

Policy Study 17

# Regulatory impact assessment of the changes in the Minimum Wage Law

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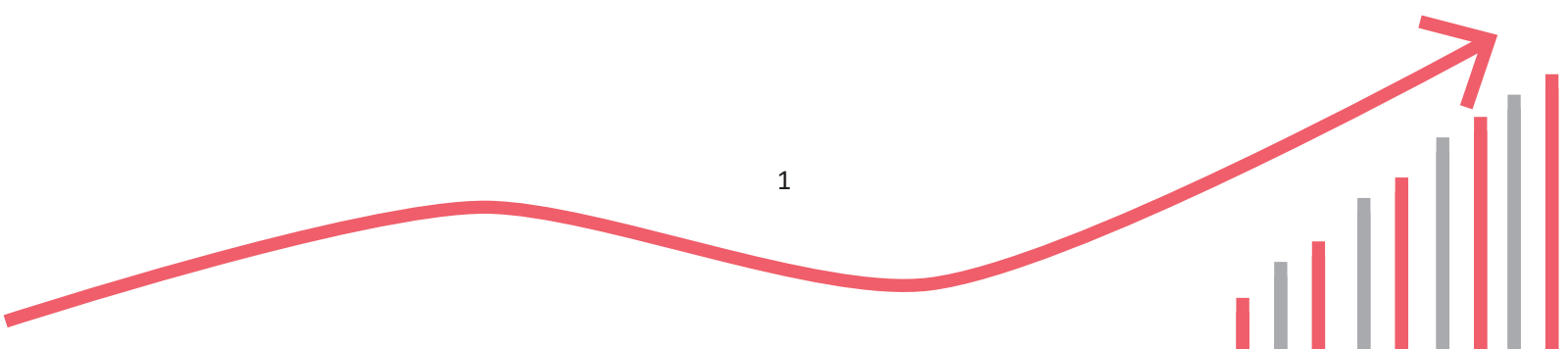
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"This publication is part of the sub-granting program from the Regulatory impact assessment in the shadow: *Fostering evidence-based policy making project, financially supported by the European Union.*"

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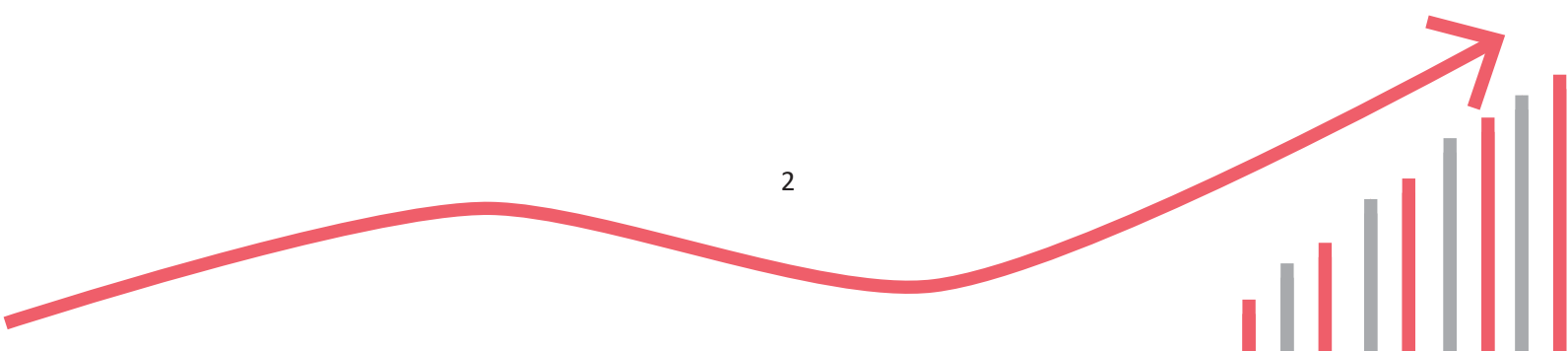
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# 1. Introduction

According to the Labour Code<sup>1</sup>, every worker is entitled to financial remuneration for the work done. The lowest monthly amount of basic salary that the employer is obliged to pay to the worker is called minimum wage. The minimum wage has been subject to detailed discussion and has been present in the public discourse since October 2016. During the political campaign for the elections that took place on 11 December 2016, the trump card played by the political parties was the increase of the minimum wage. The political party that now holds the majority in the Government promised a gradual increase of the minimum wage up to MKD 12,000 by 2017 and up to MKD 16,000 by 2020. Almost immediately after forming Government, they delivered on their promise.

The amendments to the Minimum Wage Law from September 2017<sup>2</sup> introduced *three significant changes*. Firstly, the amount of minimum wage changed from MKD 9,590 (in the textiles, apparel and leather processing industry) and MKD 10,080 (in all the other sectors) to MKD 12,000 for all sectors. With this move, the minimum wage increased by 19 percent, and 25.1 percent, respectively, thus becoming equal in all sectors of the economy. Secondly, such increase was supported with financial assistance by the government for payment of the minimum wage, with funds from the Budget of the Republic of Macedonia, as specified in the Law, in the amount of MKD 500 and MKD 2,000 per worker, depending on the requirements envisaged in the Law. The financial assistance was made available in the period from September 2017 to February 2018, subject to meeting certain criteria in advance. Namely, in order to get financial assistance from the state, the employer should meet the following criteria: not to be exempted from the obligation for payment of compulsory social security and personal income tax; to hold the status of an active taxpayer; in the course of 2016 to have suffered losses or generated net profit of less than 10% of the total expenditure; and to be up to date in the payment of salaries, contributions and taxes. From March until August 2018, the financial assistance was reduced in half, and after September 2018, the financial costs for the increased minimum wage fell on the employers. The third significant element in the amendments to the Law is the introduction of the definition of performance standard and the method of setting the performance standard. However, the provisions related to the performance standard were revoked as unconstitutional in April 2018.<sup>3</sup>


For a long time, the economic literature has been dealing with an assessment of the effects of the minimum wage increase. The debate concerning the impact of minimum wage on the economy dates back to 1913 and the setting up of the United States Department of Labor. At that period, the debate was, to a large extent, theoretical. On

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<sup>1</sup> Official Gazette of the Republic of Macedonia no. 167/15 and Law amending the Labour Code (Official Gazette of the Republic of Macedonia no. 27/16)

<sup>2</sup> Official Gazette of the Republic of Macedonia no. 132/17

<sup>3</sup> Decision by the Constitutional Court of the Republic of Macedonia. See [here](#).

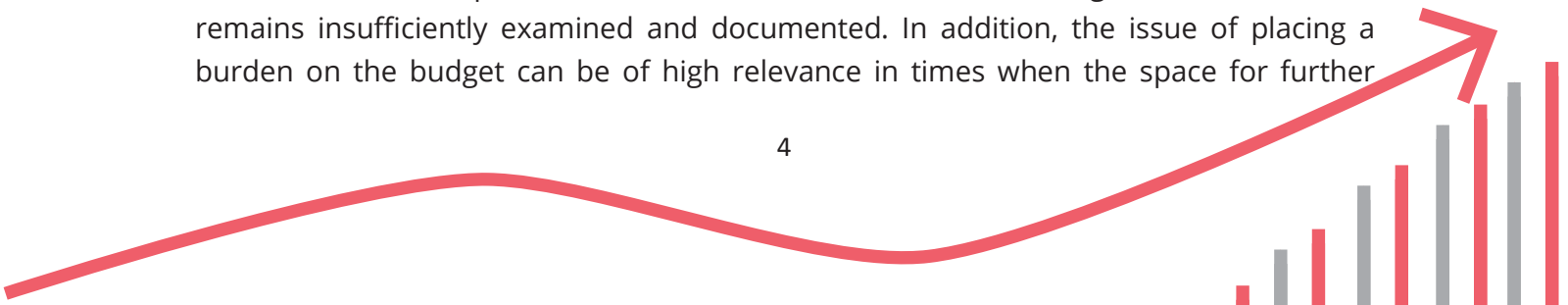



one hand, the neoclassical school (Clark, Lees Smith and Taussig) claimed that wage is determined by productivity; therefore, any “artificial” increase of wages by setting minimum wage will decrease employment among low-skilled workers, as the employers would not be able to bear the additional financial burden. On the other hand, the progressive economists of that time (Webb, Seager, and Commons) argued that minimum wage will protect low-skilled workers against exploitation in an environment where the employer has bargaining power over wages, which in turn will have a positive impact on the efforts and productivity of workers, thus leading to improvement in their consumption and standard of living (Neumark et al. 2014).

Subsequent debates, however, were substantiated by empirical findings. An early empirical paper by Obenauer and von der Nienburg (1915) found that minimum wage has positive impact on the overall wages, but has no impact on employment. Later, ever more often, studies were concluding that minimum wage has the tendency to decrease employment in low-skilled workers. One well-known paper by Brown, Gilroy and Kohen (1982) looked into the existing literature on minimum wage and reached a consensus that a minimum wage increase of 10% would decrease employment by one to three percent. Nevertheless, “new research on minimum wage” began in 1990; however, consensus was not reached on the effects of minimum wage on employment (Neumark and Wascher, 1992; Card, 1992 a; Card, 1992 b; Katz and Krueger, 1992). The current wave of research on minimum wage is dominated by the work of Neumark and Wascher (2008), who concluded that “...[M]inimum wage reduces employment opportunities for less-skilled workers, especially those that are most directly affected by the minimum wage” (p. 6), although subsequent empirical papers expressed deep concern about the methodological aspects of the study (for example, Dube et al. 2010; Allegretto et al. 2011). Nevertheless, most of the empirical debate was focused on the effects of minimum wage on employment from the employer’s point of view (neoclassical school).

The body of literature assessing the “progressive” school is less extensive. The key issue here is the extent to which minimum wage can act as an anti-poverty programme. Understanding the impact of minimum wage on poverty requires understanding of its impact on different wage levels (or, statistically, on different points in the wage distribution). As of recently, the minimum wage has become part of the debate on the inequality between rich and poor. For example, when the minimum wage is low relative to the average wage, it has the tendency to raise the wage of workers at the bottom of the wage distribution. However, when the minimum wage is high relative to the average, it will increase the wage of workers in the middle (middle class), but not at the bottom of the wage distribution (the lower class) (Gindling, 2014).

