



Impact of Possible Growth of Minimum Wage in Georgia

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- Most of developed as well as developing countries regulate the Minimum Wage by law. The Minimum Wage for countries vary and all serve some degree of income protection for workers, prohibit competition based on “unfair” labor usage/exploitation and supports the idea of decent pay for work. Setting proper Minimum Wage is a challenge, as each country should maintain a balance in the economy: make it high enough to ensure standard of life of its workers as well as not to increase too much to undermine capacity of the economy.
- 20 GEL (\$8), the current monthly Minimum Wage in Georgia, is too low and outdated. Since its introduction in 1999, it has never been adjusted to changing consumer prices (inflation), wages (increase in average monthly earning), or the standard of living in Georgia. The Subsistence Minimum, pension for elderly and all other social benefits in Georgia are much higher than the current Minimum Wage.
- As research indicated introduction of the new Minimum Wage is essential and viable action, Georgia needs to pursue, in order to meet its aspirations of becoming part of EU family as well as international society, firmly advocating human rights as well as sustainable economic development perspectives.

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Summary

There is no agreed definition of Minimum Wage (MW), however according to ILO Committee of experts MW is considered as minimum amount of money paid to worker for performing a work or providing service, in a given period, based on time or tasks to accomplish, which cannot be reduced by anyone or any document, is guaranteed by law and serves the purpose to cover minimum needs a worker and its family have, thus considering national social-economic conditions¹.

Most of developed as well as developing countries regulate the MW by law. The MW for countries vary and all serve some degree of income protection for workers, prohibit competition based on “unfair” labor usage/exploitation and supports the idea of decent pay for work. Setting proper MW is a challenge, as each country should maintain a balance in the economy: make it high enough to ensure standard of life of its workers as well as not to increase too much to undermine capacity of the economy (competitiveness, economic growth, productivity, and employment pattern).

With the introduction of a new MW, there is always concern of looking at the issue from two very conflicting point of views. Employers usually criticize MW introduction and adjustment and try to set it as low as possible. They argue that it causes reduction of their economic activity, driving them out of businesses, growth of informal sector, and much more, resulting in negative economic consequences (unemployment, increase of prices on consumer goods, inflation, etc.). While labor rights’ advocating institutions (trade unions, human rights’ associations) argue that if not regulated, employers usually exploit labor, the current MW is not sufficient for satisfying workers’ needs and always bargain to raise it as much as possible.

It is clear that both groups maximize their interests and do not look at the issue from a neutral standpoint. Though, it is fact that with setting low MW (or not having it at all), the risk of workers being exploi-

ted is high, equality and justice is always questioned. On the other hand, if the MW is set very high, employers’ high labor costs result in deteriorating business environment. It is obvious that minimum wage should be neither low nor high to serve its purpose: to provide fairness and justice for low-skilled labor, as well as support economic development.

Generally, only a few employers are in favor of setting a sufficient MW to avoid workers’ exploitation (unfair competition practice with low costs of labor) and the government usually plays the role to balance these two interests, identify the proper MW to improve standard of living of the people as well as promoting inclusive growth of the economy.

20 GEL (\$8), the current monthly MW in Georgia, is too low and outdated. Since its introduction in 1999, it has never been adjusted to changing consumer prices (inflation), wages (increase in average monthly earning), or the standard of living in Georgia. The Subsistence Minimum (SM), pension for elderly and all other social benefits in Georgia are much higher than the current MW.

In addition, among former Soviet countries, Georgia has the lowest MW. Moreover, monthly MW is at least 9 times less than its neighboring countries in the Caucasus region and beyond [Azerbaijan (\$76), Armenia (\$114), Moldova (\$115), Ukraine (\$123), Russia (\$132) and Belarus (\$155)].

As economic development showed, even low-paid actual salaries in Georgia are much higher than the current MW, though, in some cases, low-paid salaries are still below the SM.

According to international experience, 20% to 30% of average earning is considered as a modest level for MW. While below 20 %, it is low, and more than 30% – medium. Having considered official statistics up to 2016 and various factors, including economic development parameters of monthly average earnings according to public and non-public sectors, as well as economic activities, gender, and age difference, gradual increase of the MW from 20% up to 30% of average earning is found to be very realistic and a necessary action.

1. ILO: General Survey of 1992, para 42.

With increase up to 20% of average monthly earning, employees will receive a MW of 150 GEL net (188 GEL monthly gross) which is approximately the average consumer's SM, still less than pension for elderly (180 GEL). If introducing 30%, the net monthly MW reaches 226 GEL (282 GEL gross), which is a bit more than the pension for elderly but near to our neighboring countries' MWs. With general analyses, we found that current minimum salaries are somewhat in similar range (188 GEL – 282 GEL) and very few cases are less than the amount of the new MW.

A MW is not considered as a primary poverty reduction policy tool; however, in case of increase of MW, some poor families with MW workers will overcome an extreme poverty. Based on the official statistics received from the Ministry of Labour, Health and Social Affairs and our calculations, with assumption that families working members will keep the jobs, in case of monthly MW increase up to 188 GEL (20%) – 224 families (875 persons) will be driven out of poverty, or in case of 282 GEL (30%) - 463 families (1849 persons) will overcome extreme poverty. Accordingly, state budget receive privilege of 0.4, or 0.7 mln GEL annually, that might be used to fight poverty with other tools as well.

Moreover, introduction of the new MW will considerably improve low paid salaries of women. The New WM, 20% (30%) of average earning is as much as 26% (39%) of women's average earning. Furthermore, it will set a higher floor for a minimum earning, that will definitely increase the salary of women whose occupation are in low-paid economic activities such as: education (very high 29% of all woman employed, and 78.2% woman compared to 21.8% man employed in education), healthcare and social work (again high 13% and 73.4% compared accordingly).

The growth of the MW will further promote the efficiency of companies as well as workers' productivity. Companies will try to use their workforce more efficiently, reduce working hours where it is possible, create part-time jobs, introduce new technologies, train their employees, reduce layoffs and so forth. While workers will have more time and resources to focus on personal/professional de-

velopment, use state funded programs of improving their qualifications and exploration of other opportunities if possible: study more, find another part-time job, have a vocation or be more involved in other activities. At this moment, there are a very limited number of part-time employment opportunities. With efficiency measures introduced by employers, new part-time jobs will be created that will further promote employment of youth as well as those who cannot work full-time for various reasons (study, dependents' care, etc.). In the beginning, when introducing a new MW, in a transition period, some employers may stop recruiting new employees, reduce working hours or even dismiss some workers, however, after adjusting to the new circumstances, the flow of the process will be continued. Therefore, this negative effect will be only temporary. Having closer look at actual wages and its real growth pattern, we consider that overall the new MW introduction should not affect the employers' wage setting policy or even spending too much. As found with official statistics, average wages even in the lowest paid industries and occupations are higher than the New MW and as our research highlights only individual cases are found where actual wages are somewhat less than the new MW even on the first stage of its introduction (188 GEL).

International studies indicate that with an increase of MW, floor of wages improves even in an informal sector. In case of sufficient law enforcement, informal sector is not strong to influence much the wage setting demand and supply, so, employers in the informal sector also pay not less than the MW. Moreover, even if law enforcement is not strong enough, if job market has an ability to offer other opportunities of employment with the MW, usually low-paid workers demand as much as at least the MW even in informal sectors and they receive it accordingly.

Moreover, with higher MW income of the families increase and demand on certain consumer goods follows as well, which will further boost activities in certain economic spheres, leading to additional cumulative spending, creation of additional jobs, overall standard of living is improving.

Health conditions and many social factors of MW workers and their families improve, as families will have more resources for better nutrition, sanitation and spending for other basic needs.

In addition, we also found that an increase in MW will have little impact on spending in the public sector. It was found that full-time wages are high enough in central government institutions; only public institutions having higher number of employees with low wages were found in the regions (local self-government institutions). If considering not individual cases, but an overall picture for public sector, increase in MWs up to 20% of monthly average earning may result in growth of maximum 10 mln GEL annually (0.5% of 2.3 bln. GEL of total public sector salary fund). If the MW goes up to 30% of average earning, than maximum 38 mln GEL (1.6% of total public salary fund) of additional public spending will be required. Though it is not a big number, near to 1 %, it is still an inflated number and with our realistic calculations, it will be at least two-times less after part-time employment deduction (some employers have received salaries for few days as they have started job recently or left the public service before full months period was complete)². Furthermore, with the new MW, the budget receives additional income tax revenues levied on salaries, for the public sector it is as much as the range from 2 mln. GEL to 7.6 mln. GEL (maximum amount) depending on the growth scenario. Besides, budget revenues will be much more when income tax levied on the new MW additional salary fund of non-public sector is included.

Having considered international as well as local practice, for the proper regulation of the MW issue, creation of the MW Review Commission is identified as an important action. The commission should include representatives of various interest groups of employees (trade unions, other labor rights protection organizations), private sector (employers' association), academia (qualified research institution) as well as relevant government institutions; it may, also, form a platform under the

commission, where all relevant stakeholders will have an opportunity to be involved. With close review of international as well as local practice, as a reasonable action, gradual increase of monthly MW as well as introduction of hourly MW (1/176th of Monthly minimum wage) is considered. Accordingly, for the first year, the MW increase up to 20% of average monthly earning of employed persons is proposed, the second year – 25%, and the third year – 30%, afterwards, the new MW could be adjusted annually by formula, based on official statistics, with 50% of annual growth rate of average earnings (wages) and 50% of inflation rate. In case of high inflation, economic crises or other related emergencies, government will have a right to make decision concerning the MW, but in a close consultation with the commission.

Minimum Wage, Subsistence Minimum and Related Policy Tools

The MW mentioned in the regulation for the private sector is 20 GEL³ and for bodies of executive branches of the government 135 GEL⁴, violation of the law was considered a penalty: 40 GEL only. Whereas, teachers' minimum earning for full-time position is 384.75 GEL⁵.

Subsistence minimum in Georgia is defined with the regulation set by the Ministry of Labor, Health and Social Affairs⁶. According the regulation, the amount of subsistence minimum is changing based on the periodic observation (monthly) of the National Statistics Office on the prices of pre-defined food basket⁷. For the period of the research,

3. Set in the presidential decree N 351, June 4, 1999.

4. Set in the presidential decree N43, January 24, 2005.

5. In 2005, by the order of the Ministry of Education and Science the MW of teachers was defined at 236.43 GEL, then by the decree N216, September 28, 2015, of the Ministry of Education and Science of Georgia teacher's MW for full time job became 384.75 GEL.

6. Decree No 111/N, dated 2003 May 8, of the Minister of Labour, Health and Social Affairs of Georgia "On Approving Norms for Physiological Requirements of Food Substance and Energy and Determining Composition of Minimum Food Basket for Calculation of Subsistence Minimum".

7. Subsistence Minimum Calculation Methodology for Working Age Male, National Statistics Office, retrieved from: http://www.geostat.ge/cms/site_images/_files/english/methodology/Subsistence%20Minimum%20Calculation%20Methodology%20for%20Working%20Age%20Male%20ENG.pdf in 18.10.2017

2. Now, statistics available at our hands does not give us chance to differentiate part-time vs full-time employment. So, we included both (part-time as well as full-time), and assume only maximum amount, upper floor of spending.

the subsistence minimum is 174 GEL for working age male (October 2017), 154.1 GEL for average consumer and 291.9 GEL for average size household.

Pension is 180 GEL for elder population (with age more than 60 years for woman and 65 for man), there are, also, other pensions paid to particular groups, e.g.: special social benefit schemes for retired military or police officers, parliamentarians, persons with disabilities as well.

Another policy tool to fight poverty outcomes is subsistence allowances for poor families, which varies depending on their poverty depth and is measured based on the subsistence needs of the family. Based on the scores (from poorest less than 30001 up to less poor 100001) assigned to families, they receive monthly allowances from 60 GEL to 10 GEL per member of the family accordingly.

Average Monthly Earnings

Absolute growth of nominal average monthly earnings in current prices is quite significant: in 2016, the nominal average monthly earnings actually reached 940 GEL, though with consideration of inflation factor (CPI- consumer price index) it is almost half but growth is significant again, with the prices of 2001, the same indicator is as much as 470 GEL (Diagram #1). If we analyze the average monthly earning according to public vs non-public sectors, earnings in public sector (855 GEL) are 136 GEL below than in non-public sector (991 GEL) and with consideration of CPI, average monthly earning is 427 and 489 GEL accordingly (Diagram #2).

Diagram #1. Average monthly real (CPI) vs nominal earnings 2002-2016 (GEL)

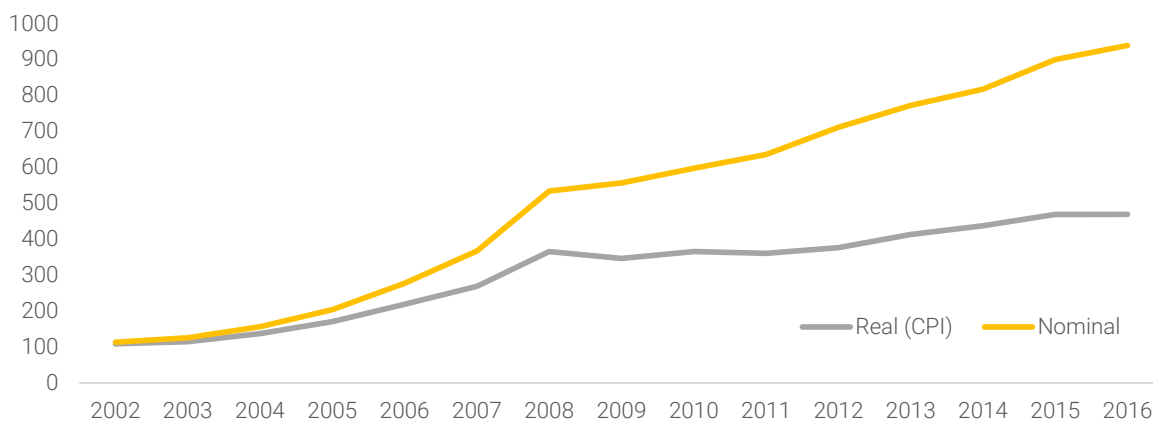
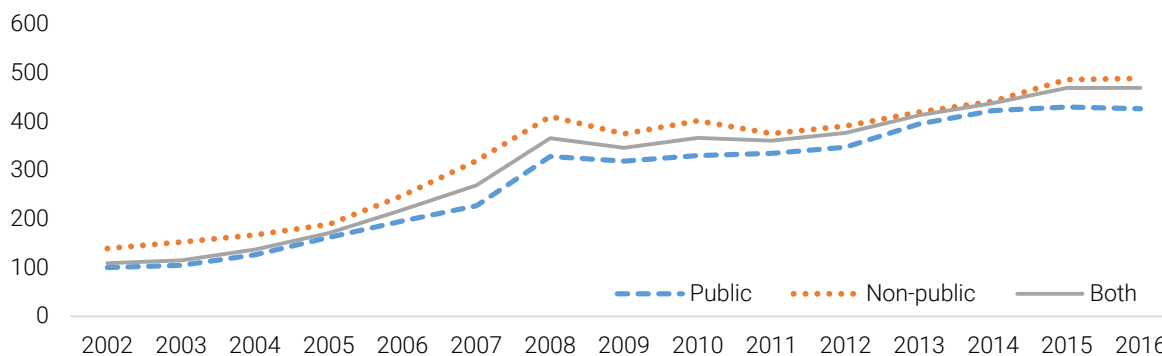


Diagram #2. Average monthly nominal earnings corrected with CPI in 2002-2016 (GEL)



It is worth analyzing the real growth rate of earnings as well. Before 2009, growth rate was significant, but afterwards, in 2009 and 2011, due to economic crisis and post conflict period, earnings slightly went down, since 2012 recovery process started, though the growth rate went down again in 2016 near to zero. The data shows that public sector is more stable in terms of earning growth rate, while non-public sector is more volatile to changes in the economy (Diagram #3).

