on all wages). The JSF expects this change will encourage a growing number of young unemployed Jordanians to join the labor market. Indeed this extra income will at least cover part of their joining the labor market's expenses (i.e. Transport).
4. Relative to the previously mentioned conclusion, the international evidence shows that increasing the minimum wage promotes aggregate demand as a result of unemployed individuals join labor market.



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