What is certain is that higher minimum wage improves the standard of living of the worker receiving it, but only if it does not pose a threat in terms of employment loss. Nevertheless, the impact of the amendments to the Minimum Wage Law in Macedonia remains insufficiently examined and documented. In addition, the issue of placing a burden on the budget can be of high relevance in times when the space for further





increase of the public debt is small, and when the general public is highly sensitive to the issue of increasing tax revenues.

In the first few months after the amendments to the Law became effective, the public debate intensified with opposing arguments put forward both by the employers and by the workers. Employers (especially those that do not fulfil all the criteria for obtaining financial assistance from the state, as well as those from the textile and leather processing industry) raised the issue of the increased financial burden on their companies<sup>4</sup>. In addition, some of the employers faced the so-called equalization issue, or the need to correct the other wages on their payroll because of the method of calculation established in the collective agreements. On the other hand, there are indications that the amendments to the Minimum Wage Law have instigated a certain type of behaviour among employers to the detriment of the workers' standard and rights. Workers began underling the susceptibility to compromising situations, such as: requests for returning part of the paid minimum wage back to the employer in cash, payment of insurance contributions for working hours different from the paid working hours, payment of insurance contributions on minimum wage and payment of the rest of the wage in cash. For example, recent research by Finance Think<sup>5</sup> showed that 62 percent of the workers registered as minimum wage earners received also money in cash (the so called "envelope wage").

The analysis and ex-post evaluation of the impact of the amendments to the Minimum Wage Law presented in this study look into these issues. It should be mentioned that, despite the significance of the amendments to the Minimum Wage Law, the regulatory impact assessment (RIA) preceding the changes of the Law, which was published on the Single National Electronic Register of Regulations of the Republic of Macedonia, was fairly scarce (ENER, 2017).

The aim of this policy study is to conduct an ex-post evaluation of the effects of the amendments to the Minimum Wage Law on the system (economy) and on the main stakeholders (workers and employers). The study consists of two parts: documentary and model-based analysis of the impact of the amendments to the Law based on existing documents, records and data, as well as on a simple simulation; and field analysis based on interviews and focus groups with employers and workers.

Therefore, the methodology of this policy study is triangular. Firstly, an analysis is performed on the Minimum Wage Law and its amendments, related regulation and other existing records on this topic. Then, we use the MK-MOD microsimulation model, where all workers who received minimum wage on the previously established levels, are assigned the new minimum wage, and the effects on the living standard are simulated. Concerning the functioning mechanism of MK-MOD, see Petreski and Mojsoska-Blazhevski (2017). The second part of the analysis makes use of two qualitative

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<sup>4</sup> For example, one of these debates can be seen [here](#).

<sup>5</sup> Quality of life in Macedonia no. 1: "Envelope Wage". Available [here](#).

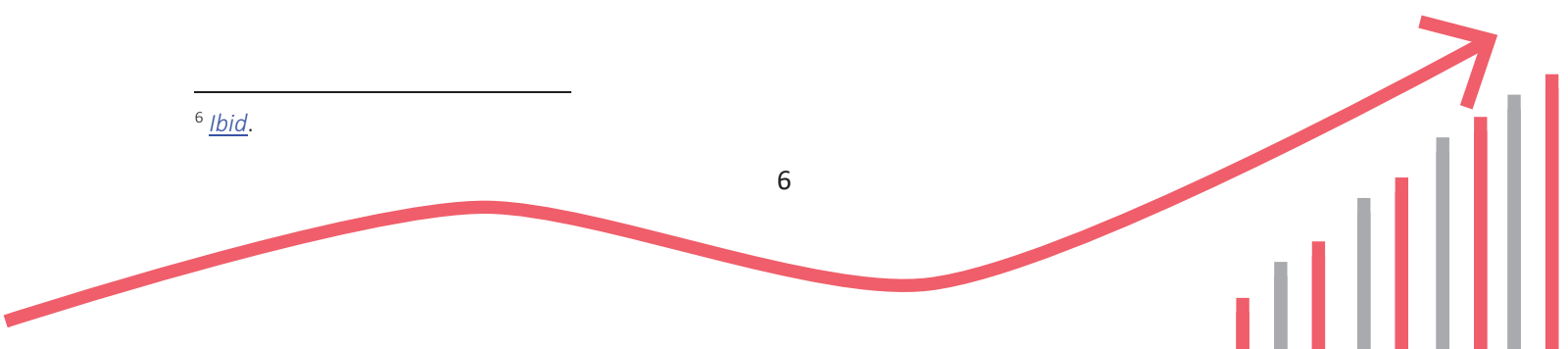



instruments: interview and focus group. A total of four interviews were conducted with employers, and two focus groups with 6-8 workers each. For this part of the analysis, we selected two of the eight planning regions in Macedonia: the East planning region, which is characterized by the lowest average wage in the country and where the majority of jobs are in the textile industry (industry that is most affected by the changes in the legislation) and Pelagonija planning region, where the majority of workers, apart from wage on their bank account, received part of the wage in cash<sup>6</sup>.

The reminder of this policy study is organized as follows: section 2 contains the findings from the documentary and model-based analysis of the impact of the amendments to the Minimum Wage Law. This section includes a special summary of available data related to the implementation and observance of the Law. Section 3 presents the findings from the field research. Section 4 draws conclusions and provides the main recommendations to the policymakers.

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<sup>6</sup> *ibid.*





## 2. Documentary and model-based analysis of the impact of the amendments to the Minimum Wage Law

### 2.1. Analysis of the Minimum Wage Law and its Amendments

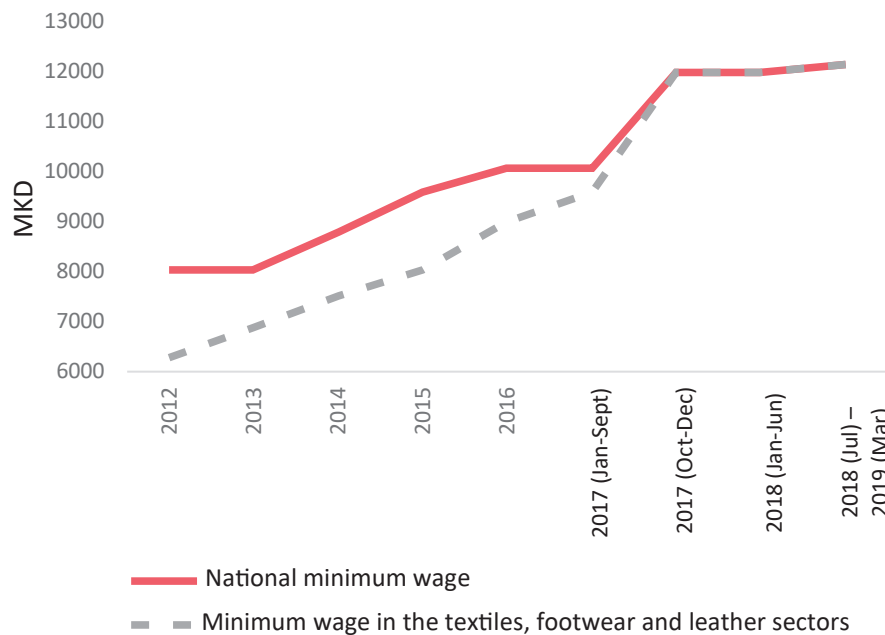
The Minimum Wage Law entered into force for the first time on 1 February 2012 with the January wage of that year. The general provisions of this Law envisage the right to minimum wage, which has remained unchanged throughout the years since its adoption, and all workers are entitled to this right. For individuals working part-time or those working less than the full-time working hours, the minimum wage is calculated according to the number of working hours performed. This Law does not apply to self-employed persons. Five amendments were made one after another: on 06.02.2014, 05.12.2014, 18.05.2015, 31.07.2015 and on 20.09.2017. The first amendment concerns the amount of the minimum wage for the following years, whereas the following three amendments concern mainly the penalty policy. The last amendment covers a wider range of elements, which are subject to analysis in this study.

The Labour Code acknowledges the validity of the Minimum Wage Law and of the collective agreements, whereby it concludes that according to Article 107, the wage of a full-time worker may not be lower than the minimum wage established by law and by the collective agreements. This provision is one of the most important bases for establishing the minimum wage by law.

In 2012, the introduction of this Law set the minimum wage at 39.6 percent of the average gross wage in Macedonia, or at a net amount of MKD 8,050. For the purpose of adjustment of the minimum wage in the sectors where in July 2011 the average gross wage was below MKD 15,600, the amount of the minimum wage for the following three years was envisaged to be calculated by multiplying the gross amount with the following coefficients: 0.778 for 2012, 0.852 for 2013 and 0.926 for 2014. The coefficients were later applied only in the two subsequent years. In 2014, the first changes in the amount of the minimum wage positioned it at the level of MKD 8,800 and MKD 9,590, for 2014 and 2015, respectively, and at the level of MKD 10,080 as of the beginning of 2016 (see Graph 1). These changes were followed by changes in the minimum wage in the textiles, footwear and leather sectors, at a moderately intensified pace, in order to achieve the same level with the national average in 2018. At the same time, via the changes of 2014, the system of establishing the minimum wage as a percentage of the average wage was abandoned, and the approach of setting a specific amount of the minimum wage was adopted.



Graph 1 – Net minimum wage (2012-2018)




Source: Minimum Wage Law

The latest amendment to the Law, dated September 2017, fixed the minimum wage as a gross amount at MKD 17,130, or a net amount of MKD 12,000, applicable to all sectors. This amount equals 52.3 percent of the average wage in 2017. This amendment also introduced the provision for adjustment of the minimum wage with one third of the growth of the average wage in Macedonia, one third of the growth of the cost of living index and one third of the real growth of the gross domestic product for the previous year, according to the data from the State Statistical Office. The first adjustment of this type was done in August 2018, starting with the July wage and it will be effective until March 2019. This adjustment increased the minimum wage to MKD 12,165.