According to official statistics, the lowest average monthly nominal earnings are in education (537 GEL); agriculture, hunting, forestry (578 GEL); and hotels and restaurants (626 GEL) and the highest are in financial intermediation (1,835 GEL); public administration (1,327 GEL); construction (1,267 GEL); and transport and communication (1,202 GEL) (Diagram #4).

Diagram #3. Growth rate of average monthly nominal earnings minus CPI in 2002-2016 (%)

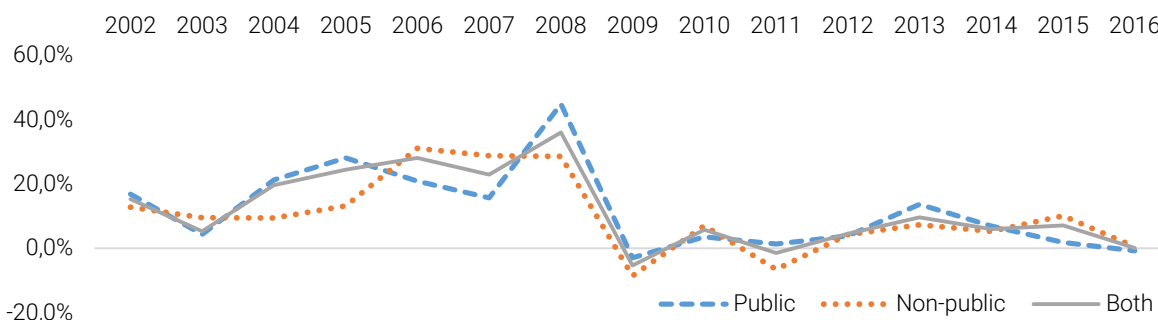
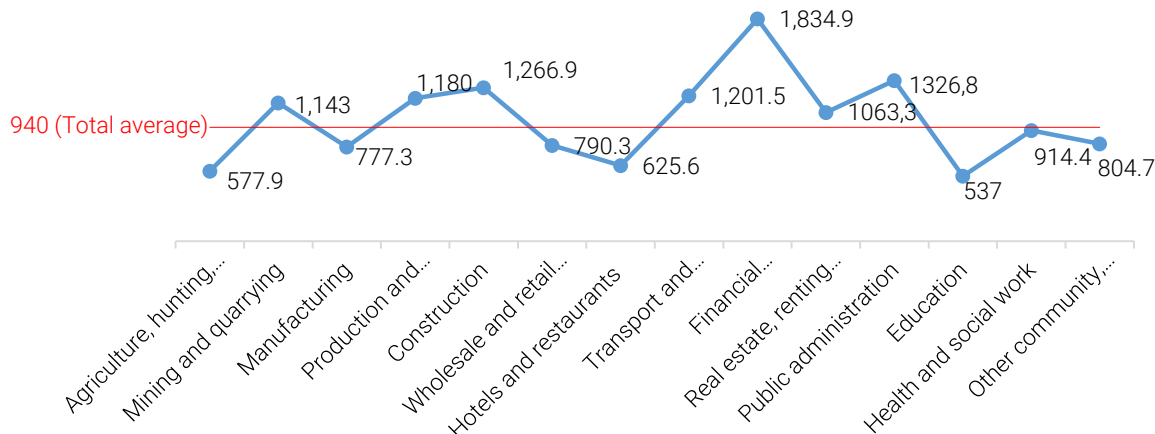


Diagram #4. Average monthly nominal earning in 2016 (GEL)



Comparison of average monthly nominal earnings of public sector among various economic activities revealed more or less the same pattern as in total average monthly earnings. As expected, several economic activities, such as: Financial Intermediation (3833 GEL); wholesale and trade (1576 GEL); public administration (1327 GEL); construction; transport and communication; and production and distribution of electricity, gas and water, have salaries above the total average earnings, while

other sectors stay below the average earning in the public sector (855 GEL), especially low are the sectors such as: Education (520 GEL), hotels and restaurants (538 GEL), and mining and quarrying (544 GEL) (Diagram #5).

In non-public sector, average monthly earning is a bit more than in public sector with 991 GEL, though the pattern of distribution of earning among economic sectors is somewhat similar. The highest

indicators again are in the same economic activities: financial intermediation (1,810 GEL); production and distribution of electricity, gas and water (1,331 GEL), and construction (1,288 GEL). Lowest earning is in agriculture, hunting (590 GEL); education (624 GEL), and hotels restaurants and fishing (Diagram #6).

Diagram #5. Average monthly nominal earning of public sector in 2016 (GEL)

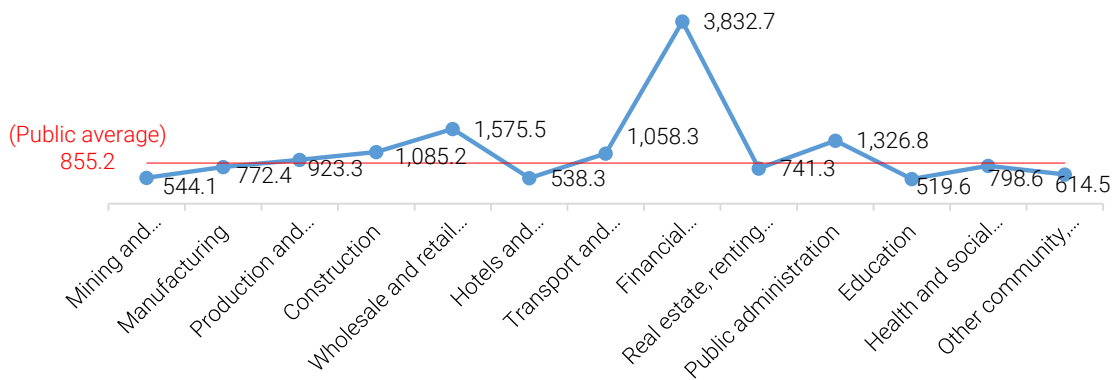
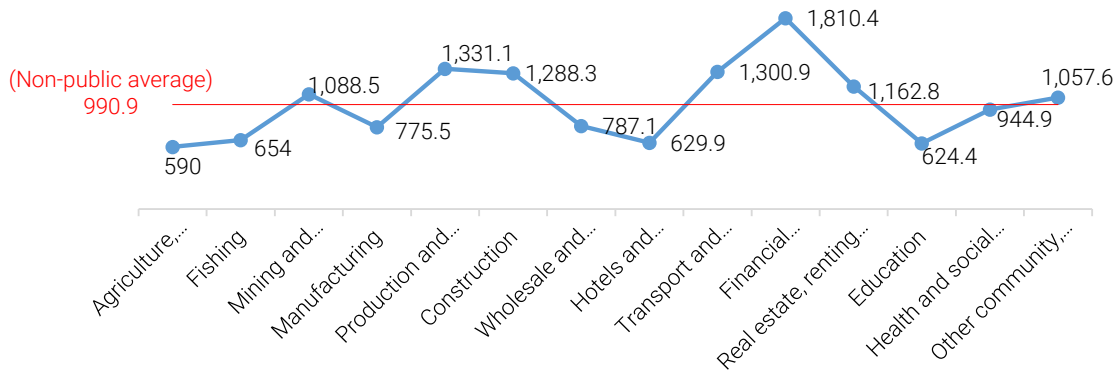


Diagram #6. Average monthly nominal earning in non-public sector in 2016 (GEL)



Though we cannot speak of deviation of earning inside the economic activities⁸, however, it is obvious that the lowest salaries are truly in education, as schoolteacher’s salary is rather limited. Moreover, some salaries go below the subsistence minimum even for full-time employment (e.g. office

cleaner monthly salary may be as little as 120 GEL). In agriculture, forestry and fishery, we found self-employment mostly (which is not reflected in this indicator) and employed persons usually have part-time, seasonal low-paid jobs. In hotels and restaurants, again most of the employment comes on low-skilled workers, so their salaries are little again.

8. The methodology, by which the indicator is calculated at National Statistics Office, does not give us the opportunity to see the earnings according to individual employees, or with different income groups. Information on aggregated salary funds and the number of employees are collected; their simple division calculates average monthly nominal earnings.

Benchmarking New Nominal Wage

As agreed by international community MW should be aligned with the amount of income necessary to provide at least minimum standard of living for workers and their families⁹, though should not be set so high that the MW harms economic development. In order, to find suitable MW, accurate, equally important consideration needs to be given to standard of living as well as economic conditions of the country. Based on which they should identified the MW neither low, nor high, but in the middle to use it as a tool resulting better standard of living for its people, though not compromise future economic development. Commonly, a MW is compared to an average wage. As usually the ratio varies, through in most cases, where MW serves its purpose, it is falling in the range of 20% to 50% of the average wage. In certain countries it may fall beyond this range, however, its effects are usually insufficient to provide good standard of living if set lower (less than 20%) or very detrimen-

tal for economy if set higher (more than 50%) for certain economies. Usually 20-30% is considered as a range of modest level of setting MW¹⁰. Let's examine how much it is for 20%, 25% and 30% of average wages in Georgia with official statistics of 2016 and compare it to the subsistence minimum (October, 2016) and payments provided by social benefit system (the same period) in Georgia.

In order to receive earning at least as much as subsistence minimum, 154.1 GEL for average consumer, 174 GEL for working age male, and 291.9 GEL for households, worker needs to have gross salary of 193 GEL (average consumer), 218 GEL (working age male), and 365 GEL (average household). Taxation (20% income tax payment) brings the figures to net salary equal to subsistence minimum. 193 GEL is a 20%, 218 GEL – 23% and 365 GEL – 39% of average monthly earning (940 GEL) (Table #1).

Table #1. Benchmarking minimum earning with Subsistence minimum

Indicators:	Average Consumer	Working Age Male	Average household
Subsistence Minimum (SM)*	154,1	174	292
Gross Earning (SM+20% Income Tax)**	193	218	365
Hourly Minimum Earning (176h)**	1,1	1,2	2,1
% of Average Monthly earning (940GEL)**	20%	23%	39%

* Source: official statistics, October 2016, ** based on our calculation.

The First Scenario with 20%

When we analyze data, 20% of nominal average earnings is 188 GEL per month and 1.1 GEL hourly¹¹. 20% of average earnings in certain economic activities are below compared to the indicators of all sectors together, especially in education (107

GEL monthly, 0.6 GEL hourly), agriculture (116 GEL monthly, 0.7 GEL hourly), and hotels and restaurants (125 GEL monthly, 0.7 GEL hourly) (Diagram #7 & 8).

9. ILO: General Survey of 1992, para 42.

10. Rutkowski, J. (2003).The minimum wage: curse or cure, Human Development Economics, Europe and Central Asia Region, The World Bank, p 5.

11. If assuming, on average 176 hours work in a month

Diagram #7. 20% of average monthly nominal earning in 2016 (GEL)

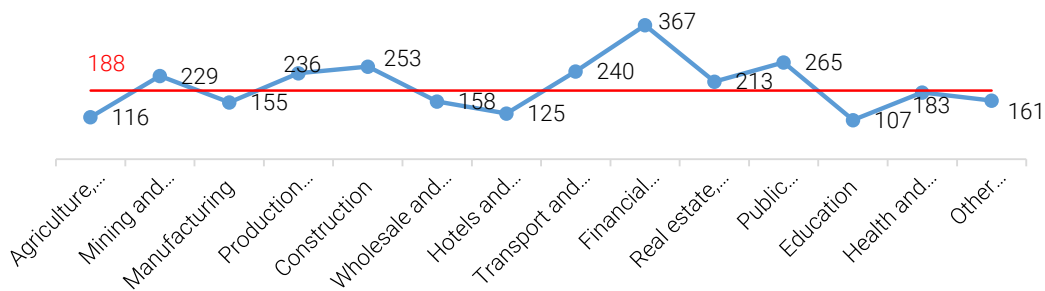
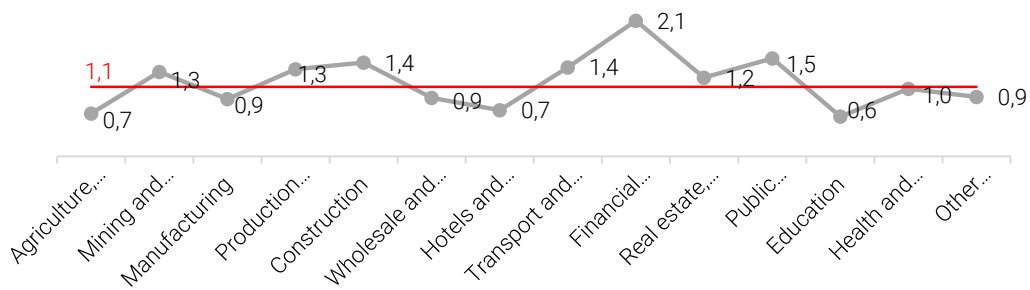


Diagram #8. 20% of average hourly nominal earning in 2016 (GEL)



Average monthly earning is a gross earning, consequently, after taxation, net average monthly payment will be 150 GEL (188 GEL - 188 GEL x 20% income tax). 150 GEL is almost monthly SM for average consumer, however, it is less than a pension for elderly as well as a SM for working age male. It is important to consider the differences among economic activities as well. If setting MW according to economic activities, 20% will be still less than SM for education, agriculture, hotels and restaurants, and some other activities. But in case of setting MW as a 20% of average earning for all economic activities taken together, no matter economic activity workers' MW will not fall behind SM. Actually workers employed in low-paid economic activities will benefit the most: new MW will be 35% of average earning for education, 32% – for agriculture and 30% – Hotels and restaurants.

The second Scenario with 25%

In case of 25% of average monthly earning, monthly MW will be 235 GEL and hourly 1.3 GEL. 25% of average earnings of various economic activities are again below both indicators, especially in education (134 GEL monthly, 0.8 GEL hourly), agriculture (144 GEL monthly, 0.8 GEL hourly), and hotels and restaurants (156 GEL monthly, 0.9 GEL hourly) (Diagram #9 & 10).

