Subsistence Level

The Minimum Wage in Jordan





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Summary

According to data available from the Social Security Corporation, thousands of Jordanians live on monthly salaries that do not exceed 400 JOD. In light of the recent hikes in the cost of living though, voices began appearing that say that such salaries are not sufficient to provide for basic needs. These voices have also called for a review to be conducted on the minimum wage in Jordan, which currently stands at 220 JOD.

Article 52 of the Labour Code states that:

"The Minimum Wage Committee shall hold its meetings whenever necessary upon the invitation of its chairman. It shall submit its resolutions to the Minister upon estimating the set minimum wage. When setting the amount, the committee must consider the cost of living established by the competent authorities."

However, despite the numerous changes that occurred to these costs in the past two years, the minimum wage remains as it was set in 2017. These changes include new taxes, increased prices, as well as an increase in inflation rates.

As a result of these conditions, the unemployment rate increased as the economic participation rate continued its decline. In fact, the figures show that the unemployment rate rose during the first quarter of 2019 to hit (0.19 %), an increase of 6.0 percentage points compared to the first quarter of 2018. The unemployment rate for males was 4.16%, while it reached 9.28% for females.⁽¹⁾

More worryingly, the absolute poverty rate has hit a new high, reaching 15.7% in Jordan, while the poverty gap stood at 3.5% and the severity rate of poverty stood at 0.334%.⁽²⁾

An analysis of these figures indicates that poverty rates have widened in the last eight year, rising from 14.4% in 2010 to 15.7% in 2019. The new rate also means that the individual poverty line has risen from 68 JOD per month (816 JOD per year) to 105.6 JOD a month (1226 JOD per year).

Together, these conditions emphasize the need to raise the minimum wage. Such a step will contribute to the protection of vulnerable workers as it will help them provide basic needs for themselves and their families. An increased minimum wage will also reduce poverty as well as lead to a direct increase in consumption, productivity and purchasing power for consumers. Additional benefits include an increase in youth economic participation levels in the labor market, which in turn will reduce the problem of unemployment.

Accordingly

Accordingly, Tamkeen for Legal Aid and Human Rights recommends the government to raise the minimum wage to become in line with the economic conditions in Jordan. It also emphasizes the need that Migrant workers and Refugees be included under the minimum wage decision. It also the calls committee to work on upholding the 8th article of its latest decision in 2017 which calls for the yearly review of the minimum wage according to the economic and social conditions including: cost of living, economic status, and GDP.

Finally, it iterates the need to face any recurring challenges that hinder the process of implementing the minimum wage decision on all workers in the various sectors in the labour market. These steps would contribute to addressing any legislative obstacles in organizing the relationship between employers and workers; as well as contribute in better economic development and the protection of all parties involved in the productive process.

Introduction

Debates about the minimum wage are always heated as a multitude of issues are constantly discussed in relation to the way in which it is calculated and whether the set amount is sufficient to provide for the basic needs of life. Other questions are also raised about the extent of the balance between the needs of workers and their rights, as well as their ability to invest in the country in light of the current economic situation.

In Jordan, the debate is no different as varying views expressed either their supporters or rejection of such a step. Supporters relied on the importance of the raise in light of the rising cost of living; while those who reject it say that the current sum is the best option to guarantee the rights of both employer and workers.

The importance of a minimum wage stems from its role in contributing to the social protection of workers by improving the standard of living, especially for those working in sectors with low wage rates. A set minimum wage would thus ensure that they have the basic rights guaranteed by law. Furthermore, minimum wages can be an important tool to support Decent Work conditions, as they lead to an improvement in the living and working conditions of all groups of society, especially vulnerable groups such as migrant workers and refugees.

The ILO defined the minimum wage as "the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract."⁽³⁾

As illustrated in the above definition, the importance of minimum wage extends further than just the economic aspect, as it also touches upon the social and developmental aspects of workers' lives. The wage should also take into account the specific circumstances of each country by ensuring that workers are able to cover their basic needs for themselves and their families through this wage; while simultaneously considering external factors related to the economic situation in the country including inflation rates. These standards are guaranteed in the ILO Convention No. 131 on Minimum Wage Fixing Convention of 1970, which calls policy makers to "take into consideration the following elements in determining the level of minimum wages, so far as possible and appropriate in relation to national practice and conditions:

- 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;
- 2. economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment . ⁽⁴⁾

Minimum wage in Jordan

Minimum Wage in Jordanian Laws

Jordanian Constitution - Article No. 23

- 1. Work is the right of every citizen, and the State shall provide opportunities for work to all citizens by directing the national economy and raising its standards.
- 2. The State shall protect labour and enact legislation therefore based on the following principles:

a) Every worker shall receive wages commensurate with the quantity and quality of his work.

b) The number of hours of work per week shall be defined.Workers shall be given weekly and annual days of paid rest.