The second important novelty in the amendments to the Minimum Wage Law from 2017 is the introduction of a performance standard. The performance standard is set every year in February by the employer based on the production efficiency criteria established by the employer in cooperation with the workers, whereas the criteria must be the same for every technical and technological unit at the employer's facility. The performance standard should be achievable for at least 80 percent of the total number of workers for each technical and technological unit individually. However, in April 2018 the Constitutional Court of the Republic of Macedonia abolished as unconstitutional the provisions of the Law related to the performance standard.

The third important novelty in the amendments to the Minimum Wage Law from 2017 is the financial assistance for payment of the minimum wage and the control over the fulfilment and use of the financial assistance. The disbursement of the financial assistance is done through the Ministry of Labour and Social Policy. This section of the Law specifies the requirements that must be met by the employer in order to qualify for



financial assistance, as well as the amount of the financial assistance. It ranges from MKD 500 to MKD 2,000 per worker in the first six months, and this amount is halved in the following six months. The requirements that should be met by the employer in order to get financial assistance are the following: to hold a status of an active taxpayer, or not to be under bankruptcy or liquidation procedure; the worker for whom the financial assistance is provided may not be exempted from payment of personal income tax or compulsory social security; the employer in the course of 2016 should have suffered losses or generated net profit after taxes of less than 10% of the total expenditure; and to be up to date in the payment of salaries, compulsory social security contributions and taxes for the workers, up to and including the last day of the month preceding the months for which financial assistance is provided. This provision has been applicable to the period from September 2017 to February 2018 and has been monitored by the Public Revenue Office. In the following six months (March-August 2018), the subsidy halved. After the end of the financial assistance, the employer is obliged to keep the worker for at least one additional year. With the Budget Supplement of September 2017, the government set aside an amount of 4.4 million EUR as financial support of the minimum wage increase, while additional 7.5 million EUR were projected within the 2018 Budget. By the end of 2017, the projected subsidy by the government was used in only 15%. The government explained the low interest for the financial support by companies with their relatively good financial position (leading to ineligibility by the prescribed criteria).

The inspection supervision over the implementation of this Law is carried out by the State Labour Inspectorate. Concerning the misdemeanour provisions, two amendments were made in 2015, while the most recent amendment from 2017 concludes that in the event of irregularities in the payment of the minimum wage, the labour inspector will initially order the employer to pay the minimum wage and contributions, and will issue a decision for settlement of employer's liabilities. If the employer refuses to make the payment, a misdemeanour procedure will be initiated. If the employer repeats the misdemeanour, the labour inspector may impose a ban on the operation of the company for a period of 15 days, whereby the employer, again, will be obliged to pay the minimum wage and contributions. In addition, a fine in the amount ranging from EUR 3,000 to EUR 6,000 in Denar counter value will be imposed if the employer fails to set standard performance and pay minimum wage and contributions to the workers.

Apart from the Minimum Wage Law and its amendments, the Ministry of Labour and Social Policy, the State Labour Inspectorate and the Employers' Organisation of Macedonia adopted a document with guidelines on the application of the Minimum Wage Law in 2017. The aim of the document is to ensure uniform application of the Minimum Wage Law. The process of drafting the document lacks the involvement of workers' representatives.



## 2.2. ILO Convention no. 131 on Minimum Wage Fixing

The Minimum Wage Fixing Convention no. 131 from 1970 supplemented the Minimum Wage Fixing Machinery Convention (1928), the Equal Remuneration Convention (1951) and the Convention concerning Minimum Wage Fixing Machinery in Agriculture (1951). It falls within the group of ILO technical conventions.

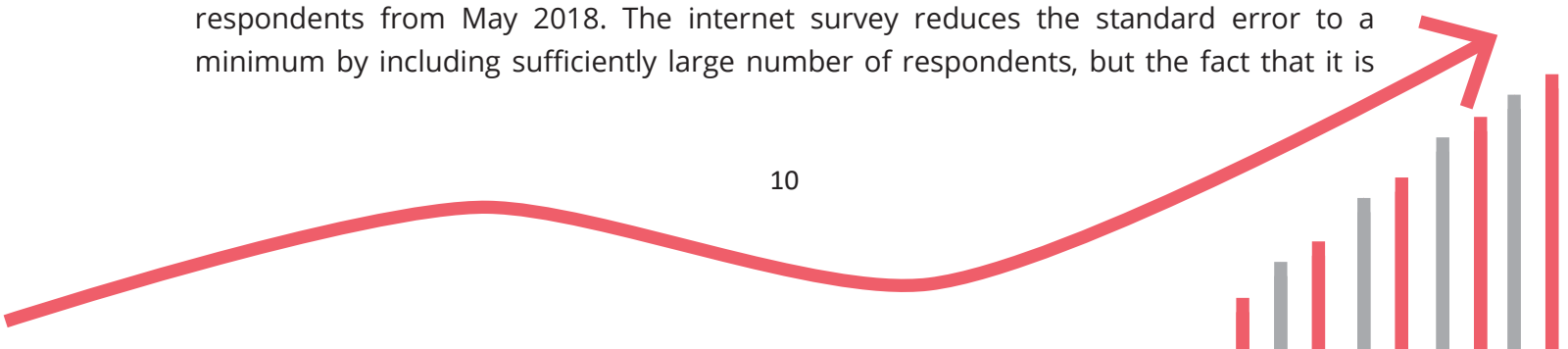
The aim of this convention is to provide protection to wage earners by setting minimum wage, taking into consideration two aspects: i) the needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups; and ii) economic factors, such as the stage of economic development, levels of productivity and the desirability of attaining a high level of employment.

The Minimum Wage Fixing Convention aims at fixing the minimum wage by law or collective agreements, and imposing penalties for failure to comply. The objective is for every country that will ratify this Convention to create machinery, previously adapted to national standards, that will be used to set the minimum wage and that will be sustainable over time. This machinery envisages that the process of setting the minimum wage should involve representative organisations of employers and workers, or where no such organisations exist, representatives of employers and workers concerned. Today, this Convention is ratified by 54 countries. Republic of Macedonia ratified this Convention on 17 November 1991 and it is still in force.

According to the International Labour Conference Report, the fixing of minimum wages in 2014 varied across many of the countries that have ratified the Convention. Certain countries have established a system of a uniform minimum wage, which covers all sectors and regions (Bolivia, Mali, Serbia, Thailand and Turkey). Furthermore, there are systems based on regional minimum wages (Indonesia and Japan) or a double setting of minimum wage, that is, on federal and on state level (USA). In another group of countries, minimum wage is set per sector (Mauritius and Panama) or per occupation (Costa Rica and Slovakia). This practice is not in breach of Convention no. 131, which allows flexibility in this regard.

## 2.3. Analysis of Available Data on the Implementation of the Minimum Wage Law

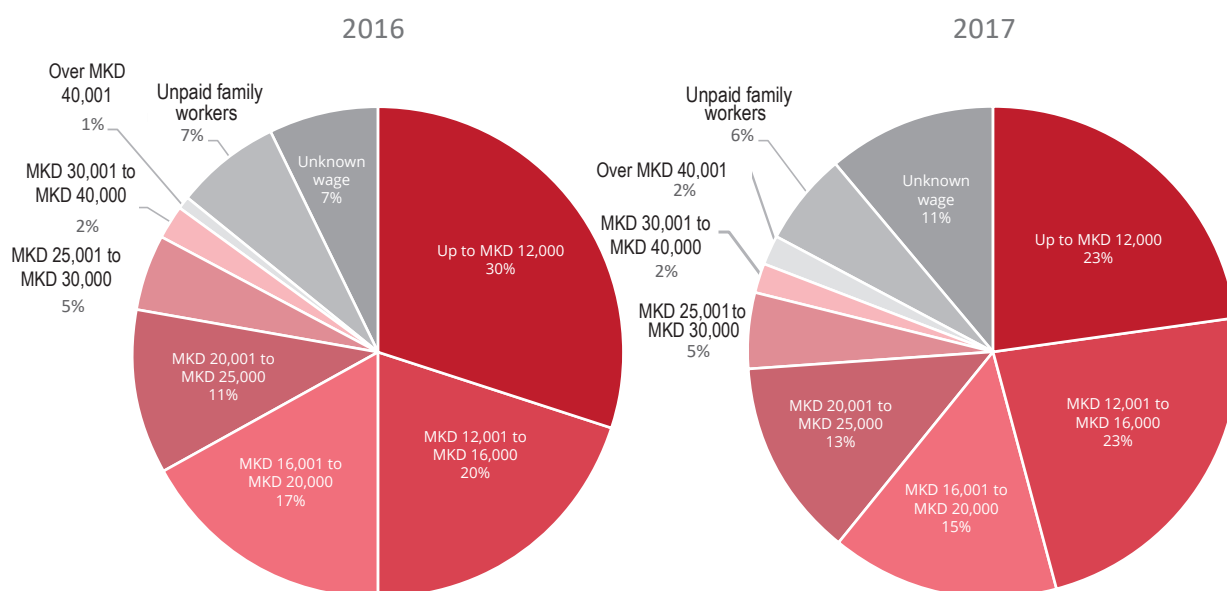
This section gives an overview of the available data on the minimum wage. There are two sources of general information on minimum wage that are available: Employees and net salaries from the State Statistical Office (as of October 2017), Labour Force Survey 2017, Quality of Life Survey 2017 and Finance Think Internet Survey conducted on 961 respondents from May 2018. The internet survey reduces the standard error to a minimum by including sufficiently large number of respondents, but the fact that it is



conducted over the Internet does not guarantee that it is fully representative. Therefore, the information obtained from that survey is only indicative.

Graph 2 shows wage distribution by number of workers receiving it and its amount. A total of 23 percent of employees (according to ILO's definition) in 2017 received minimum wage. In comparison to the previous year, this is a seven-percentage point decrease, which to a certain extent is a result of the increased minimum wage. However, readers should bear in mind that minimum wage increased in October 2017, whereas the Labour Market Survey 2017 covers all four quarters of the year.