In the second scenario, net minimum monthly earning is a bit more and it is as much as 188 GEL (235 GEL - 235 GEL x 20% income tax). It is more than pension (180 GEL) as well as SM for working age male (174 GEL). In this case, again after taxation, three economic activities have less than SM (education, Agriculture, hotels and restaurants), when in case of 25 % scenario of average earning for all economic activities, the new MW will be 43.9% of average earning of education, 40.5% – agriculture, and 37.6% – hotels and restaurants.

Diagram #9. 25% of average monthly nominal earning in 2016 (GEL)

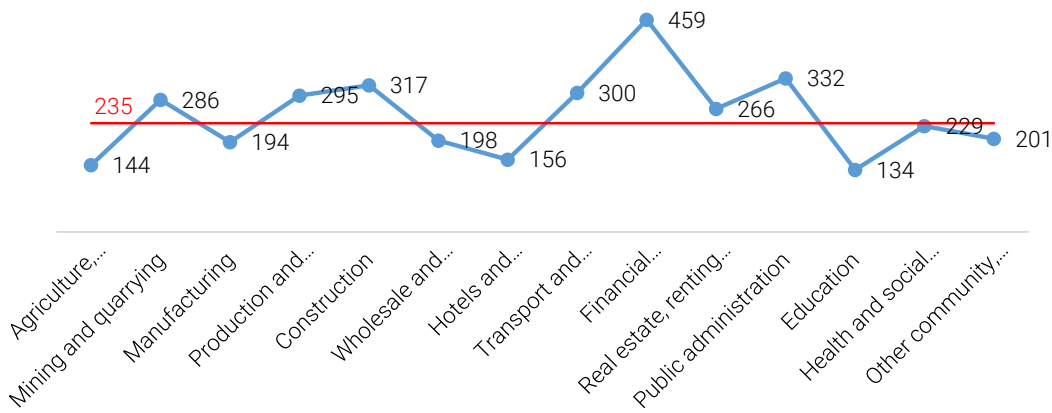
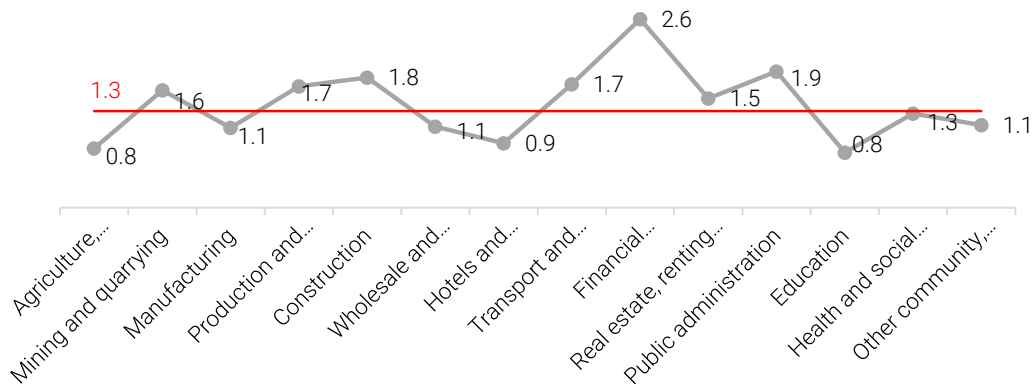


Diagram #10. 25% of average hourly nominal earning in 2016 (GEL)



The Third scenario with 30%

When increasing the MW by 30% of current earnings, the new monthly salary becomes 282 GEL or 1.6 GEL per hour. 30% of average earnings of various sectors are below both indicators, especially in education (161 GEL monthly, 0.9 GEL hourly), agriculture (173.4 GEL monthly, 1 GEL hourly), and hotels and restaurants (187.7 GEL monthly, 1.1 GEL hourly) (Diagram #11 & 12).

In the third scenario, net earning is 225.6 GEL (282 GEL - 282 GEL x 20% income tax). It is more than the pension (180 GEL) and SM for working age male. If calculated for various economic activities, 30% of average earning of education and agriculture are still not enough to be as much as SM.

If we analyze all scenarios together, we find out

that the MW increase based on general average earning will significantly effect categories of low-paid economic activities (Diagram #13). E.g.: with the MW growth up to 20% of average earning of all economic activities, MW will be 35% of current monthly average earning in education, and it will grow up to 44% and 53 % in case of the second (25%) and the third (30%) scenarios accordingly.

As the indices are calculated on average and do not exclude the part-time employment, the figures may have inflated pattern of reducing average wages and increasing the percentage share of new MW for low-paid economic activities. Though it is fact that this indicators definitely highlight the economic sectors that are more likely to be effected. Increasing MW will definitely benefit more those employed in low-paid economic activities with the lowest wages.

Diagram #11. 30% of average monthly nominal earning in 2016 (GEL)

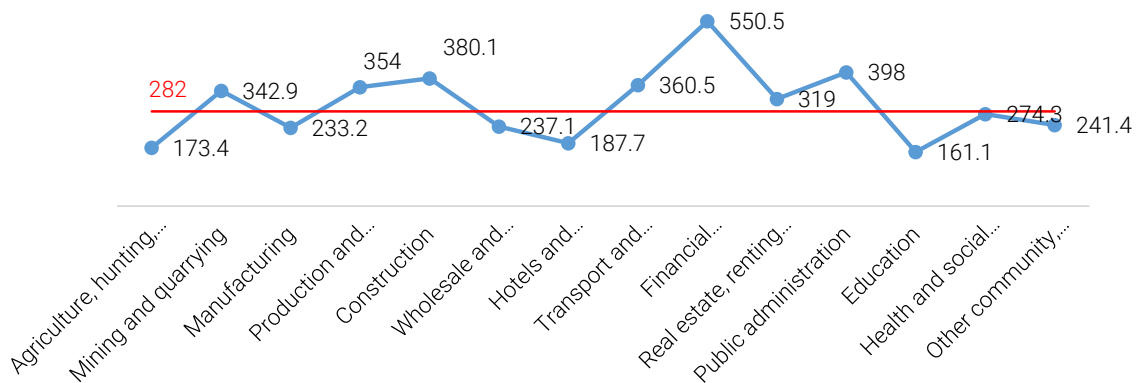


Diagram #12. 30% of average hourly nominal earning in 2016 (GEL)

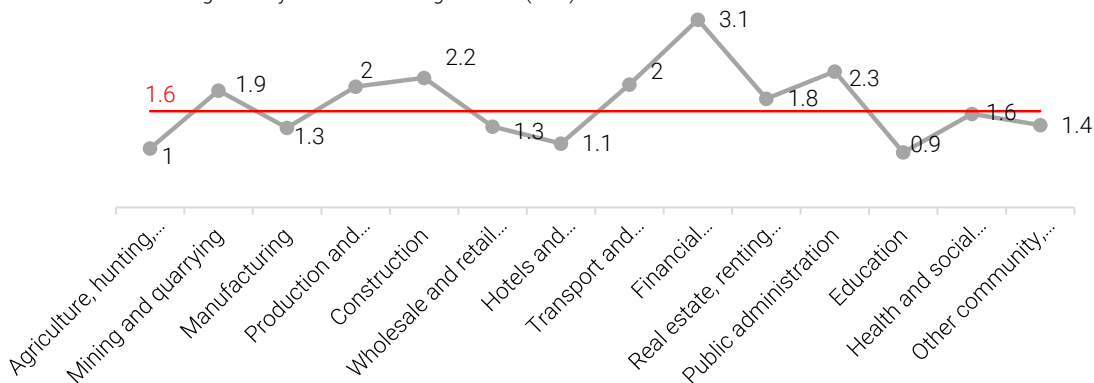
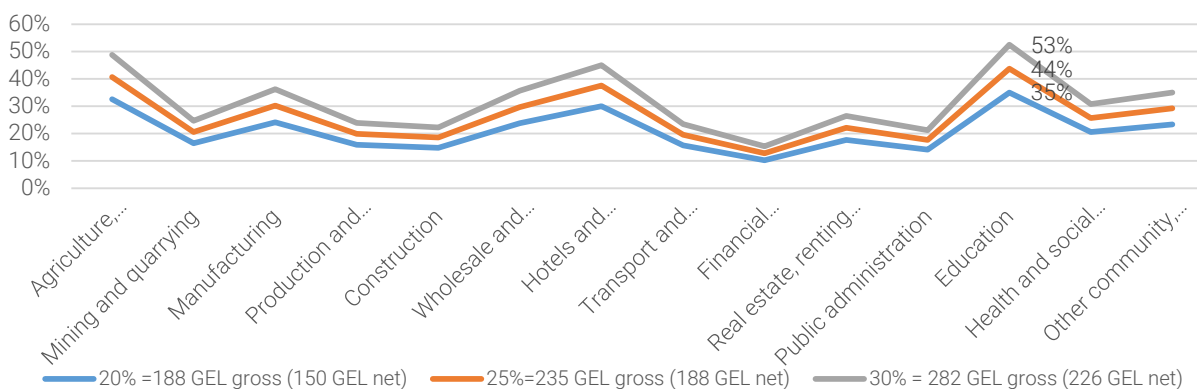


Diagram #13. Percentage in current average monthly earning by economic activities in case of MW growth by various scenarios



If we further analyse 20%, 25%, and 30% of average monthly earning for public vs non-public sector, it indicates that public salaries on average is less, while it is a bit more in case of non-public sector.

In the public sector, 20%, 25% and 30% of average earning is slightly less with 171 GEL, 214 GEL, and

257 GEL monthly correspondingly. Indicators of education (104 GEL, 130 GEL, 156 GEL monthly) and hotels and restaurants (108 GEL, 135 GEL, 162 GEL monthly) are again below, mining and quarrying is a bit less than in the indicator of both sector together (109 GEL, 136 GEL, 163 GEL monthly).

As for the non-public sector, earnings are slightly bigger, so does the 20% of average earnings: 198 GEL monthly and 1.1 GEL hourly. In education (125 GEL monthly, 0.7 GEL hourly), hotels and restaurants' indicators (126 GEL monthly, 0.7 GEL hourly) are less than average indicators, though they are a bit higher than in public sector.

GEL for non-public sector), in case of various economic activities, minimum was 0.6 GEL (education in public sector) and maximum 4.4 GEL.

Lowest earnings, as expected, are in **education**, and hotels and restaurants, agriculture, fishing. **Near to the average** is manufacturing, mining (with exception in public sector, where it is very low), wholesale and retail, health and social work, and other community services (with exception in public sector, as it was far low to average). While **above average** are the economic activities: financial intermediation; public administration; transport and communication; real estate, renting; production and distribution of electricity, gas and water.

Having a close look at the indicator, 20 % of average monthly nominal earning of both sectors is clustered around 188 GEL (171 GEL for Public, 198 GEL for non-public), though minimum starts at 107 GEL (education in public sector) and goes up to maximum 767 GEL (financial intermediation in public sector). When considering hourly earnings, it was 1.1 on average (1 GEL for public sector, 1.1

Diagram #14. 20%, 25% and 30% of average monthly nominal earning of public sector in 2016 (GEL)

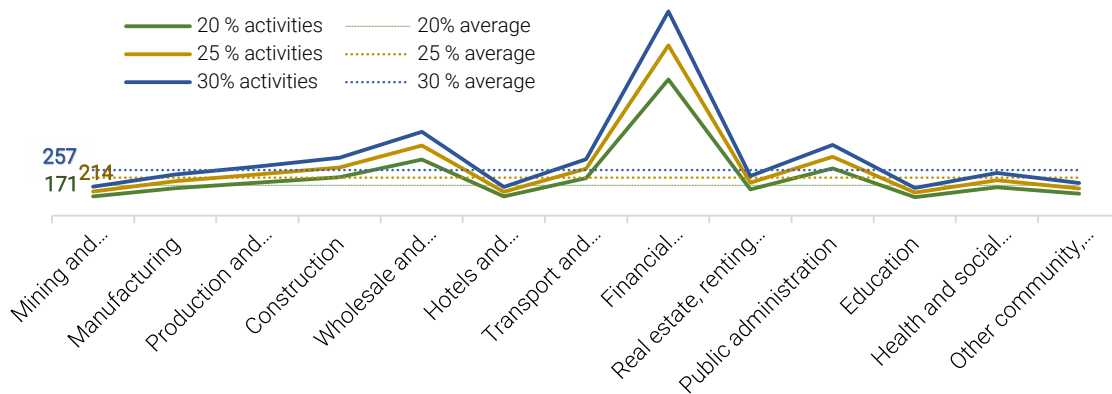


Diagram #15. 20%, 25% and 30% of Average monthly nominal earning of non-public sector in 2016 (GEL)

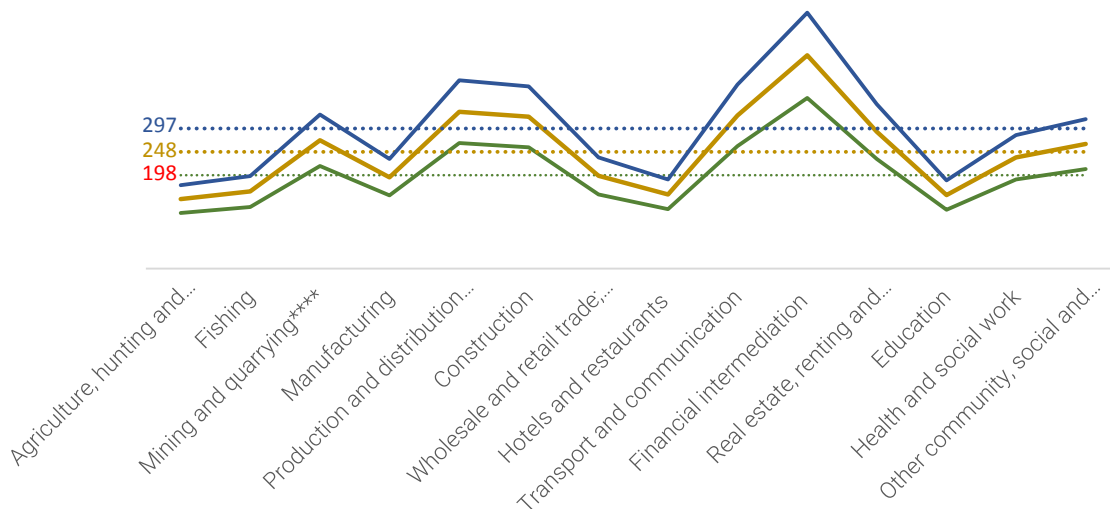
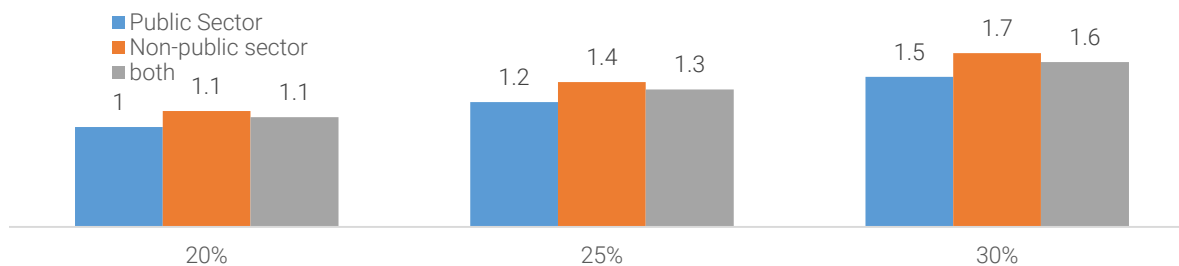


Diagram #16. 20%, 25% and 30% of average hourly nominal earning by sectors in 2016 (GEL)



Unemployment and Employment for Youth

As international practice indicates, to avoid negative outcomes of high youth unemployment, some countries set different MW policies for youth. Youth usually represents less experienced, low-skilled labor, more engaged in study, having less work habits and so on. So, as a fact, elderly workers' productivity is much higher. Accordingly, Employers willing to reduce costs on labor, mostly are looking for elder employees. In order to incenti-

vize youth unemployment, certain countries set lower MW floor for youth. Let's have a closer look at official statistics of youth unemployment as well as employment in Georgia.