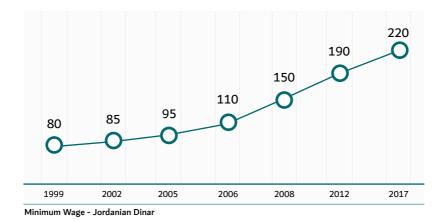
c) Special compensation shall be given to workers supporting families and on dismissal, illness, old age and emergencies arising out of the nature of their work.

d) Special conditions shall be made for the employment of women and juveniles.

- e) Factories and workshops shall be subject to health safeguards.
- f) Free trade unions may be formed within the limits of the law. ⁽⁵⁾

The Jordanian Labor Law - Article 52

"The Council of Ministers shall, upon the recommendation of the Minister, form a Committee comprising an equivalent number of Representatives for the Ministry, Employees and Employers. The Council shall appoint a Chairman thereto from amongst its members to undertake the fixing of the minimum wages estimated in Jordanian currency in general or with respect to a certain area or to a certain profession. The decision shall be taken while consideration is given by it upon estimating the wage, to the cost of living established by the competent authorities and the resolutions issued pursuant to this article shall be published in the official gazette including the date of commencement of its operation." ⁽⁶⁾ It is clear from the above articles that the Jordanian Constitution provided for the need to measure wages based on the quantity and quality of work, while the Labor Law provided that the Tripartite Commission shall determine the minimum wage, taking into account the cost of living which includes the economic situation in the Kingdom and the poverty line. A closer look at the decision texts issued by the Tripartite Committee setting the minimum wage do not include the basis for these decisions. The graph below shows the evolution of the minimum wage in the Kingdom which began at 80 JODs in 1999 to become 220 JODs in 2017:



Government statements though clarified that the process of determining the minimum wage is based on two basic criteria: The needs of workers and their families, taking into account the general level of wages in the country and the cost of living, social security benefits and living standards. The other factor is related to a number of economic factors such as economic development, productivity levels and the desire to attain a high level of employment and maintain it. These two factors are usually influential in the decision to the best possible extent and in consistency with national practices and circumstances as well as being in conformity with the ILO Convention No. 131.⁽⁷⁾

The last decision to raise the minimum wage was taken on 05/02/2017. The text of that decision contains an additional article, number (8), which states that

" This decision shall be reviewed by the Tripartite Commission at the beginning of each year to determine any increase in the minimum wage that was previously determined by the Commission."

The new article indicates the importance that the minimum wage be reviewed at the beginning of each year; which is in line with Convention No. 131. So far though, the minimum wage has not been considered again neither at the beginning of last year nor this year despite the many changes that occurred to the costs of living in the Kingdom.

Executively

As shown by the graph above, the increase that occurred in the minimum wage was gradual. In the years preceding to the Global Financial Crisis in 2008, the Jordanian economy was stable. Economic growth rates were high and GDP ranged from 5.1% to 7.3% between 2000 and 2008. These positive conditions meant that prices remained within stable ranges and that the increases to the minimum wage were slight as they ranged between 5-10 JOD. ⁽⁸⁾

However, the situation began to change following the Global Crisis, as the Jordanian economy, like its global counterpart, began suffering as a result of many variables. While some of these variables were due to the crisis, others were the result of the political unrest that affected the Arab World since 2011. Thus, Jordan's economic growth began a gradual decline until it reached 1.9% in 2018. Subsequently, inflation rates began increasing; resulting in successive increases in the minimum wage ending in the 2017 decision which raised it to 220 JOD.

Despite these rises in the minimum wage, there are still many concerns whether the current amount is adequate to meet the levels of living standards as prices continue with their hikes affecting workers' ability to provide for the basic commodities that they and their families need. In order to answer these questions though, a review is needed that will cover the key factors associated with the decision to raise the minimum wage; especially those related to inflation rates and poverty line in Jordan.