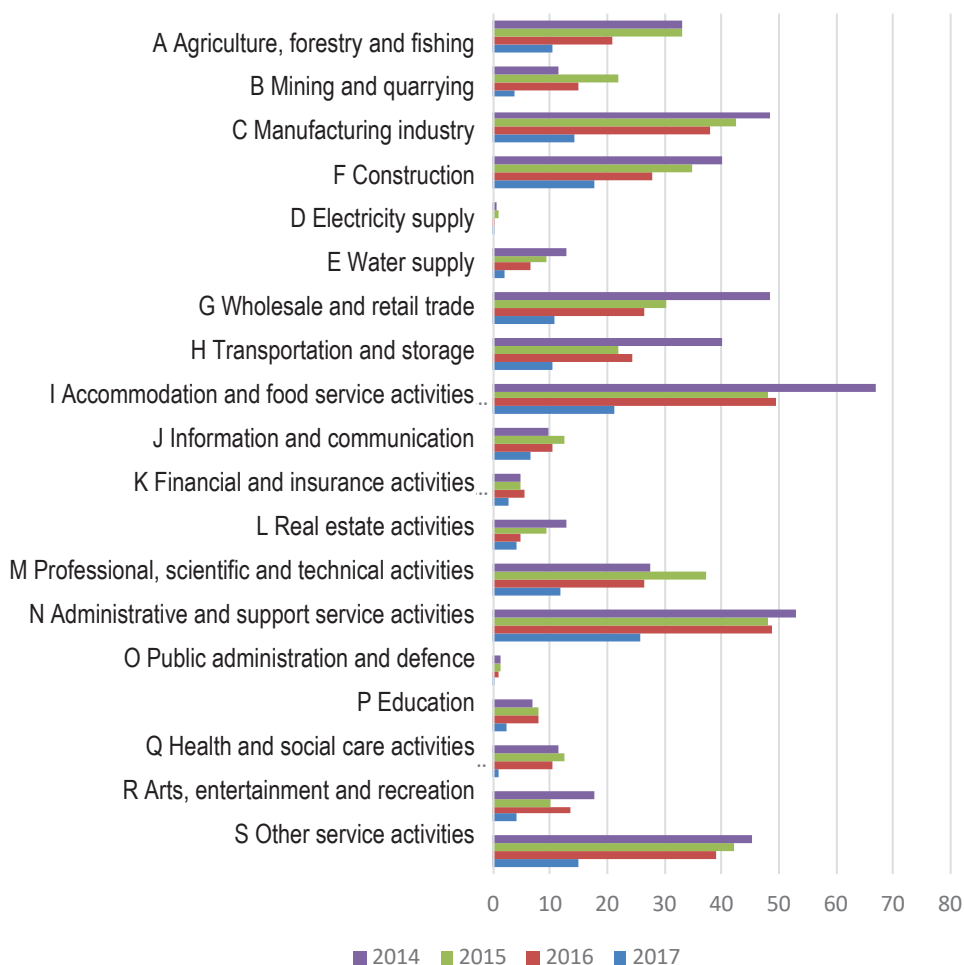
Graph 2 – Wage distribution



Source: Labour Force Survey 2016 and 2017

Graph 3 gives an overview of the share of workers with a wage of up to MKD 12,000 in the total number of workers in different sectors for the period 2014-2017. This is administrative data from companies in Macedonia, so the graph presents 490 to 500 thousand workers who have contracted employment relationship, and not workers according to the definition of the International Labour Organisation. The graph shows that in almost every sector there is a trend of decrease in the share of workers with a wage of up to MKD 12,000, and there is a particular drop in this number in October 2017, immediately after the minimum wage increase.

Graph 3 – Share of workers with a wage of up to MKD 12,000 in the total number of workers in the sector (%)



Source: *Employees and net salaries – State Statistical Office*

Table 1 shows the percentage of people who received minimum wage according to four different classifications: sector of economic activity, occupation, type of contract and economic status. The share of minimum wage earners is the largest in the sectors of agriculture, administrative activities, trade, manufacturing and hospitality industry. At the other end of the spectrum, in the economic activities such as electricity supply, finance, insurance and real estate property, and science, there are no workers receiving minimum wage, or if there are, their number is so small that it falls within the scope of a statistical error. An interesting conclusion is that the number of minimum wage earners in the public administration is insignificant (1.6 percent).

Table 1 – Percentage of workers receiving minimum wage

Sector (National Classification of Economic Activities Rev.2)*		Occupations (ISCO-08)*	
Agriculture, forestry and fishing	36.9%	Chief executives, senior officials and legislators	15.6%
Mining and quarrying	0.0%	Science and engineering professionals	2.0%
Manufacturing industry	27.2%	Technicians and associate professionals	6.6%
Electricity, gas, steam and air-conditioning supply	0.0%	Clerical support workers	7.0%
Water supply, sewerage and waste management	19.3%	Service and sales workers	30.1%
Construction	24.1%	Skilled agricultural, forestry and fishery workers	54.6%
Wholesale and retail trade; repair of motor vehicles	30.2%	Craft and related trades workers	25.7%
Transportation and storage	14.2%	Plant and machine operators, and assemblers	27.6%
Accommodation and food service activities	27.1%	Elementary occupations	35.1%
Information and communication	4.5%	Armed forces occupations	0.0%
Financial and insurance activities	0.0%	<b>Type of contract**</b>	
Real estate activities	0.0%	Indefinite-term employment contract	6.4%
Professional, scientific and technical activities	0.0%	Fixed-term employment contract limited to a maximum of 12 months	12.4%
Administrative and support service activities	33.5%	Fixed-term employment contract, 12 months or more	8.2%
Public administration and defence; compulsory social security	1.6%	Fixed-term employment contract through an intermediary agency	12.0%
Education	9.8%	Internship of other training programme	49.5%
Health and social care activities	7.5%	No contract in writing	22.6%
Arts, entertainment and recreation	13.1%	<b>Economic status**</b>	
Other service activities	25.7%	Worker	11.8%
		Employer	6.3%
		Self-employed without any additional employees	4.0%
		Unpaid family worker	NA

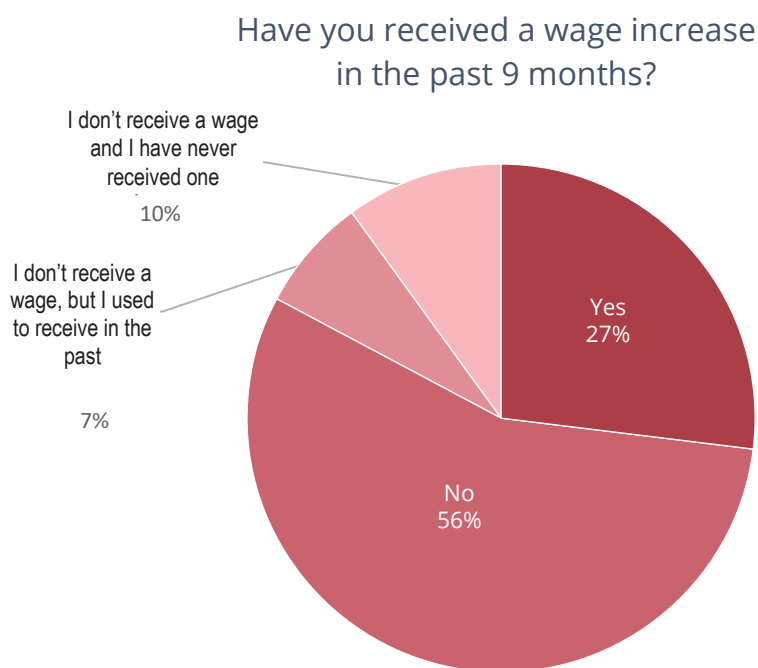
Source: Estimates by the authors of this paper based on the Labour Force Survey 2017 and the Quality of Life Survey 2017.

Note: \* percentage of workers receiving wage of up to MKD 12,000 (Labour Force Survey 2017); \*\* percentage of workers receiving a wage of up to MKD 10,080 (Quality of Life Survey 2017)

By analysing the statistics by occupation, and in addition to the conclusion drawn regarding the distribution by sectors, it can be seen that the minimum wage is present among workers in service activities and elementary occupations. On the other hand, the share of minimum wage earners among professionals, engineers and clerks is less than 10%. We should also note the relatively high percentage among members of legislative bodies, which probably is due to the persons receiving remuneration for being members in various state administrative bodies, which does not imply an employment relationship. Minimum wage earners are present among all categories of contracts, but mostly in the category of fixed-term contracts signed through an intermediary agency and in the category of short-term contracts. When there is no written employment contract (informal employment), the share of minimum wage earners is, as expected, significantly higher, or 22.6 percent. According to the economic status, the largest share of minimum wage earners is among those working for an employer, but what is interesting is that even among the group of employers there is a certain percentage of people receiving minimum wage.

According to the internet survey, 33 percent of workers (27.2 percent of all respondents) responded that their wage has been increased in the past nine months (Graph 4).

*Graph 4 - Wage increase*



*Source: Internet survey, May 2018*

There is no doubt that the majority of workers (76 percent) were satisfied with the wage increase, although this percentage is smaller (64 percent) among those receiving minimum wage. The percentage of those who were not able to enjoy the wage increase because they had to return part of their wage in cash to the employer is 14.8 percent among the minimum wage earners, and only 3.2 percent among all workers (Table 2).