Youth Unemployment

With official statistics, unemployment in the youth is reducing. In absolute numbers, as well as in age structure of total unemployment, positive trend is found (diagram #17 & 18).

Diagram #17. Unemployed person's distribution with age under 35 in 2007-2016

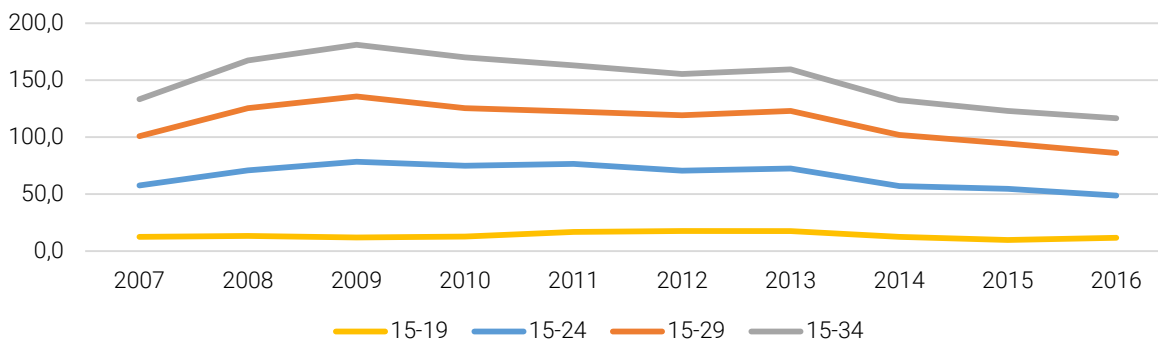
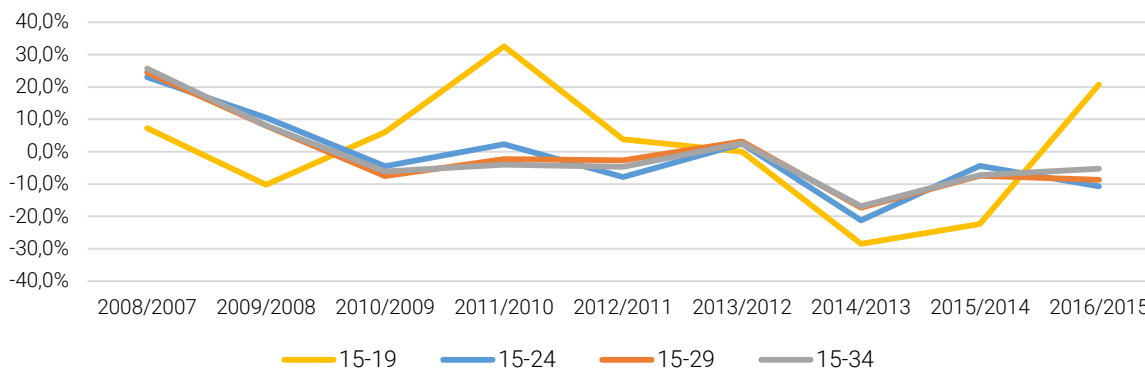


Diagram #18. Year to year change in percentage of unemployed person's number with age under 35



Unemployment below age 35 is around 50 % in total age structure of unemployed persons and as a positive sign, it is decreasing again (diagram #19 & #20).

to high education, vocational schools, enlisting in the army. Therefore, their skills for employment are very limited, may lose their jobs easily and, as common in Georgia, still, they live together with parents and their senior family members support them financially.

In the unemployment data for youth, only the age cluster of 15-19 shows a bit different pattern, which was expected. As usually, in this age group, most of the representatives are still in school (until 18 y) or entering the universities (vocational schools), as a result their unemployment behavior is much effected with their transition from school

Unemployment factor analyses (under 35) indicate that it is not high for youth compared to other age groups. Moreover, it has strong and steady tendency of reduction.

Diagram #19. Unemployed persons' percentage under age 35 in all age group unemployment

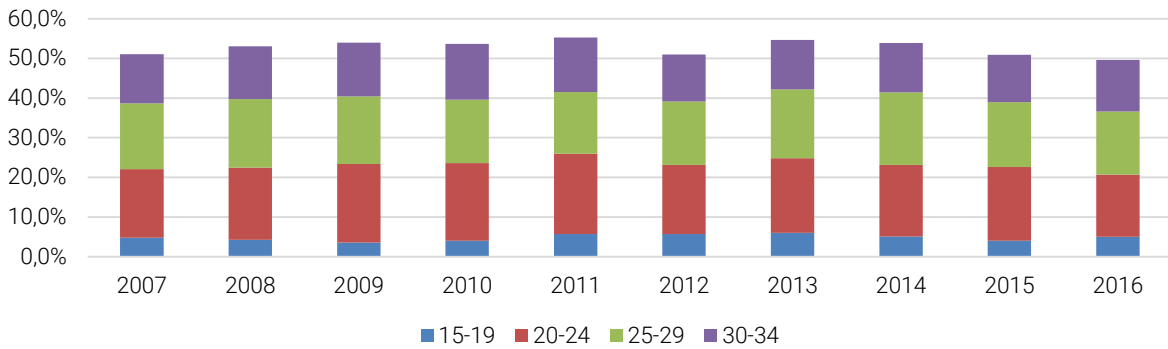
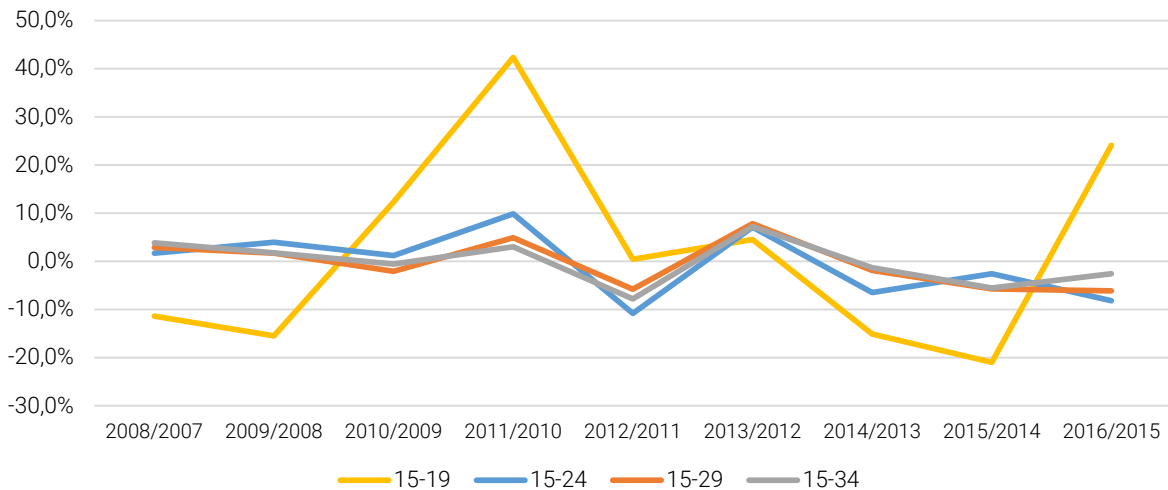


Diagram #20. Change in percentage of unemployed persons with age under 35 in total unemployed number



Youth Employment

Absolute number of youth employment is growing slowly; only last year it showed a bit decline (diagram #21 & #22).

If we look at absolute numbers of employment youth we find change positive tendency (Diagram #23.1). Moreover, Youth employment is around 30 % of total number of employment (under 35) (Diagram #23.2 & 24).

Diagram #21. Employed persons under age 35 (thsnd.)

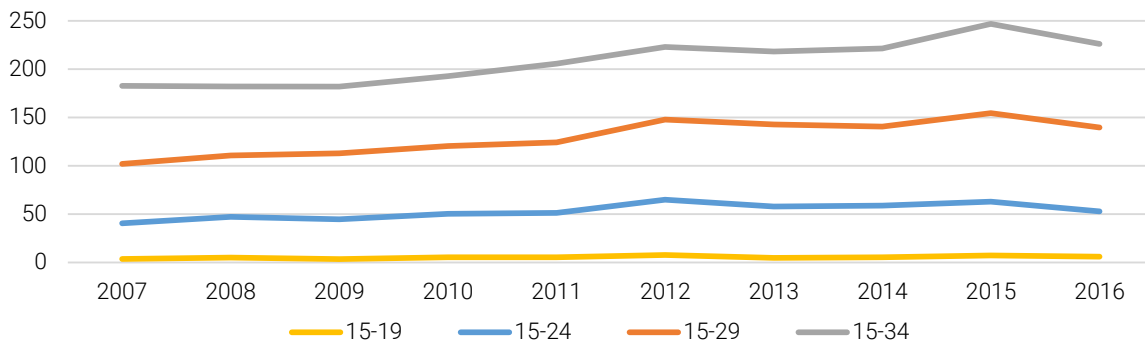


Diagram #22. Change in percentage of Employed persons of age under 35

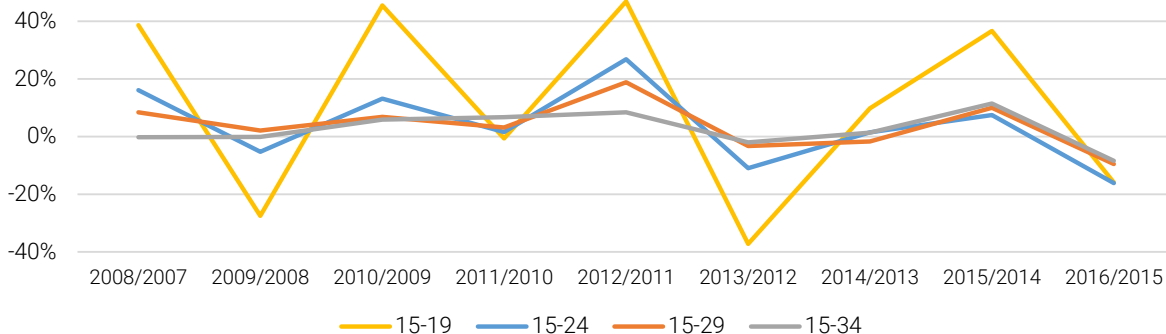


Diagram # 23.1. Employed persons under age 35 in all age group employment

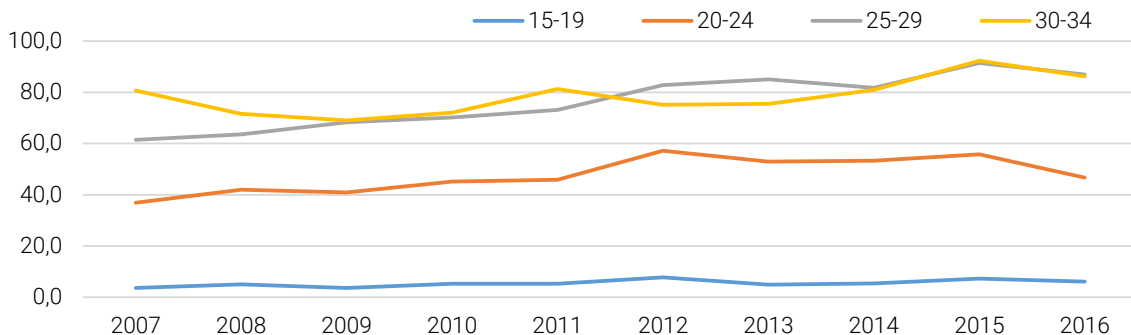


Diagram # 23.2. Employed persons' percentage under age 35 in all age group employment

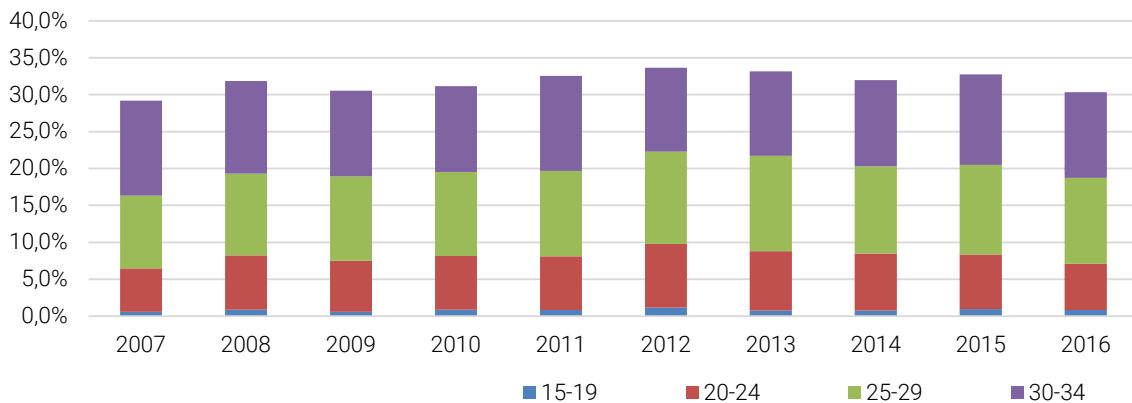
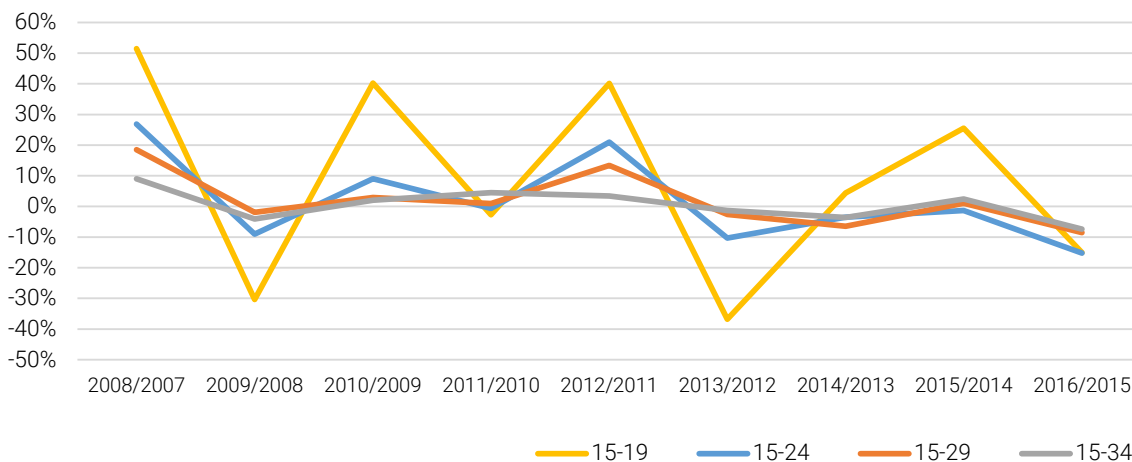


Diagram # 24. Change in percentage of employed persons with age under 35 in total age group of employed



We may draw attention that employment among youth is increasing, though it is not great.

policy youth receives less payment for the same work they provide compared to elder workers.