First: Inflation

Inflation in Jordan has increased in recent years due to several external factors, including wars in the region, continuing waves of asylum, and political instability, especially in neighboring countries. These political factors led to counterpart economic ones as the country changed its economic policies by removing subsidies on oil derivatives as well as other products including bread. Consequently, the Consumer Price Index (Inflation) hit a new record high, increasing by 0.5% on an annual basis in June 2019.

According to data released by the Department of Statistics, the increase was due to the increases in rents; the prices of meat and poultry, vegetables, dried and canned beans, grains and education.

The increase in inflation was also recorded on a monthly basis. In May of 2019, it increased 0.5% compared to the same month last year. The increase again was caused by the before mentioned increases, in addition to increases in transportation, fuel and lighting, as well as cultural and recreational activities. It should also be noted that inflation rates rose 0.5% in the first six months of 2019 compared to the same period in 2018.

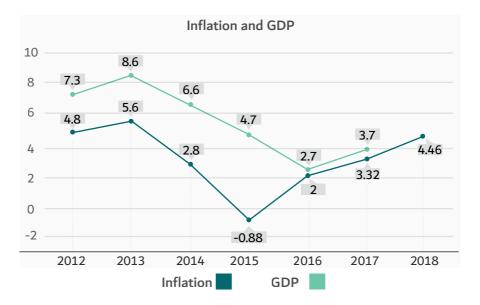
The high rate of inflation is due to several reasons. They include: increased taxes, reduced purchasing power of consumers; in addition to rising fuel prices. Subsequently, other products prices began increasing including essential goods like: vegetables, fruits, canned goods, among others. Additionally, the government began subjecting taxes on commodities that were previously exempt to taxes that ranged between 4% and 5%, while subjecting 164 other commodities to 10% tax as well. The government said it has taken these steps in an effort to increase government revenues by about half a billion JOD to reduce the deficit the general budget.

Other increases followed as the government also raised public transport fares by 10%; the prices of bread by 100% following the lift of the subsidy; and the prices of Octane Gas, in its two ratings: 90 and 95 by 6%.

While these prices were rising, the minimum wage remained as it was set in 2017 at 220 JOD. In fact, the figures by the Social Security Corporation show that there are 113,000 Jordanian subscribers under that umbrella whose wage is 220 JODs. The same records show that 79 thousand non- Jordanians workers receive wages that are equal to or less than the minimum wage. Of course, these figures do not include the multitudes of workers who are unregistered either due to the refusal of their employer or due to their work in the informal sector.

It should also be noted that these successive increases led to the acquisition of the richest 10% of Jordanians on 47.5% of the General National Income (GNI), while the poorest 50% % account for only 17.2% of GNI. ⁽⁹⁾

The below graph show both inflation rates and the Gross Domestic Product (GDP) that were recorded in the last 6 years. As illustrated below, the fluctuation in both rates is quite evident due to the numerous factors highlighted before. Conversely, the draft budget for 2019 estimated a growth in the inflation rate by 2.3% in 2019 and 2020, and by 2.5 percent% in 2021



A review of the figures, as well as the indicators mentioned herein, it is noted that there are in fact many reasons that would push towards raising the minimum wage. Most notably of these reasons is the increase in inflation rates in the period between 2012-2019 as shown in the previous graph. In the last two years alone, that is since the latest increase in the minimum wage, inflation rates rose by 3% to 4%.

Other figures released by the government are more alarming, especially those related to the unemployment rate. The rate of unemployment in the first quarter of 2019 (19%) is an increase by 6.0 percentage points from the first quarter of 2018. ⁽¹⁰⁾ The rate has reached 4.16% among males, while it was 9.28% among females. These figures are an increase by 4% and 1.1% respectively compared to the first quarter of 2018 . While there are many reasons behind the decline in economic participation, the low wages rate is considered an important one. Consumer Price Index (CPI) also recorded increases in all recorded categories as it recorded 124.66 points in 2018 compared to 119.23 points in 2017 and 115.49 points in 2016 .⁽¹¹⁾

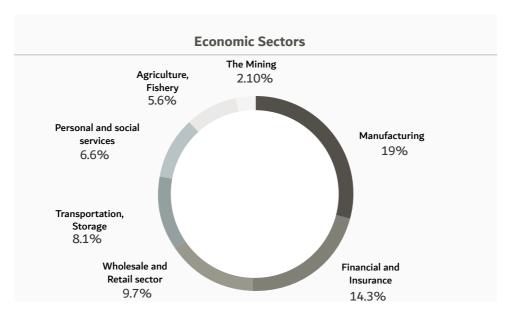
The rise in both inflation rates and the cost of living has resulted in an increased level of economic concerns among Jordanians. According to the Department of Statistics, 65% of the population had such concerns in the first quarter of 2019; an increase of 17% compared to the last quarter of 2018.