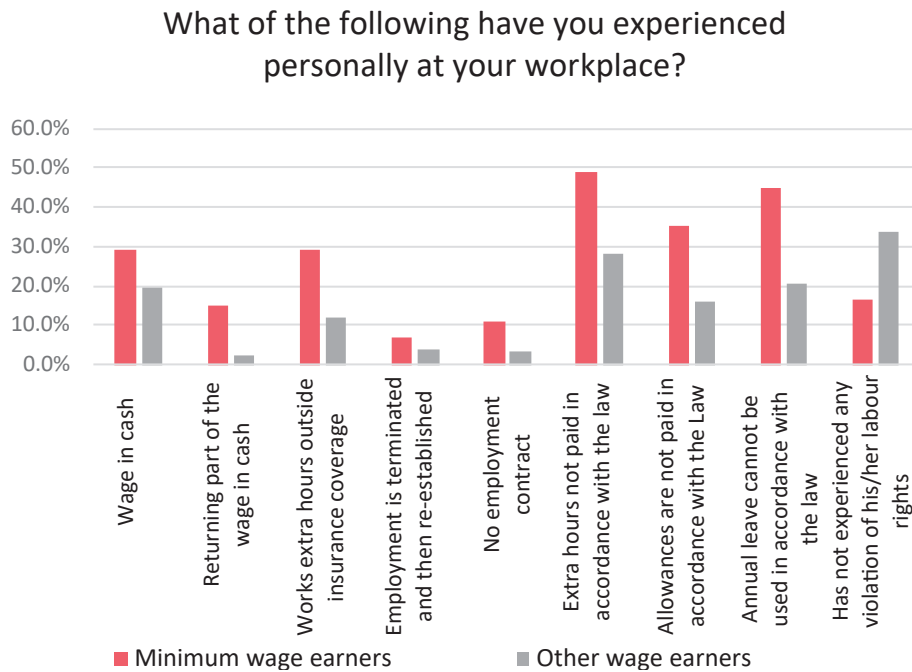
Table 2 – Perceptions of wage increase (%)

	All workers	Workers receiving minimum wage
<b>The increase is excellent, I can buy more and I live better</b>	19.91	7.41
<b>Every increase is welcome, but you cannot live on low wages</b>	56.02	55.56
<b>The increase is good, but now I have more pressure at work to meet the performance standard</b>	9.26	7.41
<b>I was not able to enjoy the increase since I have to give back in cash part of the wage</b>	3.24	14.81
<b>The increase doesn't mean anything to me</b>	6.02	7.41
<b>Other</b>	5.56	7.41
<i>Source: Internet survey, May 2018</i>		

The incidence of violation of labour rights related to wage payment (Graph 5) is higher among those receiving minimum wage: only 16.5 percent of the people receiving minimum wage reported that they have not experienced any violation of their labour rights, in comparison to 33.6 percent of other workers. The majority of workers have reported that labour rights are most often violated when it comes to payment of extra hours worked and work during weekends and public holidays, compulsory allowances (such as vacation allowance) and taking annual leave. At the same time, in respect of these three labour rights, violations are almost twice more common among workers who receive minimum wage than among the other workers.



Graph 5 – Labour right violations related to wage payment



Source: Internet survey, May 2018

## 2.4. Model simulation of the effects from the minimum wage increase

This section presents a simple simulation of the effects of the minimum wage increase on the standard of living of workers. The simulation is designed by using the MK-MOD tax and benefit microsimulation model developed by Finance Think. In a nutshell, the model belongs to the family of “standard” static models where individuals / households choose to supply hours of work until the “marginal disutility of work equals marginal utility of disposable (net-of-tax) income” (Saez, 2010, p. 180). Defined as such, the model enables simulation of social assistance, child benefits, unemployment benefits, direct taxes and social security contributions. Therefore, the model is also suitable for simulation of the changes in minimum wage. The model relies on the Quality of Life Survey 2017, which provides detailed data about the income sources (such as income from wages, self-employment, pensions, dividends, interest etc.), including social transfers (such as social financial assistance, child allowance, unemployment benefit, financial reimbursement for assistance and care by a third party, etc.) and foreign remittances. The survey is conducted by using a random sample of 1,200 households and 4,071 individuals. More information about MK-MOD and its robustness can be found in Petreski and Mojsoska-Blazhevski (2017).

Table 3 presents the results from the simulation of the effects of the minimum wage increase on the standard of living of the workers receiving it. Results show that the

minimum wage increase has a positive impact on the standard of living of these people in a way that it decreases the incidence of poverty and puts them slightly higher on the income scale. Namely, the effect on reducing relative poverty equals 0.6 percentage points, while the effect on reducing absolute poverty equals 0.4 percentage points, although the latter reduction is higher in relative terms (reduction of absolute poverty by one fourth).

*Table 3 – Simulation of the effects from the minimum wage increase on the standard of living*

	<b>Before minimum wage increase</b>	<b>After minimum wage increase</b>
<b>Relative poverty rate (60% of the median equivalent income)</b>	21.0%	20.4%
<b>Absolute poverty rate (&lt;1.9 USD per day, PPP, at prices from 2011)</b>	1.6%	1.2%
<b>Gini index of inequality</b>	36.4%	35.9%
<b>S80/S20 ratio of inequality</b>	8.6	8.2

*Source: Estimates by the authors based on MK-MOD.*

In a similar fashion, the Gini index shows an improvement by 0.5 percentage points, whereas the ratio of the total income of the richest 20 percent of the population and of the poorest 20 of the population drops by 4.7 percent, which is a significant drop.


Hence, the model-based static estimates (everything else remains unchanged) show a positive impact of the minimum wage increase on the standard of living of the workers receiving it. It should be noted that the model assumes that the increase envisaged by law is observed in 100% of the cases (i.e. a full compliance).

### 3. Field analysis of the impact of the Minimum Wage Law

#### 3.1. Analysis of the interviews with employers

For the purpose of this policy study, four interviews were conducted with employers: two in the Pelagonija Region (Prilep and Bitola) and two in the East Region (Shtip and the village of Grdovci, Kochani). Two of the companies operate in the textile industry (Prilep and the village of Grdovci, Kochani), one operates in the automotive industry (Shtip) and one in the hospitality/catering industry (Bitola). Three of them are of domestic ownership (Prilep, Bitola and Kochani), and one of foreign ownership (Shtip). The objective of the interviews is to get a quality insight in the effects of the amendments to the Minimum Wage Law from the point of view of employers.

The general impression from the interviews with the employers is that the minimum wage increase is a significant burden on companies where a large percentage of the labour force works for minimum wage. *The minimum wage increase fell very heavy on us,*

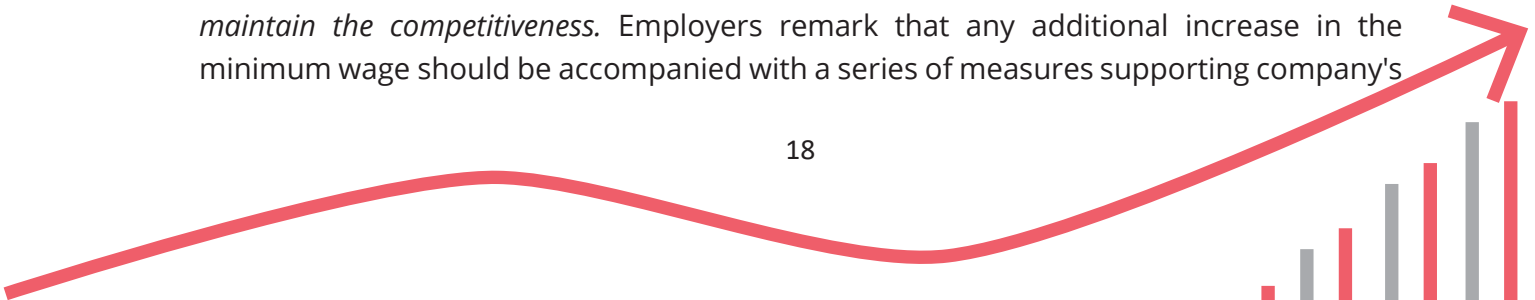
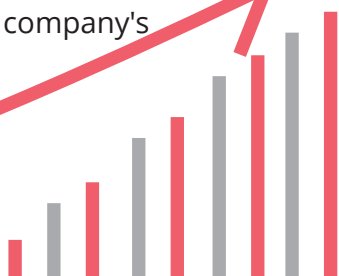



says the owner of a textile factory in Kochani, where almost all workers receive the minimum wage.

Nevertheless, the minimum wage increase is, to a different extent, bearable, depending on the company's technological readiness and specialisation level. The higher the technological level of the company and the greater the specialisation of its manufacturing process, the larger the capacity for absorption of the minimum wage increase. In such a situation, it is also easier for companies to increase the price of the product: the propensity of buyers to change the supplier in case of a price increase is lower when having a high added value product. *Our company is qualified for heavy and semi-heavy apparel. These products, in some way, enabled us to transfer part of the increased cost to the partners-buyers*, an employer from the textile industry explains and adds: *Automation is the way out*. Especially when it comes to foreign companies, which are at a higher technological level and are better integrated in the international supply chains, the actual and announced minimum wage increase does not affect significantly their financial condition. *The average wage that we pay is more than MKD 16,000, thus any increase of the minimum wage would not affect us. However, the factories with large number of workers [hence expected to have a large number of minimum wage earners, n.b.] will have to think long and hard when it comes to that wage*. Some of the employers with whom the interview was conducted have already identified other comparative advantages that can be used for managing the increase in the wage costs. *Bangladesh and China are cheaper anyway. But we have the advantage that a truck loaded with goods can reach any European country within 1.5 to 2 days*, an employer from the textile industry underlines.

All employers agree that a statutory increase, rather than one aligned with productivity, has a direct impact on their competitiveness, which can reflect on the long-term sustainability of the company. In this situation, it seems that the first buffer line used by employers is to shift the burden of the increased cost on the prices of their products. *The only problem was that the price increase was not met with complete understanding by our foreign partners. It didn't go so smoothly, meaning the product price increase did not happen with the same pace as it did with the wage*, an employer from the textile industry points out. However, in case of an unchanged demand, the increased price can lead to stagnation instead of revenue increase. *Buyers don't want higher product prices so that we can have higher revenues*, adds the other employer in the textile industry. *We didn't even budge on the prices. We didn't change the price to increase the revenue. Increased prices will make us less competitive*, an employer from the catering sector adds.

Therefore, employers agree that any future increase in the minimum wage should be cautious and in line with the economy's productivity, so that the negative effects on employment do not prevail. *If the minimum wage is raised at MKD 16,000, we will have to close up shop. All firms will have to go out of business*, points out the owner of a textile company, a statement with which an owner in the same branch agrees: *We struggled to maintain the competitiveness*. Employers remark that any additional increase in the minimum wage should be accompanied with a series of measures supporting company's





productivity and competitiveness, so that it could more easily bear the increased wage cost.