Based on the new technology development and introduction in the service and industry, the labor market is changing rapidly and automation and digitalization drives the business processes, where young generations find jobs more easily, they better deploy computer technologies, while older generations are not skilled enough in use of new technologies. In addition, introduction of the policy of different MWs for youth to be employed, may cause employment by age discrimination and create problem of employment of low skilled labor of older generation. This factor may lead less educated, low skilled older generation's dissatisfaction. Moreover, youth may also argue that based on this

Based on unemployment as well as employment indicators, **we may conclude that further intervention of support for youth maybe used in the future, but currently it is not necessary**, as it may distort the employment pattern of a labor market and cause discrimination by age.

Gender Aspect

There is a considerable gap in the average monthly earnings of males and females. 20% of women's average earning is 146.2 GEL, when 20% of the average earning for men and women together is 188 GEL. When comparing earning of men to women, 20% of men's average earning (223.3 GEL) is 31 % of average woman earning. In case of MW increase up to 30% of average monthly earning,

woman's MW will increase up to 39%.

Introduction of the MW at 20%, 25% or 30% of total average monthly earning will set the floor for wages (Diagram #25). The same pattern is for hourly earnings, e.g. in the 20% scenario, women receive on average 0.8 GEL per hour, while men - 1.3 GEL. By increasing to 20% of average earning, hourly MW will be 1.1 GEL (Diagram #26).

Diagram # 25. 20 % of average monthly earning and gender difference according to economic activities (GEL, 2016)

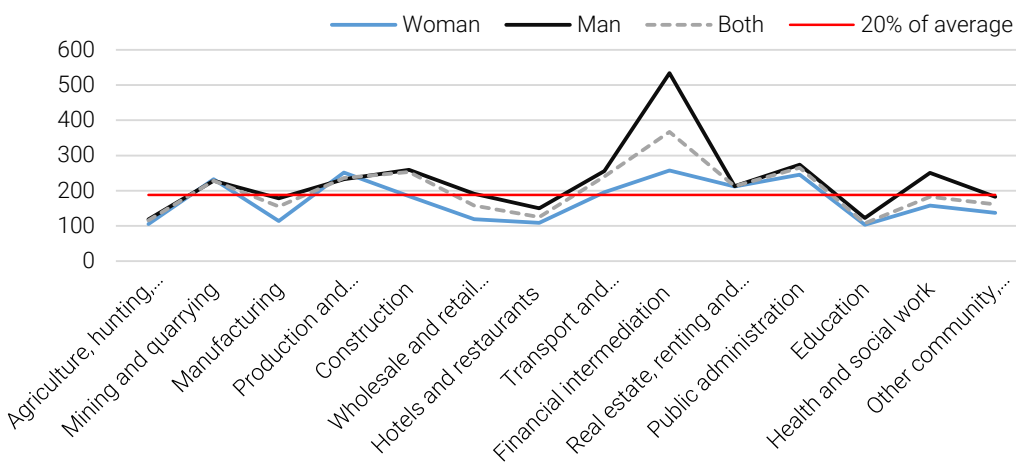
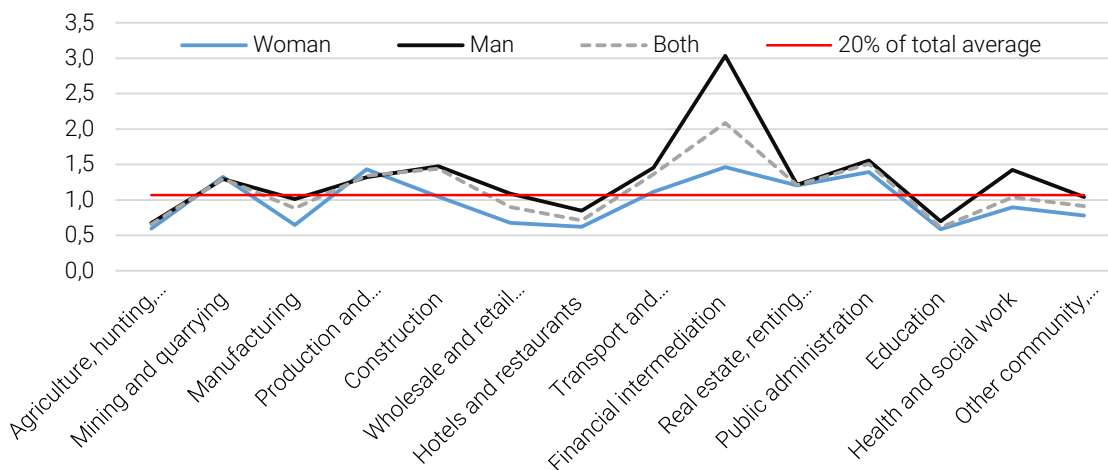


Diagram # 26. 20 % of average hourly earnings and gender according economic activities (GEL, 2016)



There is a large gender wage gap in financial intermediation, construction, health and social work, where average salaries for both sex are higher than total average earning for all sectors, except for women in construction and healthcare and social work economic activities (Diagram #25 &

#26). In service or industries, where low skilled labor is required, discrimination by gender for the same occupation is not necessary the case, however, it is fact that those jobs are mostly occupied by female and salaries for those workplaces are usually low. Good example is the education sector

and childcare, were jobs such as a teacher, cleaner, babysitter and similar are mainly occupied by women. If teachers at school have full-time employment, special law regulates their MW and it is as much as 384.75 GEL, though if employment is part-time (less than 18 hours of teaching in a week), salary might start from 25-31 GEL based on teachers' experience and education level. As we have mentioned above, official monthly MW for other occupations at school (e.g. cleaner) may be

as much as 20 GEL.

Education sector is the biggest employer among economic activity with 129.5 thsnd. women workers (29%), then comes wholesale and retail – 65.9 thsnd. (15%) and health and social work – 57.9 thsnd. (13%). Women employment in other economic activities are below 10 % (see diagram #27 & #28).

Diagram # 27. Distribution of employed persons according to economic activities by gender (thsnd., 2016)

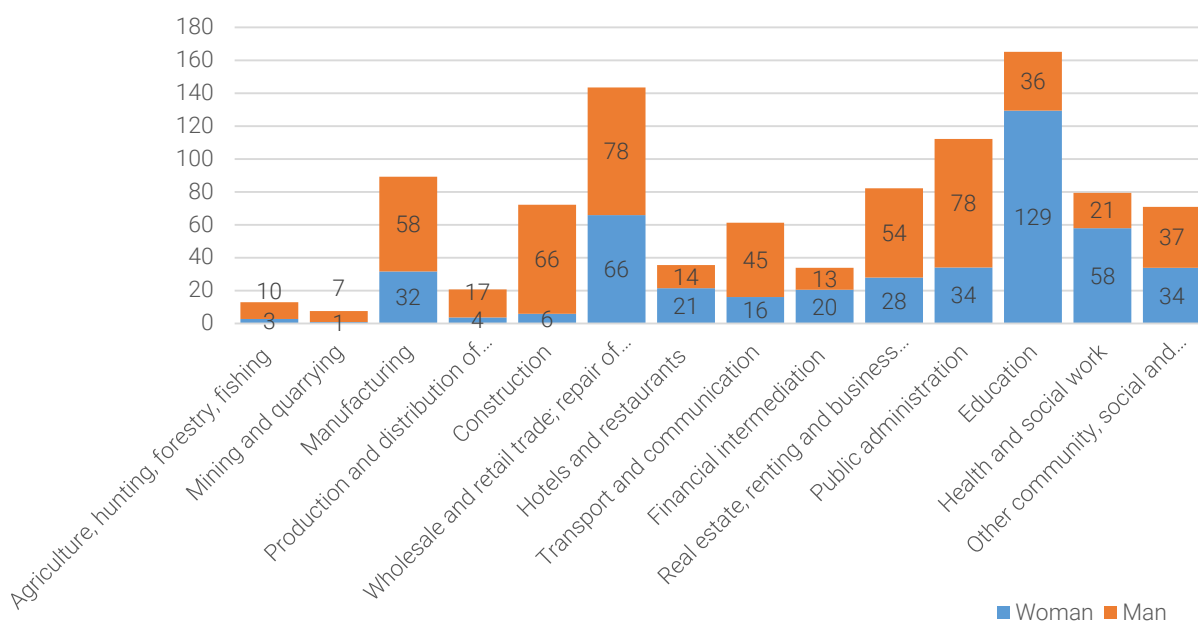


Diagram # 28. Employees' distribution according to economic activities inside each gender (% 2016)



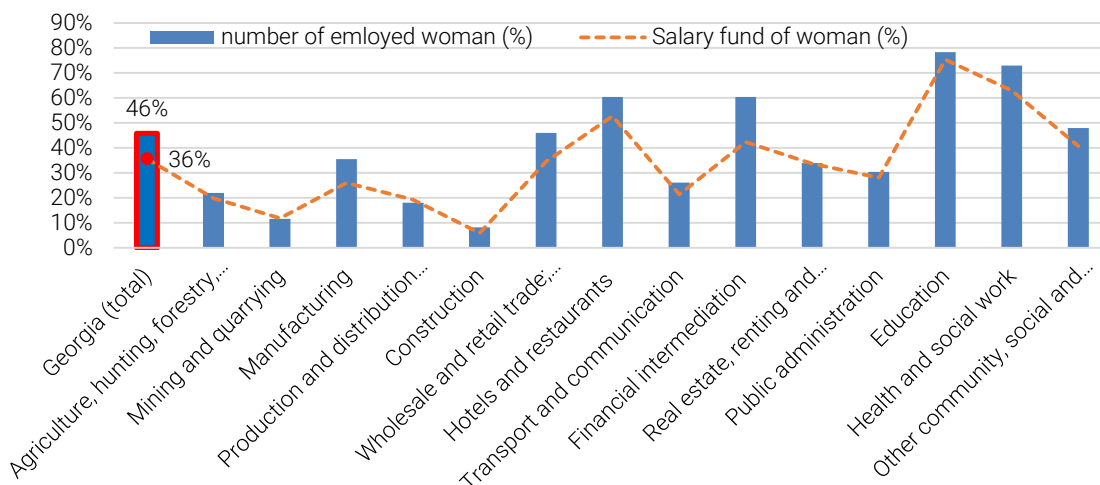
Women comprise 46% of the total employment, while their percentage of the salary fund is 36%.

If we analyze differences at the level of economic activities, in most cases, percentage of salary fund is less than percentage of employment for women, percentage of salary fund only in production and distribution of electricity (13%) was 1 % higher than percentage of employed woman (12%). Even in the education sector where employment of woman is at 78%, salary fund for women is less at 75%. Biggest gap is found in financial sector where

60% of employed is woman, but the salary fund is only 42%. Lowest employment for women was found in construction (8%) and the salary fund for women was as low as 6% (Diagram #29).

Increase of the MW up to 20%, 25% or 30% of average monthly earning, should positively affect the growth of the salaries of women, do not close, but narrow the gap of gender inequality in terms of wages and income distribution.

Diagram # 29. Employed women's number and salary fund in total indices by economic activities (%)



Budget Spending

Wages

Based on the official statistics received from the Ministry of Finance, we have analyzed the information concerning number of employees of public sector and their salary funds for the different income levels.

Analyses revealed that 9.1% of employed persons (19 428) in public sector in October 2017 received earnings less than 190 GEL (almost 20% of average salary), when their share was only 1.1% (2.15 mln GEL) of total salary fund (diagram #30).

If we disaggregate employers numbers and their salaries by three category: municipalities, autonomous republics (A/R) and state, we will find that

in October, 2017, in the category of municipalities, 10 299 (15.1% of total municipal employment) persons were employed with earning less than 190 GEL with the salary fund of 1.4 mln GEL (4.1% of total municipality fund) (Diagram #31).

For the category of state budget (Ministries and other institutions under the ministry), for the same period, 8 868 (6.4% of total state employment) persons were employed with earning less than 190 GEL with the salary fund of 0.75 mln GEL (0.5% of total state fund).

In addition, for the category of autonomous republic, employed persons with the earning less than 190 GEL is only 260 (4.8% of total A/R employment) and their salary fund is 32 thsnd. GEL (0.8% of total A/R fund) accordingly.