Additional results indicate that 65% of Jordanians classify their financial capacity as weak while 20 % said they were moderate, and only 14% believe that their capacity is strong. Such numbers raise many concerns, particularly about the widening gap between economic classes and the disappearance of the middle economic class.

The linkage between the minimum wage and inflation would boost the purchasing power for workers, since there is an inverse relationship between purchasing power on the one hand and inflation on the other. As such, in cases of higher prices while wages maintained the same levels, purchasing power would drop. On the other hand, when wages rise at a consistent or even higher rate compared to prices then the purchasing power is improved.

GDP from a Sectoral Perspective: A Look over the past Two Years

Estimates show that the gross domestic product (GDP) for 2018 amounted to (19984) million JOD, compared to (18903) million JOD in 2017; thus, achieving a growth rate of 1.9%. The increase was due to growth in most economic sectors as indicated in the chart below.



By comparing the above figures with the same period in 2017, it is noted that the economic sectors recorded similar growth in 2017 as well. During that year, growth rate in the Mining sector accounted for (13%), Agriculture and Fishing by (4.8%), and the Electricity and Water sector (2.5%). Growth was also recorded in the other sectors as the Financial and Insurance sector recorded a growth by (3%), while the Transportation, Storage and Communication sector by (2.7%), Wholesale and Retail sector by (1.5%); and the industrial sector achieved a slight growth by (1%). However, that year also recorded a drop as the growth in the construction sector decreased by (1.1%). The different ratios in each of the economic sectors, as shown above, pose an important question on the possibility of setting a minimum wage for each sector on the basis of the growth rate of its GDP. Such a wage would thus be linked to the labor sector where the worker is in, which is in accordance with Article 23 of the Constitution. ⁽¹²⁾

Second: The Poverty Line

The poverty line is defined as the lowest level of income needed by an individual or a family to provide an adequate standard of living in their country. The World Bank is the entity responsible for identifying an international line that is recognized based on periodic studies it conducts then publish.

According to data by the Bank, the line was previously set at around US1 per day, but then it rose first to \$1.25 In 2008 after the global financial crisis, then again to \$1.90 a day in 2015.

Economists divide the Poverty line into two types:

- 1. Extreme poverty: A state of poverty in which people cannot obtain the minimum basic food needs necessary to gain the minimum calorie intake for their survival in their normal activities.
- 2. Absolute poverty: a situation in which people cannot meet minimum food and non-food basic needs.

The United Nation, in the World Summit for Social Development (1995) that was held in Copenhagen, ⁽¹³⁾ defined absolute poverty as "a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services."

The Arab Multidimensional Poverty Report relied on three dimensions and twelve indicators to identify poverty lines in region. They are:

- 1. The education dimension has two indicators: school attendance and years of schooling.
- 2. The health dimension includes three indicators: nutrition, child mortality, and early pregnancy combined with female genital mutilation.
- 3. The living standard indicators are: access to electricity, adequate sanitation, safe drinking water, clean cooking fuel, having suitable floor and roof, no overcrowding, and minimum assets of information, mobility, and livelihood.

According to the report, a family would be considered in extreme poverty if it was deprived from 4 of the 12 indicators (33.3%); while those who do not have six indicators or more are considered to be in absolute poverty.

The Poverty Line in Jordan

As noted earlier, the Jordanian Labor Law links the amount of minimum wage to the cost of living. However, there is a major obstacle in regards to identifying these standards due to the controversy over the poverty line in Jordan. Thus, while international standards stipulate that the minimum wage must be higher than the poverty line level as it is considered as the red line that cannot be crossed, it is difficult to follow this rule when the line is unknown.