*If a series of measures helping the business are not implemented, the Government will face a wave of shutdowns. MKD 16,000 will be a real blow in our sector - the catering industry. From this standpoint, we could bear around MKD 13,000 - a tolerable situation. But, from that amount upwards, stimulating measures will be needed for the businesses to decrease the cost in other segments and lower the cost relative to wages and contributions,* underlines the owner of a catering business.

A particularly important issue referred to by all employers is the insufficient level of readiness and productivity of workers in the first six to nine months after their recruitment, and the drop in productivity at the end of the working life. This aspect is related to the performance standard, which cannot be met by the worker in this period, but the employer is obliged to pay minimum wage. *A minimum of five to six months is needed for the worker to learn how to operate a machine. During that period, we pay minimum wage. Also, specific skills are required for the position,* underlines the employer from the textile industry. ... *[M]any of our workers are old and some only manage to meet 40 percent of the performance standard,* adds the other employer from the textile industry and clarifies: *A minimum of six to nine months is needed to train one worker to become fully productive. Please note that one month is needed to only learn the safety aspects. But, the workers believe that they are entitled to a whole wage from the very first day.*

All employers agree that the increased minimum wage makes workers more satisfied, but not necessarily more productive. *Everything remains the same with the workers, we didn't notice any changes. They view this as a "hand-out" from the state to them. The increase does not arise from an increase in the business, but from a state measure,* remarks the employer from the catering industry. The other employers agree: *The workers are more satisfied with the minimum wage increase. In some way, we are also relieved that they are more satisfied. But, productivity did not change, it remained the same; Even though wages increased, it did not boost productivity. They became more satisfied, but not more productive.* In that context, employers consider the revocation of the performance standard as an additional blow to the company: *There are workers who are always failing to achieve the standard. They achieve perhaps 75-80 percent. There are some regularly achieving 100 percent, and some even 110 percent. But now, we have to pay the minimum wage even when the standard has not been met,* says the employer from the textile industry.

Productivity, employees' work habits and ethics were stressed as a major issue regarding wage payment. *There is a shortage of workers. He would not come at work for two days in a row, he would come on the third day and say "I had work at home". You cannot fire him because you cannot find workers,* remarks the employer from the textile industry. *We are a foreign factory and if compared to the our Slovak factory, our productivity is still 20 percent lower. But, it does not depend on the wage only: from our experience, what matters also is the type of machines used, raw materials, etc.,* adds the representative of the foreign factory.

The rise and equalization of the minimum wage also causes the so-called adjustment issue, that is, a situation when the company faces pressure to increase the wages that were previously not minimum, but which draw nearer to the minimum wage with its



statutory increase. *The rise in the minimum wage also triggered an increase in the other wages. In general, companies are struggling to bear the increase in wages, considers the employer from the catering industry. This means that the wages of lower-skilled workers are now closer to the wages of higher-skilled workers. Those who put efforts into their work and those who don't, seasoned workers and those without any experience, are now receiving the same wage. The problem is they started making comparisons... "if she receives MKD 12,000, then I have to be paid MKD 15,000,"* explains the employer from the textile industry. *The Law caused this increase to be reflected vertically upwards, as an increase for a significant share of workers,* adds the representative of the foreign factory. The Government became aware of this problem and developed a measure subsidizing one third of the wage rise for the wages ranging from MKD 12,000 to 18,000.

None of the employers participating in the interviews applied for a subsidy of the minimum wage increase. Some of them were not sufficiently informed of the application process for this subsidy, while others failed to meet the criteria for receiving, which they consider rigid. *We don't have subsidising of the minimum wage. As I read, there are some conditions. The company should incur losses or be at the break-even point in order to receive assistance. That's absurd,* considers the employer from the catering industry.


Finally, the interviews show the dichotomy between the domestic and foreign companies operating in Macedonia. Even though the foreign company is from the automotive industry, the higher level of technological readiness, the higher value added of products, the more stable integration in the international supply chains, and the potential opportunity for assistance from the parent company allow greater stability of the manufacturing process. This makes jobs in foreign companies more attractive to workers.

*The entire shortage of manpower in Bitola is because of the foreign factories. They take our staff. We have reached a situation where the catering branch is sinking. Because the conditions on the domestic and foreign market are not the same. They are leaving there [in the foreign factories, n.b.] because they find greater security, and the difference in wages is not big. Even in terms of security there is no difference. It comes down to the perception and the feeling that they are more secure,* explains the employer from the catering industry.

*The textile industry entails hard work. Workers go to the foreign factories because they believe it is easier there. Then, they see that those factories have a strict work regime. So, they ask us to take them back,* adds the employer from the textile industry.

*Workers prefer to work in foreign companies because they showed an exemplary rapport with their employees: providing the allowances regulated by law (overtime work, work during holidays, vacation allowance), which the local companies abuse. Some workers accept even a lower wage in a foreign company, because they know they will receive their wage and all wage allowances on time,* argues the representative of the foreign company.

In conclusion, the minimum wage increase is a relative burden to the companies, particularly in a situation where the majority of workers receive a minimum wage and



where the technological readiness level and the specialisation of the end product is lower. The employers' qualitative assessment is that the current minimum wage level is bearable, which was indirectly confirmed by the fact that none of the four companies participating in the interview used a state subsidy. At the same time, employers agree that the statutory rise in the minimum wage makes workers more satisfied, but not more productive at their job. Nevertheless, the minimum wage increase triggered some problems such as: a requirement to pay minimum wage even when the worker has failed to achieve full productivity, which is usually the case in the first few months after the worker is recruited and at the end of the working life; pressure to increase the other wages due to the so-called equalization; and the spillover of trained staff from the local to the foreign companies, caused by the perception, but not necessarily by the actual greater security that these companies can provide.


### 3.2. Analysis of the focus groups with workers

For the purpose of this study, we conducted two focus groups with workers: one in the Pelagonia and one in the East Region. The total number of participants in the focus groups was around 20. Most of them minimum wage earners, while the others were receiving an amount close to the minimum wage, or were recipients of minimum wage in the past. The participants were from the textiles, leather, footwear, catering, food and security branches. The purpose of the focus groups was to get a quality insight into the impact of the amendments to the Minimum Wage Law from the workers' viewpoint.

In addition, the Internet Survey conducted by Finance Think gave the participants an opportunity to share their perceptions and experience relative to the minimum wage. This section also uses some of those statements.

*The workforce is exploited to a very high degree, begins one of the workers. Another adds: The Macedonian worker is used to accept what is being imposed. We will not raise our voice for another 15 years. A third worker continues: The Law does not apply in Macedonia. Only the boss has the final say.* The general conclusion stemming from the discussions with workers about the minimum wage is that the statutory solutions regulating labour rights regarding wage payment have been properly established, but their implementation in practice is significantly lagging behind. This prevents workers from feeling an actual and effective increase in the minimum wage and, hence, an impact on their standard of living. Also, the awareness of these labour rights among workers is on a relatively satisfactory level, but it is compromised by the (perception of) owners' / employers' power, the potential interference with the inspection services and the absence of or existence of compromised trade unions.

Workers emphasise the *de jure* compliance with the Minimum Wage Law, or the insurance and payment of the minimum guaranteed by law. However, they also point to a series of irregularities that occur in parallel with that process, aimed at reducing or cancelling out the effect of the minimum wage increase, which results in the same or lower standard of



living of the recipients. Specific cases are those where workers receive some of the wage in cash or they are forced to return part of their wage in cash to the employer. *The minimum wage increase is more fictitious than actual... many companies take the remainder so they reach again the threshold below the minimum wage*, remarks one worker from the East Region; and another from the Pelagonia Region adds: *... I learned that... in some places where workers' wage was nine to ten thousand, and the employer had to pay 12 thousand, they had to return two or three thousand in cash.*

It seems, however, that the opposite phenomenon – paying part of the wage in cash is more frequent: *They receive the wage partly on their transaction account and partly in cash, so the total amount remains the same; 12,000 on their account plus 1,000-2,000 in cash, so that [the employer, n.b.] would avoid paying tax.* However, such payment in cash above the insured minimum amount leaves workers without legal protection, although they accept this practice by the employers to avoid losing their jobs: *I should be receiving additional two thousand in cash each month, but I have not received that amount for February, March and April. I am owed six thousand MKD*, says a worker from the Pelagonia Region. The workers' statements also include other experiences; for instance: *Previously we used to take 10,200 and meals were also provided. Now we earn MKD 12,000, out of which we spend 3,000 on meals because we have to buy them, so after the increase, our wage is now MKD 9,000.*

Nevertheless, in general, workers express satisfaction from the minimum wage increase: *Definitely, it had a positive effect on people receiving minimum wage and this is a good measure.* Though, they point out that the so-called equalization has an adverse effect on workers' motivation: *Our company equalized the wages. Those that used to earn 10 thousand now earn 12, and those that used to earn 12 still earn 12 thousand. This means demotivation; you lose the will to work.* As expected, workers would be more satisfied with further increase in the minimum wage, assuming that the employers will not circumvent the legal solution and that prices in the consumer basket remain the same. *... Let's be honest, MKD 12 thousand are nothing compared to the amount of the consumer basket; Raise it to 16 thousand, but keep these prices.*

Workers point out that not only the minimum wage, but also other labour rights have been compromised. *The last time I worked from June 2017 until March 2018, the boss infringed all possible rights pertaining to me: I was not registered, I worked over 70 hours per week (Saturdays and Sundays) and, in the end, he did not pay me two salaries... I am extremely disappointed because this keeps happening, regardless of my skills.* The most specific case is the payment of vacation allowance, which seems to show the highest incidence of circumventing the rules. The usual practice is to pay this allowance *de jure*, but then the employer demands it back in cash. *The first time when the obligatory payment of vacation allowance was adopted, we returned the entire amount; We signed that we got the vacation allowance, but we never received any money*, two of the workers from both regions recount, while another one adds: *... not using the paid-leave days, receiving wages in envelope and*