Diagram # 30. Number of employed persons and salary fund in public sector according to different income level (% , Oct., 2017)

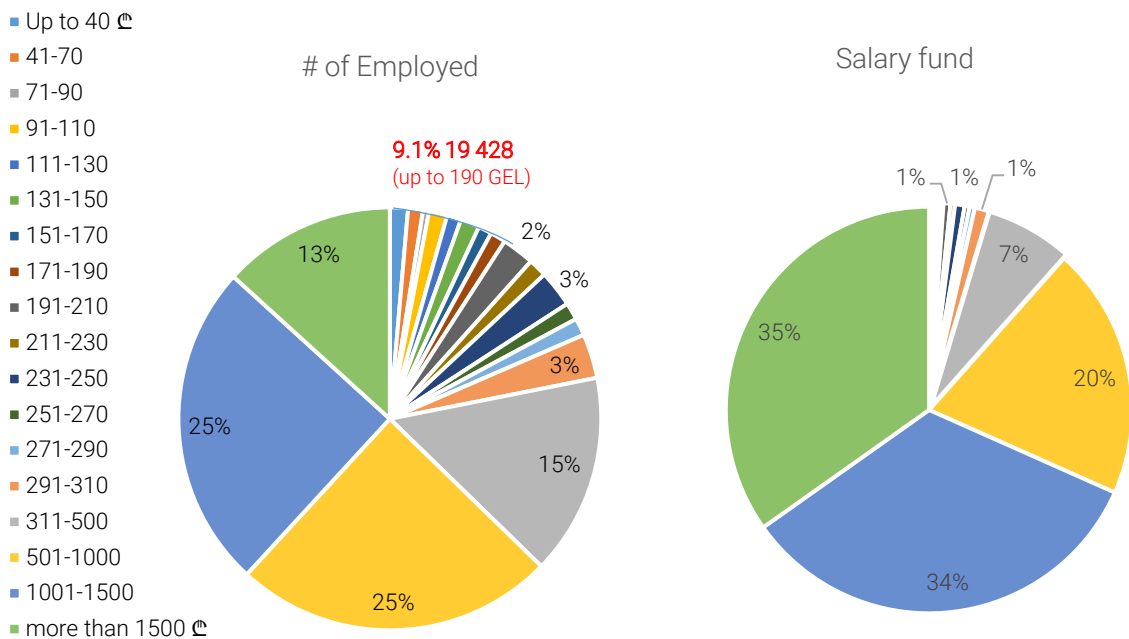
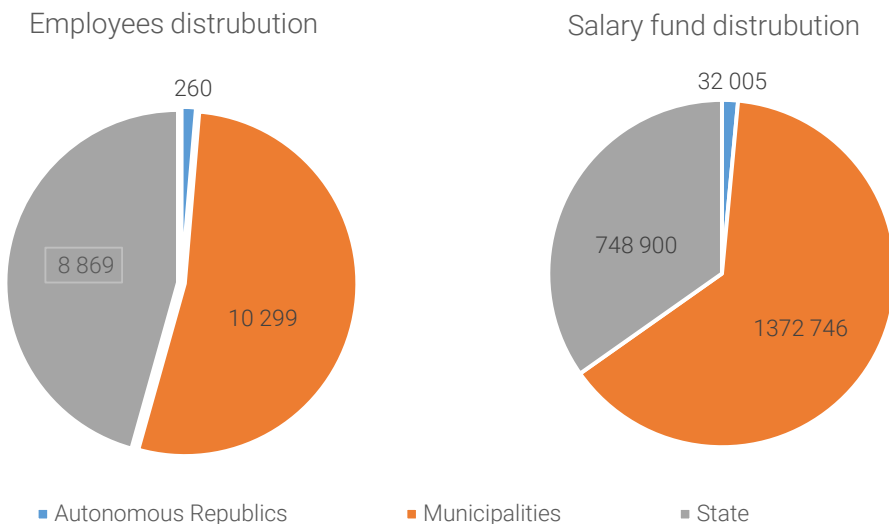
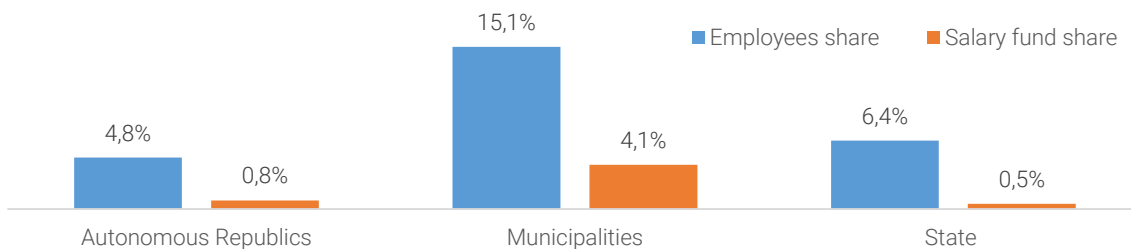


Diagram # 31. Number of employed persons and salary fund with revenues less than 190 GEL in public sector (Oct., 2017)



This data highlights that biggest number of low-paid employment is in the municipalities, and then comes the state budget. In case of the autonomous republics, it is very small, not significant number. From the data we may also assume that range between salaries in the municipalities are less compared to the state budget, the same as in the autonomous republics.

Diagram # 32. Share of percentage of employees and their salary fund with earning less than 190 GEL in public sector (Oct., 2017)



In case of introduction of a new MW, public spending would increase, though it is not very considerable (Diagram # 33).

If MW increases up to 188 GEL then, max 1.5 mln GEL will be required monthly, where 61% of increase will come on state budget, 38% on municipality budgets, and only 1% on autonomous republics.

If MWs increases up to 235 GEL, than monthly public expenditure on salaries will increase by 2.6 mln GEL, most of the increase will come on state sector 53% but less than in previous scenario in terms of percentage compared to municipalities (46%), and autonomous republics will stay at 1%.

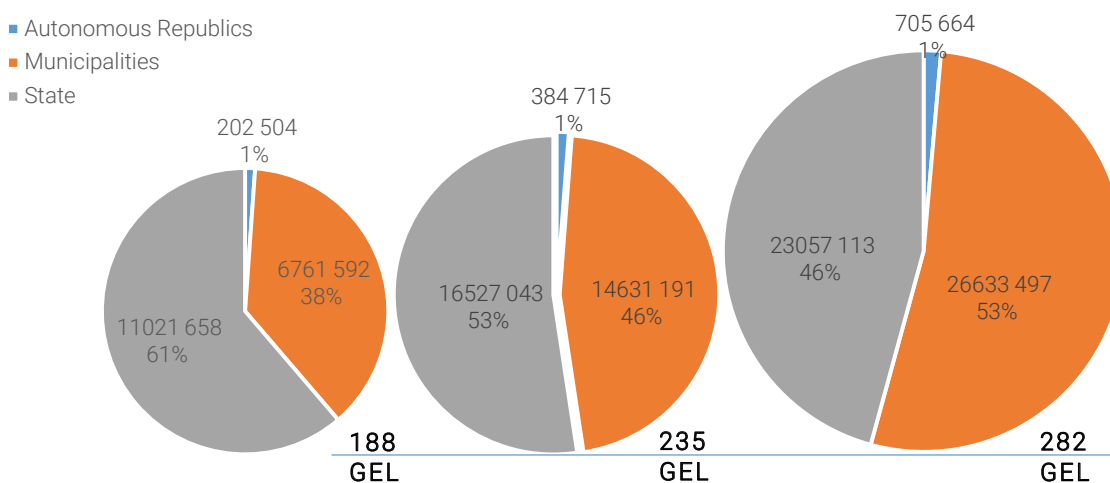
If MW will be 282 GEL, than monthly public expenditure on salaries will increase maximum up to 4.2 mln GEL. Increase in municipalities will be more, counting of 53% of total increase, compared to

state budget increase (46%).

If we decide to have annual spending increase and assume that other months expenditure will be on average as October 2017, then spending for all three scenarios will increase maximum up to 188GEL - 18 mln GEL, 235GEL - 31.5 mln GEL, and 282GEL - 50.4 mln GEL.

Increase MW up to 188 GEL, 235 GEL, and 282 GEL (20%, 25% and 30% of average earning) will increase public spending up to 0.8%, 1.4% and 2.2% of total salary fund accordingly. However, this is maximum amount and in case of removing part-time employees from the database we will find that these increases are much lower. Data provided by the ministry does not indicate if employment is full-time or not.

Diagram # 33. Additional salary fund to increase earning up to 188 GEL (Oct., 2017)



If we have a close look at the level of ministries, we will find out that, few ministries have employed persons with less than MWs (188 GEL). With the data received from the Ministry of Finance, employers number who received less than 190GEL, 235GEL and 290GEL are mostly found in the ministries of Internal Affairs, Defense and Education, where salary funds for the same categories were very low accordingly (Diagram #34, 35, 36, & 37).

Though further analyses of data received directly from this particular ministries revealed that those who are paid under category 290 GEL are mostly the persons enlisted in the mandatory public service (army, security police, etc.), where payment/earning is not a salary/wage but its substitute for some daily expenses, as well as part-time workers in education sector (mostly teaching part-time at educational establishments, who may be employed in other places as well). In addition, some data showing that payment was in smaller categories, as ministries explained, those smaller categories were due to payment for few days of work rather than full month (for newly started workers as well as workers dismissal, payment is provided based on the number of days of work employee was working for).

With taking out some of the categories pointed out above in 20% scenario (MW of 188 GEL) maximum public spending goes up to 10 mln GEL an-

nually, which is **0.5% growth of public salary fund (2.3 bln. GEL)**, of which approximately 2 mln GEL will be directed back in budget as an income tax (20%) levied on public salaries.

In case of 25% scenario (MW of 235 GEL) additionally maximum 21.5 mln GEL public spending will be needed, **0.9% of total public salary fund** annually. Of which up to 4.3 mln GEL as income tax will be an additional the revenue for the budget.

Finally, in 30% scenario (MW of 282 GEL) public spending needs to be increased by maximum 37.8 mln GEL, which is **1.6% growth of total public salary fund** annually. Of which up to 7.6 mln GEL will be send back to the budget as the revenue from income tax.

Though it is not a big number, near to 1%, it is still an inflated number and with our realistic calculations, it will be less after part-time employment deduction in municipalities and other ministries as well. At the moment, the statistics we used for the calculation from the Ministry of Finance does not give us chance to differentiate part-time vs full-time employment, so, we included both, we may speak definitely about only maximum amount, upper floor of spending but not an average or minimum floor.

Diagram # 34. Number of persons monthly salary under 190 GEL, 230 GEL, and 290 GEL (October, 2017)

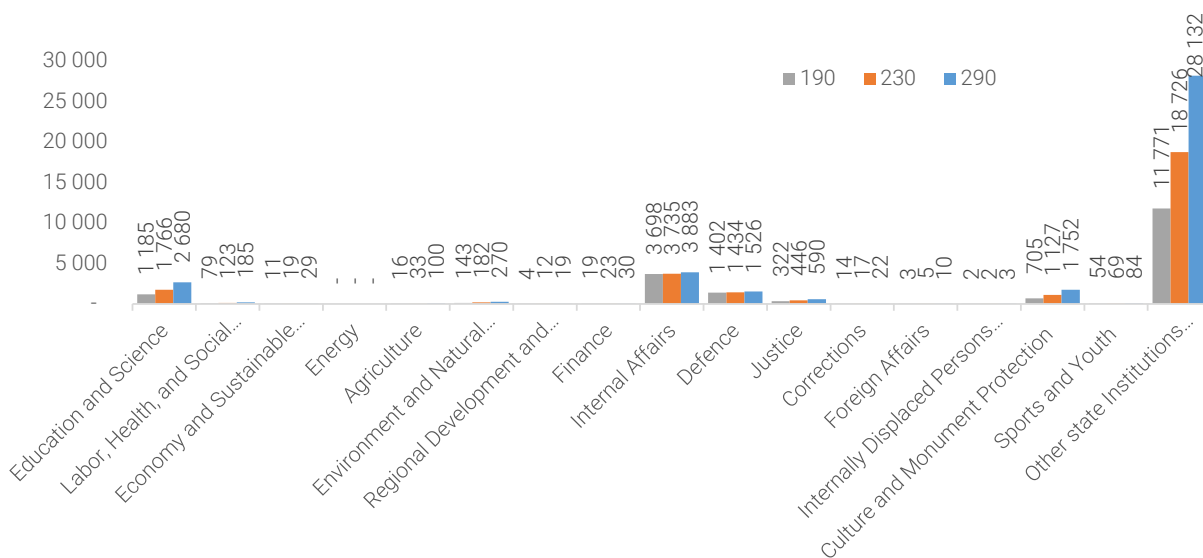


Diagram # 35. Monthly salary fund for salaries under 190 GEL, 230 GEL, and 290 GEL (mIn GEL, October, 2017)

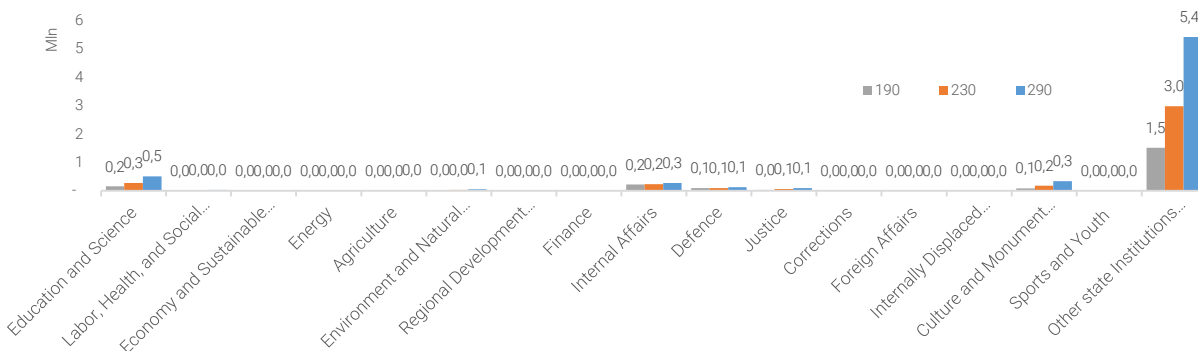


Diagram # 36. Additional Budget expenditure due to increase of MW up to 188 GEL, 235 GEL, and 282 GEL (annual, mln.GEL)

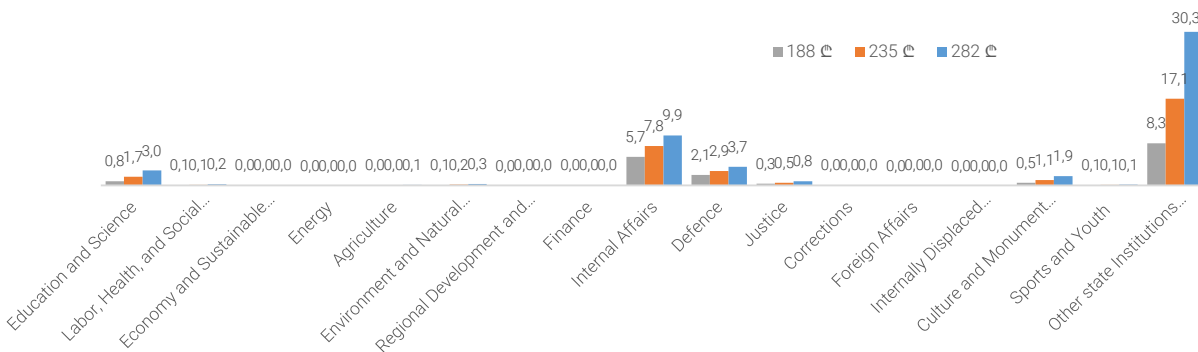
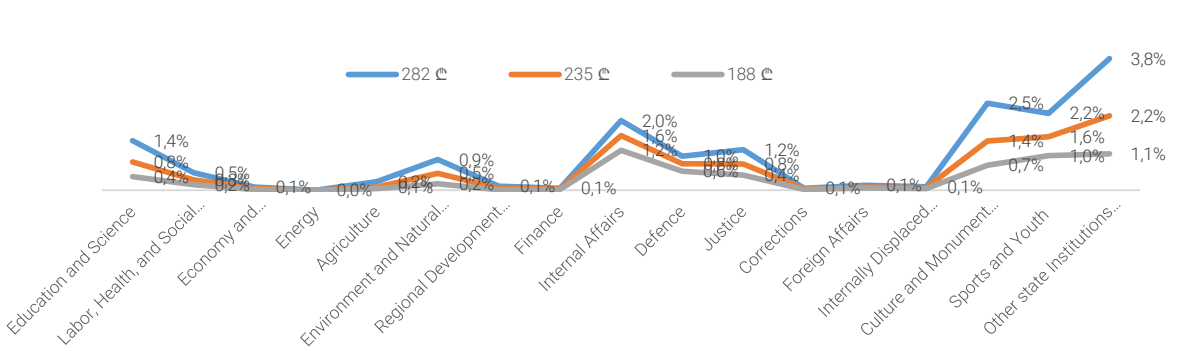


Diagram # 37. Salary fund increase in percentage due to increase of MW up to 188 GEL, 235 GEL, and 282 GEL



Social Benefits

Social effects of MWs considerably influence the indicators of poverty. Among other social factors, the improvement of social condition for a low-income employees, reduction of the risk for being in poverty, indicators of employment and social equality index (Gini index) are directly linked with MWs.