The latest report published on poverty in the Kingdom was by the Department of Statistics in 2012, entitled: "The Status of Poverty in Jordan". In the report, the absolute poverty rate was set at 14.4% as of 2010, an increase from 13.3% in 2008. Therefore, the absolute poverty line was set for an individual at 813.7 JOD per year (68 JOD per month). Meanwhile, the extreme poverty line was set at 336 JOD per year, equivalent to 28 JOD per month. ⁽¹⁴⁾

Given the long period of time since the publication of this report and its reliance on the Household Expenditure and Income Survey, which was originally conducted in 2010, several voices began asking the government to disclose updated levels of poverty in the Kingdom. One such request was by submitted MP Dima Tahboub, who directed a question to the government during a join parliament session in March 2019, as quoted below:



"The government has deliberately till now hidden the most accurate measure in determining such facts, namely the poverty line" "In 4/10/2018 I asked the government a question about the way in which they determine social classes of poor, middle and rich and their incomes. The purpose of the question was to know the conditions of the Jordanian individual and family and their incomes. Unfortunately, the government has deliberately till now hidden the most accurate measure in determining such facts, namely the poverty line. The last statistic that was published on the matter was by the Department of Statistics in 2010. In it, it set the poverty line at 813 JOD per person. However, it has been nine years since these figures. Moreover, it has been reported that the new statistics are ready, according to sources in the Department of Statistics. The only delay in their publication is that the department is waiting for the approval to come from the government to do so. The question then is why the delay?

May I tell you why the delay from the government? Because they know that if these figures are published then it cannot pass the Income Tax bill or the new Sale Tax bill either. It also cannot use the new figures to determine who will be included or not will receive any subsidy or make excuses about the minimum wage. If these figures are published, then the government would have to admit that the middle class, the social safety valve, is shrinking to the point of disappearance. It will also have to admit that the gap between classes is getting bigger as the society has become either wealthy, poor, or bankrupt. Why is the government, which keeps insisting it is one with high transparency, is keeping such essential information hidden despite its importance to the citizens? It is the citizens' right to know which class they belong to based on their income. It is unrealistic to think that the poverty line remained the same for 9 years in light of increasing debts, unemployment, high prices and taxes?

In the absence of accurate information, I had to resort to other sources. They included the World Bank report which measures poverty as well as the report by the OIC member countries issued on the same topic in 2015; as well as the report of the Arab Planning Institute. What I found was surprising. According to these reports, the government determines the social classes based on the calorie intake consumed by the individual per day and then through the cost of the food basket. The measure of calories is a known scale to determine poverty as used by the World Bank and is called Global Hunger Index (GHI). However, this scale does not measure general poverty and is usually reserved to be used in countries affected by disasters or wars. Thus, its usage in countries which are known to be stable could provide misleading results. Instead, these countries use the multi-dimensional poverty index (MPI) or the Multi-Dimensional Poverty Index, which measures the level of deprivation in health, education, living standards and hunger. Do we live in a catastrophic state so that the government would use the index reserved to those countries to measure poverty?"⁽¹⁵⁾

This intervention led the Prime Minister Dr Omar Al Razaz to announce at a news conference that the absolute poverty rate has reached 15.7% in Jordan.⁽¹⁶⁾ These figures were later confirmed by the Department of Statistics in their annual report, though the report did not clarify whether this rate is for absolute poverty or extreme poverty. The report did have other related information as it stated that the poverty gap ⁽¹⁷⁾ reached 3.5%, while the poverty severity ⁽¹⁸⁾ hit 0.334%.

Instead of quelling concerns, these numbers raised more questions instead of providing answers particularly as the analysis of these numbers present some daunting facts. A poverty rate of 15.7% means that the absolute poverty line is now higher than 100 JOD per individual per month. It also means that the extent of poverty has widened in the last 8 years as it rose from 14.4% in 2010 to 15.7% in 2018. As a result, the poverty line rises from 68 JOD per person per month (816 JOD yearly) to 105.6 JOD (1226 JOD yearly).

Furthermore, these figures indicate the existence of a million Jordanians out of seven million who are under the poverty line, meaning that they lack some of the basics of life from housing, food, drink, clothing, as their only concern is connected to survival. It is important to note though that the figure does not include the other 3 million residents of the Kingdom from migrants to refugees. As for families, the new ratio means that a family can be classified as poor if its monthly expenditure is less than 528 JOD; considering that it is composed of five individuals, which is the standard family size in the Kingdom. $^{(19)}$

Despite the ramifications of these figures, they were still met with wide opposition from experts who questioned its validity and even expected that the poverty rate is indeed higher. The experts based these views on other available data, especially those concerning the number of workers and those who are unemployed in the Jordanian labor market. The survey conducted by the Department of Statistics on Employment and Unemployment points in its fourth round held at the end of 2018 that:



If we to utilize the above number into an assumption where two people from a family of five members are employed. Both of them earn a salary set at the minimum wage of 220 JOD, meaning that the combination of both of their salaries (assuming that that Social Security Subscription is paid) with a combining sum of 440 JOD. According to the figures indicated above, this family is now considered under the poverty line as their monthly expenditure would definitely be below the poverty line set at 528 JOD per month. While the above hypothesis might be difficult to believe, the above figures indicate that this the reality for 56% of Jordanians based on the salary that they receive.⁽²¹⁾ A final fact these figures indicate is that Jordan would be considered one of the 10 poorest countries in the world. The claim is based on the latest statistics published in this regard by the World Bank. According to the report, the 10 poorest countries have a poverty rate set between 86.9% which is the highest and is in Nigeria and 14.2% in Uganda. As such, with a rate of 15.7% Jordan is one of the 10 poorest countries in the world.⁽²²⁾

Even though such a claim is hard to swallow, if we return to the report on Arab Multidimensional Poverty mentioned above which includes the 12 indicators and then compare it to the current realities, we find:

- The number of children working in Jordan has doubled in the past 10 years to 60,000, from 33,000 in 2006, according to the National Survey on Child Labor.
- 2. High rate of early marriage as more than 10 thousand cases of such marriages were registered in 2017.
- 3. The calorie intake for individuals dropped from 2,744 calorie daily in 2017, to hit 2,686 calories in 2018. Additionally, the per capita food intake has fallen to 499 kg per year in 2018 compared to 543 kg in 2017.



Refugees and Migrants in Jordan

There are approximately 3 million non – Jordanian people living in Jordan. These individuals are either migrant workers or refugees who originate from various countries. Even though these people live and work in Jordan, they were excluded from the minimum wage decision. As such, the minimum wage of migrants is still set at 150 JODs, while it is set for those who work in the Qualified Industrial Zones (QIZ) or in weaving at 110 JOD.

The wage discrimination against migrant workers or non-Jordanians living in the country first began in 2012 when the minimum wage was raised from 190 dinars to 150 dinars. However, the decision specified that the new amount only covers Jordanian workers, thus setting forth the exception of non-Jordanians from these decisions. Thus, while the minim wage was raised for Jordanians first from 150 to 190 and later it reached 220, it remained for non-Jordanians at 150 JODs, regardless of the quality or quantity of their work and the increases in the standard of living.

The exception is found in these decisions despite Jordan's ratification of several human rights conventions that provide for equality and nondiscrimination. The Kingdom has also ratified ILO Conventions that enshrined these principles, particularly Convention No. 111 on Non-Discrimination in Employment and Occupation.

It should also be noted that the infringement of Migrants and Refugees extend beyond the minimum wage, as they are also not covered in the figures related to the poverty line. Their omittance raises concerns about the situation of these fragile groups in our society. Other official figures could provide an indication though, for example those related to Social Security which indicate a drop in the number of non-Jordanian workers covered under that umbrella. According to available figures by the Corporation, the number of covered workers in 2018 158,000, down from 162,000 workers in 2017. ⁽²³⁾

These figures are further confirmed by the data that Tamkeen compiles from its work on the ground. These data point out a growing violation of workers not being covered under Social Security by their employers. While this violation was noted in numerous sectors, it is important to note that it has especially been noted in sectors that witnessed an increase in the number of workers including: construction, services, and the informal sector.

Results and Recommendations

- 1. Following the above-mentioned overview, Tamkeen recommends the following:
- 2. The need to raise the minimum wage to be in line with the economic conditions in the Kingdom as well as the inflation rates.
- 3. Inclusion of migrant workers and refugees in minimum wage decisions.
- 4. The implementation of the eighth article in the latest decision of 2017 which calls for the yearly review of the minimum and its adjustment based on the economic and social conditions related to the cost of living, inflation rates and GDP.
- 5. The need to face any recurring challenges that hinder the process of implementing the minimum wage decision on all workers in the various sectors in the labour market. These steps would contribute to addressing any legislative obstacles in organizing the relationship between employers and workers; as well as contribute in better economic development and the protection of all parties involved in the productive process.

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Subsistence Level The Minimum Wage in Jordan

The Subsistence Theory of Wage is defined as providing workers with wages that are just sufficient to fulfil their basic needs. Such wages would allow workers to only be able to cover for the essential needs that humans cannot live without. Workers living on the subsistence level are incapable of high levels of production. They are neither innovative nor can develop to alleviate their status as their goal always revolves around survival.





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