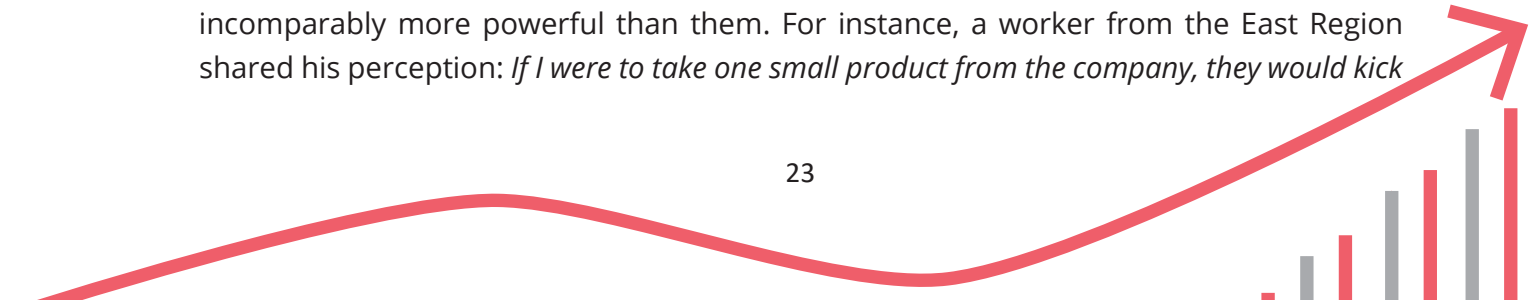
*not paying the vacation allowance in the private sector is a very common phenomenon in Macedonia.*

Work during weekends and holidays, and its inadequate valuation contrary to the legal norms is also subject to abuse. *I know of many cases where workers are insured full-time, however, they work overtime including Saturdays and Sundays, but none of that is paid; In my workplace, they don't pay the holidays, I also do the third shift, but nothing is paid, say some of the workers from both analysed regions. The situation with using the paid-leave days guaranteed by law is similar, i.e. employers do not allow workers to fully use those days: Last summer we were only allowed to use 10 paid-leave days, and, in the meantime, when one of the colleagues is on vacation for 10 days, the rest cannot take a day off. Or, if those days are used, then employers find alternative ways to compensate for that effect: For annual leave we have four days, or more if we link them to a public holiday. And when the workload began to increase, each day we stayed one additional hour to return the two days that we used.*

The minimum wage payment is also bypassed through the working hours. Oftentimes, workers are insured part-time, in order to pay a wage lower than the minimum wage for 40 working hours, and the worker stays on the job full-time. *If you work in a boutique, the employer will insure you on 30 hours, you will be working 40 hours and will receive MKD 10,450, which in theory will be considered as within the minimum wage fixed, but, in reality, you will be below the minimum, recounts a worker from the Pelagonia Region, while another one adds: My sister works in a grocery store, she receives a wage of MKD 8,000, she is insured part-time, but works full-time.*

According to workers, there is no difference in the intensity of labour force exploitation between the domestic and foreign companies operating in Macedonia; however, labour rights in foreign factories seem better respected, and often wages are higher. ... *Previously, I also used to work at another foreign company for almost a year and a half, and the situation there was the same, high performance standards, which nobody can reach, we continuously worked for 7.5 hours... all labour rights were protected, I mean fulfilled, but a lot was expected from the employees relative to the wage, explains a worker from the Pelagonia Region, while a worker from the East Region adds: My cousin earns MKD 12 thousand at my workplace. His son got recruited by a [foreign factory, censored], and his first wage was MKD 18 thousand. Perhaps the work there is harder, they are standing on their feet, but the pay is better. Everything is provided: meals, transport, public holidays. Therefore, it comes at no surprise that all workers would definitely choose to work in the public administration, which they perceive as an easier, better paid job, with full observance of labour rights, particularly those relative to wage payment: The work is easier, there is less pressure, there are no performance thresholds, [work during] holidays, weekends.*

In the workers - employer relationship, workers unequivocally feel as the weaker side. In the focus groups, the prevailing perception was that workers feel their employers are incomparably more powerful than them. For instance, a worker from the East Region shared his perception: *If I were to take one small product from the company, they would kick*







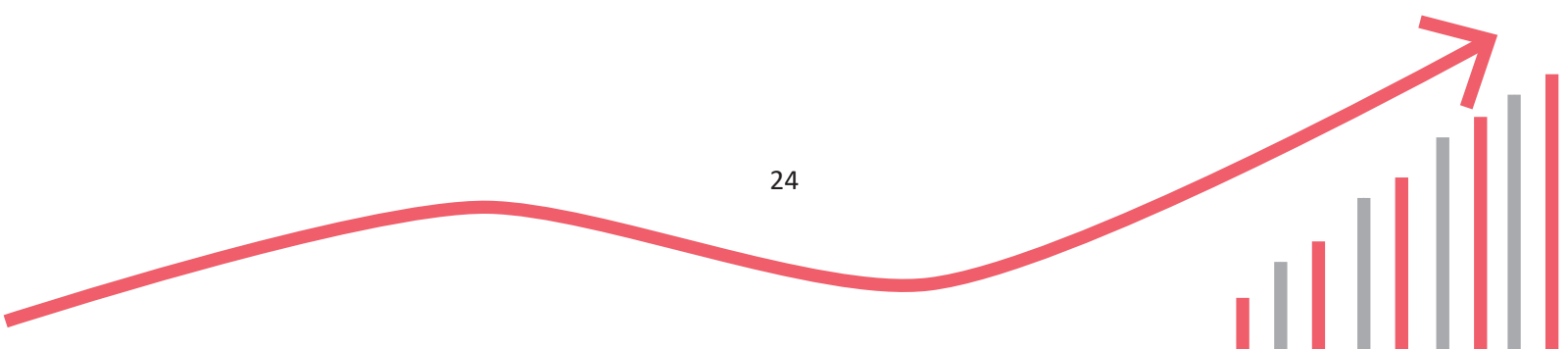
*me out. But, no rules apply to them [the employers, n.b.]. Then, this perception of superiority turns into fear that any reaction by the worker concerning the failure to comply with labour rights will produce a negative outcome for him/her: We have not complained anywhere. It would be useless. I will be fired; Who is allowed to do that [to complain, n.b.]? I will immediately lose my job. The government and the employers are teamed up.*

Workers perceive that employer's power is due to their interference with the inspection services and the absence of trade union protection. The experiences with the labour inspection services are vivid, but they boil down to the awareness that the inspectors effectuate their relationship with the employer, and the worker ends up as the aggrieved party. *I had an experience once where an inspector visited us, posing questions, and I openly told him the problems. And, he wrote down what he wanted, and not what I had said,* recounts a textile worker from the Pelagonia Region. *My colleague reported this in the inspection service anonymously. They came, looked around, wrote up the minutes, and left. In half an hour, the name of my colleague was revealed and she was laid off,* recounts a worker from the East Region.

The trade unions in the companies are similarly compromised. Some of the workers pointed out that companies where they work do not have trade unions, they either only exist formally or are completely inefficient and operate for the benefit of the employer. *The employer elects the trade union. The wife is a technician in the company, and he appoints her husband [as manager, n.b.] in the trade union. If she talks too much [points out to irregularity, n.b.], he will demote the wife to the position of a seamstress or lay her off,* a worker from the East Region recounts her experience. *But, no one has the courage [to report an irregularity, n.b.], because they will lose their job, and the trade union is nowhere to be seen, even those trade unions that exist would not complain because nobody would believe them.*

The general impression from the workers' focus groups is that the issues relative to the minimum wage payment are more difficult to bear in the East Region than in the Pelagonia Region. The incidence of positions with minimum wage, and particularly those in the textiles, leather and footwear industries, is higher in the East Region.

In conclusion, workers show satisfaction from the minimum wage increase, but they indicate that there are frequent situations where this increase is compensated by asking workers to return part of the wage in cash, the manipulation of working hours and other wage related rights, which prevents this increase to be fully reflected on their standard of living. According to workers, the main problem in wage payment and the related labour rights lies in the inadequate enforcement of the law, the perception of the employers' power, their interference with the inspection services and the weak trade unions.





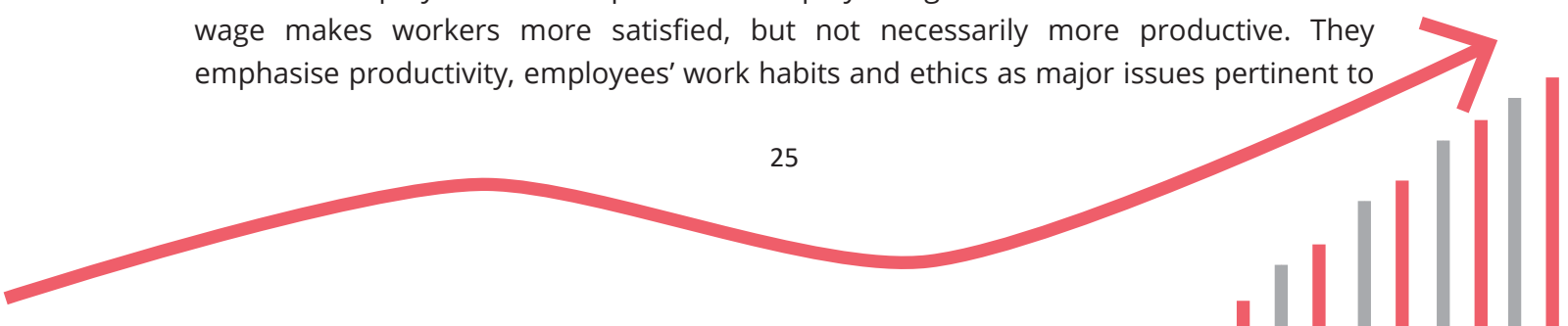
## 4. Conclusions and recommendations


The amendments to the Minimum Wage Law from September 2017 brought an increase in the minimum wage from MKD 10,080 to MKD 12,000, but also its equalization in the textiles, leather and footwear sectors, where it was previously lower than the national average (MKD 9,590). After the first minimum wage adjustment in August 2018, in accordance with the amendments to the Minimum Wage Law, the minimum wage increased to MKD 12,165. The purpose of this study is to make a regulatory impact assessment of that increase, principally, by using a qualitative approach.