Other groups of society, who take advantages of different social assistance or privileges, are not directly impacted by MWs, because such kind of assistance is not determined on the income, social condition or employment of the beneficiaries' (Household Subsidy by Specific Categories; / Pursuant to the legislation in force , a certain part of the population of Georgia has been receiving state compensation and state academic scholarship since 2006. The majority of the beneficiaries were former employees of the Ministry of Internal Affairs).

According to different studies, MWs have no direct impact on indicators of poverty. This can be explained by the fact that MWs may only have influence in formal sector employees and it has no direct impact in informal sector employees. In addition, since the number of people (families) who are em-

ployed in the formal sector and still live under the extreme poverty is small, MWs have less impact on such kind of families.

As mentioned above, MWs will directly impact people working in the formal sector and still living in poverty (under the poverty threshold).

In 2004, the Government of Georgia made a decision to reform the social system in the country. The goal of the reform was to provide assistance to the extremely poor population. Social assistance was to be provided to the category that actually was in need of assistance from the Government. With this purpose, registration of socially vulnerable families and the development of a unified database started in 2005, in Georgia.

According to the "The Families and Population Registered in the entire database of Social Vulnerable Families", by October 2017, 324,886 households/families were registered in the unified database of socially vulnerable families (which constitutes 30.5 per cent of families in the country). 131,679 families received subsistence allowance (which makes up 12.4% of families in the country) and only 11,976 poor families (of the socially vulnerable families) get a salary.

Table # 2. Distribution of the families receiving subsistence allowance according to the number of family members

With the number of family members	Number of families	% of families
1 family member	27,920	21%
2 family members	21,480	16%
3 family members	19,206	15%
4 family members	24,172	18%
5 family members	18,042	14%
6 family members	11,467	9%
7 and more family members	9,392	7%
Total:	131,679	100%

Source: Social Service Agency, 2018.

12. Gini index - measures the degree of inequality in the distribution of family income in a country.

13. Law of Georgia on State Compensation and State Academic Scholarship.

To assess the effect of the MW on socially vulnerable families, whether it enables them to overcome poverty or not, the unified database of socially vulnerable families for the month of October, 2017 was analyzed (the number of family members with salary; the total number of family members; the amount of salary; the amount of the money per month which would drive families out of poverty, etc.).

As of October 2017:

- 324,866 families (976224 people) were registered to receive the subsistence allowance - 30.5% of the families of the whole population (26.2%

of the population). Which indicates that the subjective perception of poverty is rather high;

- 131,679 families (457,540 people) receive the subsistence allowance, 40.5% of the registered ones (46.9% of registered population) (Diagram #37);
- 12.4% of the families of the Georgian population (12.3% of the population) receive the subsistence allowance;
- Out of the (131,679) beneficiary families, wages are stated for 11,976 families only (9% of the beneficiary families) (Diagram #38).

Diagram # 38. The distribution of the beneficiary families by regions

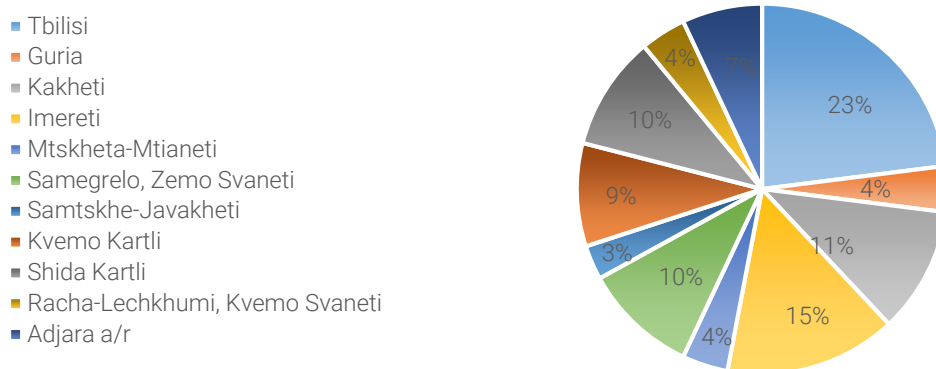


Diagram # 39. The percentage of benefit recipients in the families registered on the database

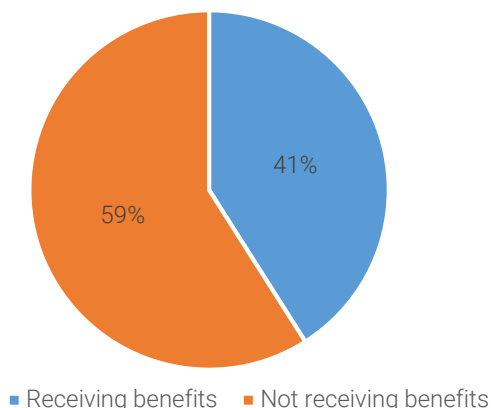


Diagram # 40. The percentage of families with stated salaries in the families receiving benefit

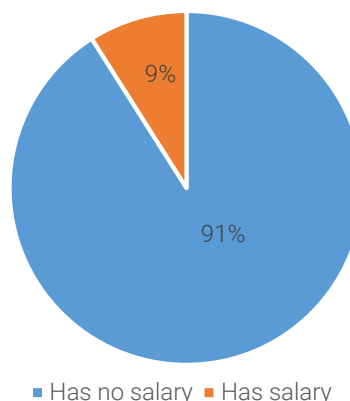
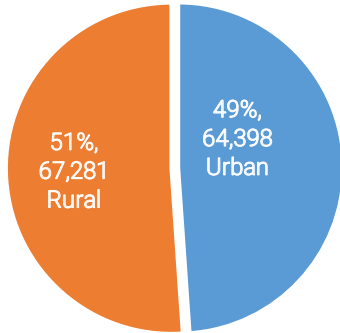
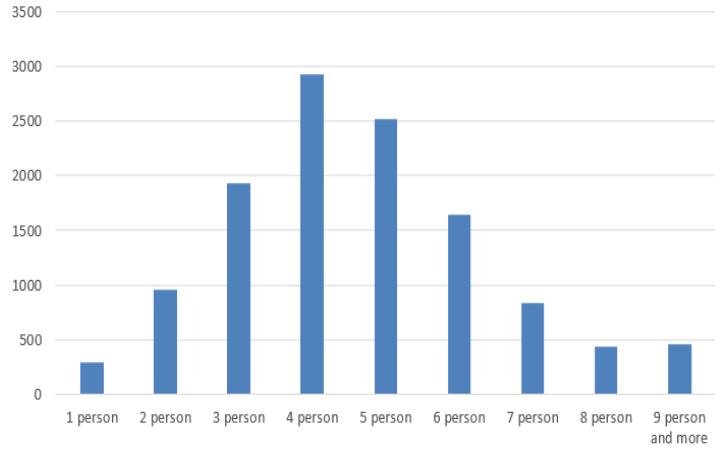


Diagram # 41. The number of beneficiary families



Source: Social Service Agency, 2017

Diagram # 42. The distribution of families according to the number of family members with stated salaries



As databased revealed, from one to six persons are stated to have salary and mostly family size is 3-6 members (Diagram # 42):

- 1 member employed in 10,729 families (the number of family members and the number of families are represented in Table #2):
- 2 family members employed in 1124 families:
- 3 family members employed in 108 families:
- 4 family members employed in 12 families:
- 5 family members employed in 2 families:
- 6 family members employed in a 1 ten-member family.

Table # 3. The number of families according to the number of family members with stated salariesx

# employed	Number of family members																Total
	1 person	2 persons	3 persons	4 persons	5 persons	6 persons	7 persons	8 persons	9 persons	10 persons	11 persons	12 persons	13 persons	14 persons	15 persons	17 persons	
1	291	925	1801	2680	2229	1417	711	342	153	90	53	20	10	1	4	2	10729
2		34	122	236	267	200	99	74	38	22	19	7	1	4	1		1124
3			5	8	19	18	19	13	4	13	5	2	2				108
4				2	2	4	1	2	1								12
5							1								1		2
6										1							1
all	291	959	1928	2926	2517	1639	830	432	196	126	77	29	13	5	6	2	11976
%	2,4	8,0	16,1	24,4	21,0	13,7	6,9	3,6	1,6	1,1	0,6	0,2	0,1	0,0	0,1	0,0	100

The Social Service Agency indicated the amount of salary (the monthly sum increment), which would support the family to overcome poverty (total for the family) and exceed the score of 65,000. According to the regulation, as indicated above, families having less than score of 65,000 receive subsistence allowance for each member of the family (see more in the section “Minimum Wage, Subsistence Minimum and Related Policy Tools”).

In October 2017, an allowance of 21,057,260 GEL was transferred, of which 46.6% was distributed in urban and 53.4 % in rural areas.

Table # 4. Allowances transferred (October, 2017, GEL)

Amount of the sum transferred to families receiving allowances	City	Village
21,057,260	9,824,923	11,232,337

As a logical continuation of previous sections of the research, we analyzed three scenarios and assumed that the paid members of families would have:

I. scenario: a MW of 188 GEL Gross (150 GEL Net), along with its effect evaluated (how it would succeed in overcoming poverty):

The base processing has shown that: If all employed members of the families (receiving benefit, the salary is stated for 11976 families) will have a MW of 188 GEL, 224 families (1.87% of families with stated salaries) will be driven out of poverty (Table # 5).

Table # 5. The distribution of families by the number of its members receiving allowances and supposed to be driven out of poverty (20% scenario)

The number of family members	number of households receiving allowance	number of households driven out of poverty	poverty reduction rate with the beneficiaries %
1	291	11	3.78%
2	959	29	3.02%
3	1928	47	2.44%
4	2926	71	2.43%
5	2517	36	1.43%
6	1639	17	1.04%
7 and more	1716	13	0.76%
Total:	11976	224	1.87%

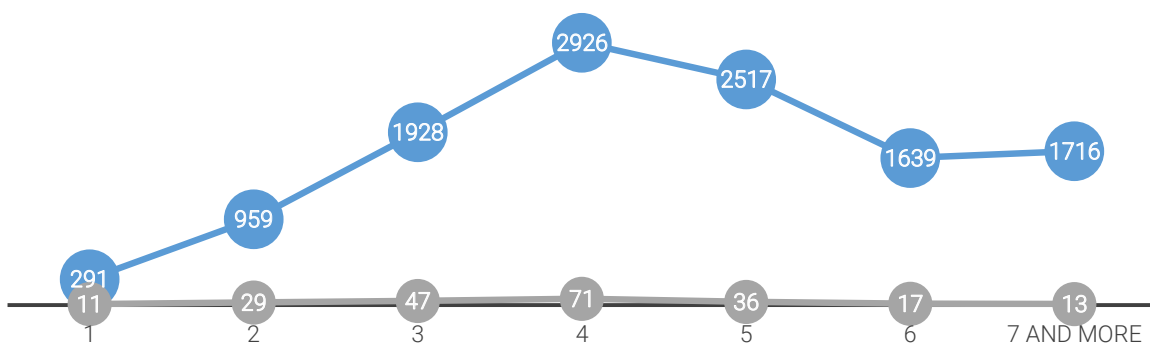


Table # 6. The distribution of family members with salaries, who receive allowances and will be driven out of poverty; (20% scenario)

The number of employed in the families receiving allowances	The number of families receiving the allowance with stated salary	The number of families going to be driven out of poverty
1	10729	197
2	1125	27
3	109	0
4	13	0
5	2	0
6	1	0
Total:	11,976	224

If each employed family member has a minimum of 188 GEL, the picture will change in the following way:

- **In the family with one employed member** whose MW will be 188 GEL, 197 families will be driven out of poverty, where: one member families are 11 families, two-member families are 28 families; 3 member families are 41 families; 4 member families are 61 families; 5 member families are 33 families; 6 member families are 13 families; 7 member families are 7 families; 8 member families are 2 families; 10 member families are 1 family;
- **In the family with 2 employed member** whose MW will be 188 GEL (total 376 GEL), 27 families will be driven out of poverty, where: two-member families are 1 families; 3 member families are 6 families; 4 member families are 10 families; 5 member families are 3 families; 6 member families are 4 families; 8 member families

are 3 families;

Summary: If we make an assumption that each employed member of the family is paid a MW of 188 GEL, and no single family loses the job, 224 families (875 persons) will be driven out of poverty.

Financial Effect of MW on the State Budget: Families with stated salaries were transferred a subsidized allowance of 2,832,940 GEL. In case of driving 224 families out of poverty, the state budget will see the monthly privilege of **28,190 GEL (338,280 GEL per annum)**.

II. scenario (25%): a MW of 235 GEL (188 GEL net), along with its effect evaluated (how it would succeed in overcoming poverty)

If all employed members of the poor families will have a MW of **235 GEL, 325 families** (2.71%) will be driven out of poverty (Table # 7).

Table # 7. The distribution of families by the number of its members receiving allowances and supposed to be driven out of poverty (25% scenario)

The number of family members	number of households receiving allowance	# of households driven out of poverty	poverty reduction rate with the beneficiaries %
1	291	16	5.50%
2	959	46	4.80%
3	1928	71	3.68%
4	2926	91	3.11%
5	2517	52	2.07%
6	1639	29	1.77%
7 and more	1716	20	1.17%
Total:	11976	325	2.71%

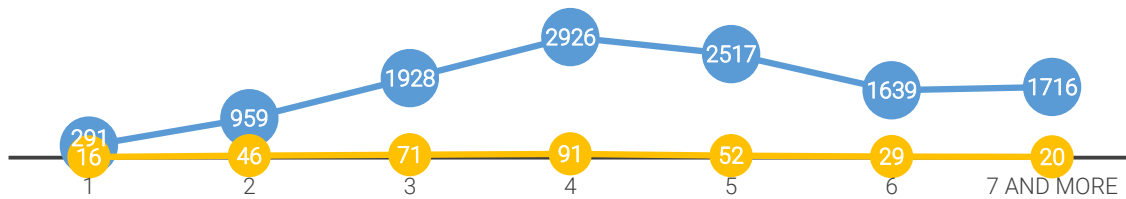


Table # 8. The distribution of family members with salaries, who receive allowances and will be driven out of poverty

The number of employed in the families receiving allowances	The number of families receiving the allowance with stated salary	The number of families going to be driven out of poverty
1	10729	293
2	1125	30
3	109	1
4	13	1
5	2	0
6	1	0
Total:	11,976	325

If each employed family member has a minimum of 235 GEL, the picture will change in the following way:

- **In the family with one employed member**, whose MW will be 235 GEL, 293 families will be driven out of poverty;
- **In the family with 2 employed members**, whose MW will be 235 GEL (total 470 GEL), 30 families will be driven out of poverty;
- **In the family with 3 employed members**, whose MW will be 235 GEL (total 705 GEL), 1 family will be driven out of poverty;
- **In the family with 4 employed members**, in case all the four members have a MW of 235 GEL (ie, in total 940 GEL), 1 family will be driven out of poverty.

