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Arab Countries in Need of Minimum Wage Reform

In recent years, there has been growing interest in the role that minimum wage plays in achieving social justice, through improving the living standards of low-income workers and reducing inequality in the distribution of income among various segments of society. Minimum wage is an important tool to support decent employment, and a key component in promoting social protection. Moreover, it reduces the widespread vulnerability and poverty that the working classes suffer from. A recent report by the International Labor Organization (ILO) confirms that more than 1.2 billion workers around the world do not make enough to cover their basic needs.

Policies regarding minimum wage are of paramount importance in Arab countries. There is a dire need to improve sources of economic growth through domestic demand in order to counter the slowdown in export rates and the [decline in tourism revenues](#). Raising the minimum wage will help readjust economic balances, especially in light of fiscal constraints faced by Arab governments. It is expected that raising the minimum wage in Egypt to 1,200 pounds per month (\$175) will cost the annual budget an extra 18 billion pounds (\$2.7 billion). Such a step means

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that at least 4.8 million government employees will receive raises.



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Many studies indicate that redistributing national income to enhance the purchasing power of low-income workers tends to have a positive impact on domestic demand, since a high percentage of the additional income is used to purchase local goods and services. The redistribution could also directly impact investment and stimulate the economic cycle. Increases in minimum wage in many Latin American countries, for example, not only helped consumption but also promoted investment and growth. These increases even contributed to the expansion of the middle class and helped ease social unrest.

For Arab countries to reap the fruits of minimum wage reform, they must take into account the following issues:

First, minimum wage systems should be expanded to cover all workers, in both the public and private sectors. Partial coverage reduces the effectiveness of minimum

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wage policy as a way to stimulate demand; it also creates unfair competition at the expense of institutions and sectors that are required to apply it. A recent ILO study shows that a higher percentage of workers benefit from minimum wage in countries that adopt a uniform minimum wage at the national level, as compared to countries where the minimum wage varies between sectors or regions.

Many Arab countries have resorted to a policy of uniform minimum wage without discrimination between sectors, but the high proportion of workers in the informal sector and the spread of family work have led to a decrease in the role the minimum wage plays in economic redistribution. Arab countries can address this imbalance, by providing social safety nets in addition to implementing minimum wage reform. In that manner, they reap the benefits of both policies, in terms of supporting aggregate demand and alleviating poverty and social inequality.

Second, the concerned social parties—[trade unions](#) and employers' representatives—should work together to set a balanced minimum wage. A very low minimum wage would reduce the effectiveness of this policy in the redistribution of income. On the other hand, if a minimum wage is high in comparison with the productivity of workers, it will lead to inflated prices and will weaken the competitiveness of domestic production—not to mention

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the possibility that private sector companies might not comply such a minimum wage policy.

To achieve a high rate of compliance, an effective inspection system must be put in place which imposes sanctions in the event of no implementation. In many Arab countries, labor inspection services suffer from a lack of resources and low staffing. Furthermore, sanctions are weak and do not compel employers to comply.

The ILO's Minimum Wage Fixing Convention (1970) stipulates that any policy setting a minimum wage must be set after full consultation with the representative organizations of employers and workers concerned. Moreover, such a policy must address the needs of workers and their families, taking into account the cost of living, the achieved levels of production, as well as the need to maintain a high level of employment. Additionally, minimum wage should be adjusted regularly to match the fluctuations in the cost of living and other economic conditions.

Third, setting a high minimum wage runs the risk of reducing employment. Studies indicate that the direct effect of a minimum wage on employment levels in developing countries is often minimal. However, a minimum wage policy that is carefully developed can significantly impact developing new markets and increase

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aggregate demand. It would then pave the way for the creation of new investment opportunities and job growth.

In the end, it should be emphasized that the overall impact of increasing minimum wage depends on the extent of its effect on the competitiveness of exports. It is expected that raising the minimum wage is more difficult in open commercial economies (which highly depend on external demand that is sensitive to prices), compared with countries that compete primarily in terms of the quality and high technological content of their products.

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