The available data suggest that the amendments to the Law contributed to the wage increase in several sectors, particularly in the trade, administrative activities, manufacturing and hospitality industry, which are the most exposed to the minimum wage. By occupation, the minimum wage increase affects mostly the workers in service activities and elementary occupations. In total, 27 percent of the participants in the Internet Survey (961 respondents, with possible selectivity) said they got an increase in the wage in the last nine months and 76 percent of them were satisfied with the increase. However, only 16.5 percent of the minimum wage earners did not experience any infringement of a labour right regarding the payment of wages. In addition, the highest incidence of failures to make payments, or of making payments contrary to the legal provisions relates to overtime work, work during weekends and holidays, also preventing the full use of statutory annual leave days.

The model simulation for the impact of the amendments to the Law on the standard of living suggests positive, though minor effects: decreasing relative poverty by 0.6 percentage points, and improving inequality in income distribution by 0.5 percentage points. However, the simulation assumes full and comprehensive compliance with labour rights pertinent to the payment of wages.

The qualitative views on the impact of the amendments to the Minimum Wage Law are vivid, both from the perspective of employers and from the one of workers. According to employers, the minimum wage increase is a significant burden to the companies where a large share of the labour force works for minimum wage. Nevertheless, the minimum wage increase is bearable to a different extent depending on companies' technological readiness and specialisation level. The higher the technological level of the company and the greater the specialisation of its manufacturing process, the larger the capacity for absorption of the minimum wage increase. Especially when it comes to foreign companies, which are at a higher technological level and are better integrated in the international supply chains, the minimum wage increase does not significantly affect their financial condition. However, employers agree that any future increase in the minimum wage should be cautious and in line with the economy's productivity, so that the negative effects on employment do not prevail. All employers agree that the increased minimum wage makes workers more satisfied, but not necessarily more productive. They emphasise productivity, employees' work habits and ethics as major issues pertinent to




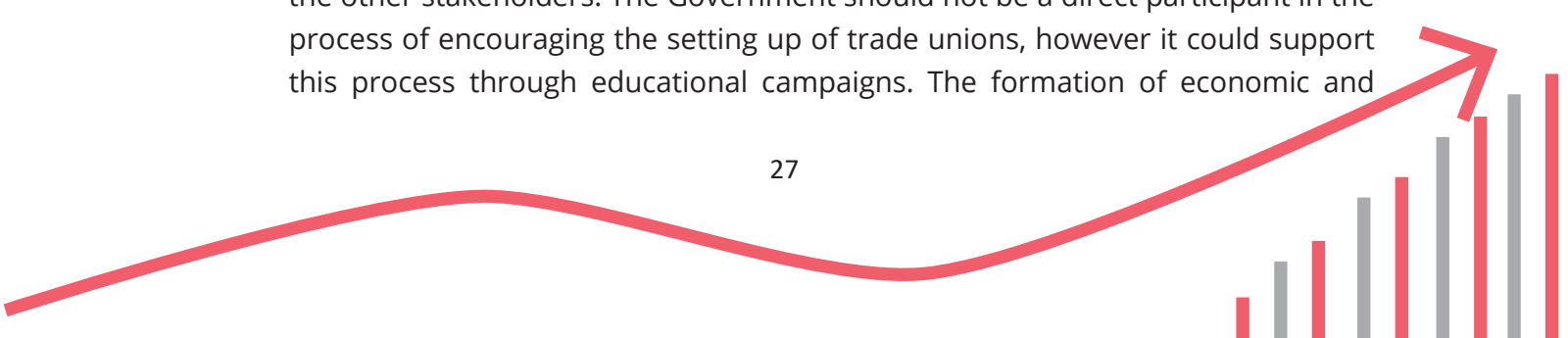



wage payment. There is strong awareness among all employers that the foreign companies could offer better job stability, which motivates workers to prefer a job in those companies, even for the same wage.

On the workers' side, there is satisfaction from the minimum wage increase, though the frequent situations where this increase is compensated by asking workers to return part of the wage in cash, the manipulation of working hours and other wage-related rights, and the cancelling of the free lunch provision, prevents this increase to be fully reflected on the workers' standard of living. Particularly common are the phenomena of demanding to return the vacation allowance in cash, the legal uncertainty concerning the payment of additional wages in cash, inadequate payment of overtime work and work during weekends and holidays, as well not being allowed to use the statutory annual leave days. Similarly to employers, workers underline that they feel more protected in the foreign factories regarding the compliance with labour rights and wage payment, though exploitation there is perceived similar or even more intense. Workers also shared their predominantly negative experience of insufficient protection by inspection services and by trade unions, principally as a result of their perceived interference with employers.

Based on these findings, this policy study gives several recommendations to the policymakers:

- The minimum wage increase should continue only in line with the growth in the economy's productivity. Each increase above the level determined by productivity could lead to adverse consequences on employment and companies' sustainability in certain branches, while in other, it may even put pressure on the prices.
- Encouraging specialisation, including by subsidising companies that manufacture products with a higher value added, may be a more effective strategy than subsidising of the minimum wage. It was revealed that the need to subsidise the minimum wage resides in branches and companies with a lower level of manufacturing specialisation and, hence, which have a weaker potential to pay higher minimum and other wages. On the other hand, the subsidising of the minimum wage is almost unnecessary in companies at a higher technological development level, higher specialisation of the end product, and which are better integrated in the international supply chains.
- Similar to the previous recommendation, the state support of the automation process, particularly in the textiles, leather and footwear sectors, will raise the technological development at a higher level and will allow these sectors to have greater potential to bear such a minimum wage increase. The experience of the foreign factory even shows that a high technological level allows the wage level in the factory to be quite higher than the minimum wage, thus the problems relative to the potential minimum wage increase disappear both for the company and for the state.

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- The support of the technological development process must be accompanied by employee profiling for adequate handling of machines, equipment and of processes. This is a long-term process, though it must start with adequate design, update and consultation with the business sector, of the curricula for vocational education, with sufficiently large (in scope) and deep practical component. The process can be supported both by subsidies and by active labour market programs. In the short term, on the other hand, state support is essential for the transfer of experience concerning the handling of machines and in the processes, as well for the upgrading of job-related skills.
  - Although the revocation of the performance standard in the Minimum Wage Law could prevent its abuse, particularly in those companies and branches where the payment of minimum wage is a considerable burden, the Law should provide financial reliefs for workers in the first six to nine months of their recruitment, i.e. until their on-the-job training lasts and when the worker is not in his/her full productivity. Likewise, certain reliefs should also exist for workers who are at three to five years until retirement.
  - The Government should continue the measure for subsidised wage increase in the rank of at least MKD 6,000 above the minimum wage, in particular if it plans to keep increasing the minimum wage at a pace that is not in line with the growth in productivity.
  - The Government should provide a mechanism for strengthening the compliance with the provision on keeping records of the working hours, potentially through a centralised 'just in time' system of registering working hours in some state institution (the Labour Inspectorate or the Public Revenue Office), so as to put pressure on the employers to: 1) respect the working hours specified in the employment contract; and 2) to have an insight in the overtime work, work during weekends and work during public holidays, and its payment in accordance with the legal provisions. This measure must be accompanied by an efficient labour inspection, though even its setting-up will have an impact on decreasing the occurrence of working-hours manipulation.
  - Strengthening of the capacities and ethical standards of the Labour Inspectorate should be a top priority. In addition, the Government should find modus to "break" the potential interference between employers and labour inspectors. Apart from the increased capacity for conducting inspections, this problem could be alleviated by cross inspection supervision with combined teams from local and national level.
  - The setting up of trade unions should be encouraged by the Government and by the other stakeholders. The Government should not be a direct participant in the process of encouraging the setting up of trade unions, however it could support this process through educational campaigns. The formation of economic and
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social councils on municipal level should continue as a good practice in this segment.

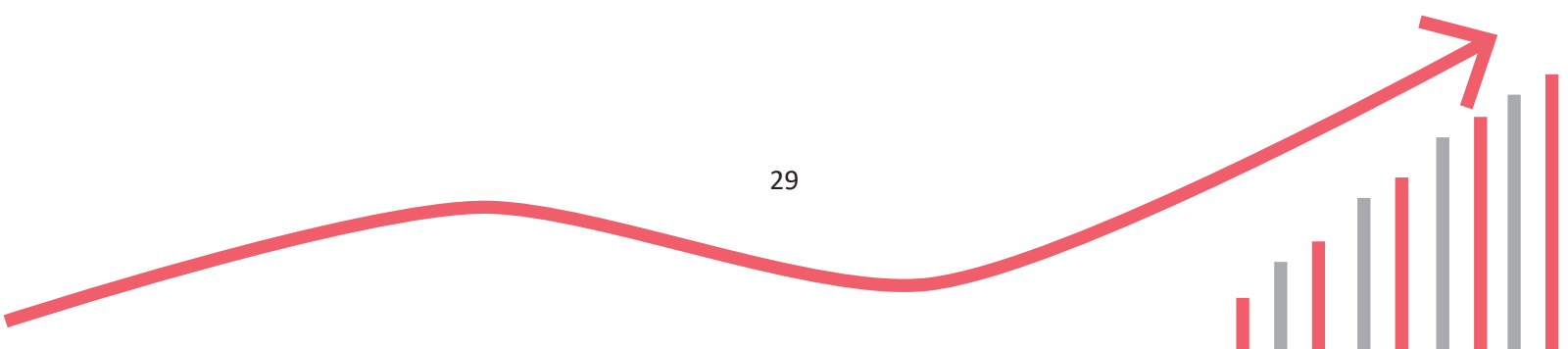
- The Government could also consider supporting campaigns which indicate that wages reflect the skills and, hence, only adequate qualifications could increase workers' productivity, allow better employment and a higher wage. Nevertheless, such campaigns must be consistent with the political will to comply with the principle of merit and competencies in the recruitment and promotion within the public administration.

## 5. References

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Policy Study 17

# Regulatory impact assessment of the changes in the Minimum Wage Law



This project is funded by  
the European Union



Institute for Democracy  
Societas Civilis - Skopje