Summary: If we make an assumption that each employed member of the family is paid a MW of 235 GEL (188 GEL net), **325 families (1,269 persons)** will overcome poverty threshold.

Financial Effect of MW on the State Budget: In case of driving **325 families** out of poverty, the state budget will see the monthly privilege of **41,260 GEL** (495,120 GEL per annum).

III. Scenario (30%): The paid members of families would have a MW of 282 GEL Gross (226 GEL net), along with its effect evaluated (how it would succeed in overcoming poverty):

If all employed members of the families receives a MW of 282 GEL, 463 families (3.87%) will overcome poverty threshold (Table #9).

Table #9: The distribution of families by the number of its members receiving allowances and supposed to be driven out of poverty (30% scenario)

The number of employed in the families receiving allowances	The number of families receiving the allowance with stated salary	The number of families going to be driven out of poverty
1	10729	293
2	1125	30
3	109	1
4	13	1
5	2	0
6	1	0
Total:	11,976	325

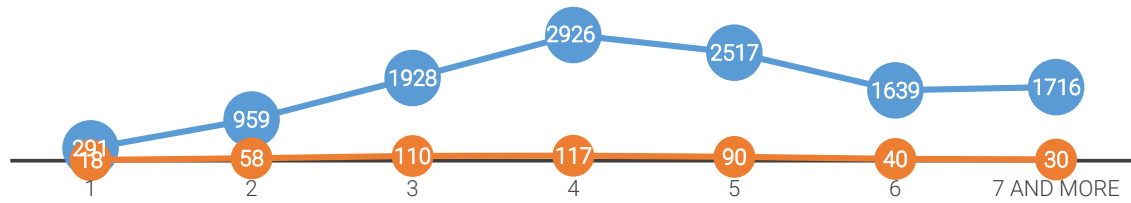


Table # 10. The distribution of family members with salaries, who receive allowances and will be driven out of poverty

The number of employed in the families receiving allowances	The number of families receiving the allowance with stated salary	The number of families going to be driven out of poverty
1	10729	412
2	1125	48
3	109	2
4	13	1
5	2	0
6	1	0
Total:	11,976	463

If each employed family member has a minimum of 282 GEL, the picture will change in the following way:

- **In the family with one employed member** whose MW will be 282 GEL, 412 families will be driven out of poverty;
- **In the family with 2 employed members**, whose MW will be 282 GEL (total 564 GEL), 48 families will be driven out of poverty;
- **In the family with 3 employed members**, whose MW will be 282 GEL (total 846 GEL), 2 families will be driven out of poverty;
- **In the family with 4 employed members**, in case all the four members have a MW of 282 GEL (ie, in total 1,128 GEL), a family of 5 members will be driven out of poverty.

Summary: If we make an assumption that each employed member of the family is paid a MW of 282 GEL, **463 families (1849 persons)** will overcome poverty.

Financial Effect of MW on the State Budget: In case of **463 families** driving out of poverty, the state budget will see the monthly priviledge of **60,990 GEL (731,880 GEL per annum)**.

Summary:

- If we make an assumption that each employed member of the family is paid a MW of **188 GEL**, **224 families and 875 people** will overcome poverty;
- If we make an assumption that each employed member of the family is paid a MW of **235 GEL**, **325 families and 1269 people** will overcome poverty;
- If we make an assumption that each employed member of the family is paid a MW of **282 GEL**, **463 families and 1849 people** will overcome poverty.

Financial Effect of MW on the State Budget:

- **If MW – 188 GEL:** In case of 224 families overcoming poverty, the state budget will see the monthly priviledge of **28,190 GEL (338,280 GEL per annum)**;
- **If MW – 235 GEL:** In case of 489 families overcoming poverty, the state budget will see the monthly priviledge of **41,260 GEL (495,120 GEL per annum)**;
- **If MW – 282 GEL:** In case of 678 families overcoming poverty, the state budget will see the monthly priviledge of **60,990 GEL (731,880 GEL per annum)**.

Table 11: The distribution of families by the number of its members receiving allowances and supposed to overcome poverty

The number of family members	number of households receiving allowance	poverty reduction (188 GEL)	poverty reduction (235 GEL)	poverty reduction (282 GEL)
1	291	11	16	18
2	959	29	46	58
3	1,928	47	71	110
4	2,926	71	91	117
5	2,517	36	52	90
6	1,639	17	29	40
7 and more	1,716	13	20	30
Total:	11,976	224	325	463

Table 12: Financial Effect of MW on the State Budget

Amount of the sum transferred to families receiving allowances, GEL (October, 2017)	Families with stated salaries were transferred a subsidized allowance	(188 GEL Min. Wages) In case of 224 families overcoming poverty, the state budget receives privilege:		(235 GEL Min. Wages) In case of 325 families overcoming poverty, the state budget receives privilege:		(282 GEL Min. Wages) In case of 463 families overcoming poverty, the state budget receives privilege:	
		monthly	annually	monthly	annually	monthly	annually
21,057,260	2,832,940	28,190	338,280	41,260	495,120	60,990	731,880

Table 13: The distribution of the families by Region

Region	Number of families receiving subsistence allowance	of which Number of families with income	% of families with income receiving allowance	Number of the families - supposed to overcome poverty (188 GEL)	Number of the families - supposed to overcome poverty (235 GEL)	Number of the families - supposed to overcome poverty (282 GEL)
Tbilisi	30,348	3656	12.05%	64	85	114
Samegrelo-Zemo Svaneti	13,513	1285	9.51%	35	49	69
Adjara A/R	8,796	668	7.6%	22	37	44
Kakheti	15,132	1098	7.3%	22	31	44
Imereti	19,349	1560	8.06%	21	29	51
Shida Kartli	13,555	1225	9.04%	21	27	43

Kvemo Kartli	12,411	1021	8.23%	16	26	34
Racha-Lechkhumi, Kv.Svaneti	5,305	528	9.95%	12	23	36
Guria	4,628	256	5.5%	4	6	11
Mtskheta-Mtianeti	5,297	488	9.2%	4	6	11
Samtskhe-Javakheti	3,345	202	6.04%	3	6	6
Total:	131,679	11,976	9.1%	224	325	463

On the basis of the mentioned assumption there has been processed the database of families below the poverty line with a deeper poverty gap (65000 scores or less). Comparatively more and more vulnerable families (from 65000 to 100000) will be driven out of poverty if each employed member of a family has a MW of 188 GEL / or 235 GEL / or 282 GEL. The states extra money can be directed to creating new jobs, which will further reduce the number of poor families and dependence on social allowance.

We assumed the fact that there is no threat of losing their jobs. There is a risk that (due to low-paid job cuts) MWs may result in the expulsion of low-paid employees from the labor market, but not so big growth of the MW proposed by policy should not result in massive dismissal of low-paid workers, and if it happens, it will have only a temporary character.

Consequently, setting new MWs will reduce percentage of poverty if the job loss indicator in the formal sector is low. Besides the mentioned fact, increasing MWs in the formal sector may result in the increase of low paid wages up to MW in informal sector too (Maloney and Nunez, 2001), consequently it will also effect on poverty reduction.

International Practice

MW Benchmarking: Georgia and Other Countries

Among former Soviet countries, Georgia's current monthly MW is the lowest with 20 GEL (\$8), it is

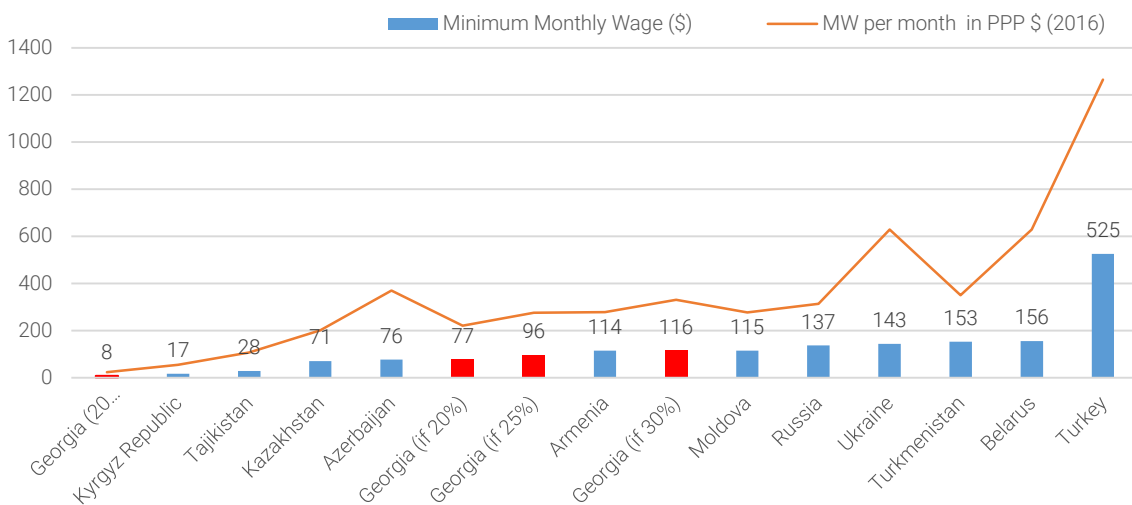
not even near to monthly MW of Azerbaijan (\$76), Armenia (\$114), Moldova (\$115), Ukraine (\$123), Russia (\$132) and Belarus (\$156), all the countries indicated have at least 9 times more MWs than Georgia (diagram #13).

In terms of International \$ price with purchasing power parity (World Bank, 2016), among Post-Soviet countries, highest purchasing power of MW is found in the Ukraine, than comes Belarus, Azerbaijan, Turkmenistan and so on. If Georgia introduces 30% scenario of MW, with PPP it will be below Ukraine, Belarus, Azerbaijan and Turkmenistan but above Russia, Armenia, and Moldova. In case of 20% and 25% scenario, Georgia will be a bit less than Moldova, Armenia, but more than Kazakhstan, Turkmenistan and Kyrgyz Republic.

If we compare Georgia's hourly MW in Euro, it stands at 0.04 € per hour, far less than Azerbaijan (0.40 €), Armenia (0.60 €), Moldova (0.51 €), Ukraine (0.79 €), Russia (0.61 €), Belarus (0.81 €) and Turkey (3.11€) (Diagram #14). While in European countries, MWs are much higher and the smallest starts at 1.04 € (Bulgaria), 1.14 € (Romania) and goes up to 11.1 € per hour (Luxemburg).

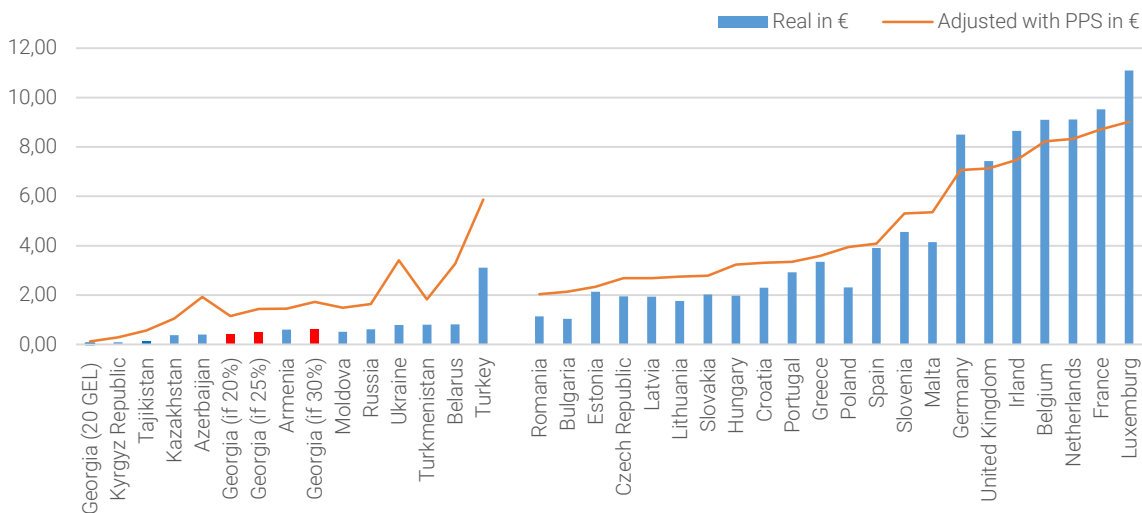
If MWs will be 30 % of the average wage at 282 GEL, than hourly wage (0.60 € per Hour) will be somewhat near to Armenia (0.6 € per Hour) and Moldova (0.51€ per Hour), but still it will be behind of Ukraine and Russia. If MW will be 20% or 25% (0.4 and 0.5 € per Hour) it will be less than Armenia and Moldova, but close to Azerbaijan (0.4 € per Hour) and Kazakhstan (0.37 € per Hour).

Diagram #13. Comparison of MWs in Caucasian and Former Soviet Countries



Source: our calculation based on World Bank PPP converter, www.minimum-wage.org, www.xe.com exchange rate.

Diagram #13. Comparison of MWs in Caucasian and Former Soviet Countries



Source: World Bank, www.minimum-wage.org, www.xe.com, MW Regimes in Europe¹⁵.

Having closer look at various scenarios for increasing MW in Georgia, we may conclude that growth up to 30% of average monthly earning is the best scenario, as in this case, MW stands at least somewhat near to our neighboring countries, and it is much more than the pension for elderly, as well as subsistence minimum of Georgia.

¹⁵ MW Regimes in Europe... and What Germany Can Learn from Them, THORSTEN SCHULTEN, 2014

Graph #1 European countries on the gross MW



Based mostly on EUROFOUND and EUROSTAT information,
https://en.wikipedia.org/wiki/List_of_European_countries_by_minimum_wage

MWs Increase Effects: International practice with Georgian lenses

As it is found in international studies conducted by various economic research as well as financial institutions, MW is a tool to use for workers protection from exploitation by employer, however it should be set in a proper amount to provide standard of living as well as not to harm the economic development process. Usually labor organization ask for increasing minimum wage as much as possible, sometimes not considering employers abilities or market conditions, while employers trying to receive more benefit from low costs on labor, lobby avoiding MW introduction or agree on introducing MW, though as minimum as possible, not considering workers' basic needs. In order to serve its purpose, as narrated below in ILO survey,

setting MW should be based on understanding economic conditions properly, balancing interests of these two opponents who always try to maximize their benefits, and introduce MW setting mechanism (regulation) to raise standard of living, which includes human development needs as well as economic growth (employment, competitiveness, etc.).

According to the ILO 1992 survey conducted by committee of experts, the MW is considered as "the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his

or her family, in the light of national economic and social conditions”¹⁶.

As usually, countries regulate MWs mainly by law or collective agreements. MW for some countries vary by various factors (sector/economic activities, region, or individual criteria such as age), however, all provide a degree of income protection for workers, in combination with other benefits, and prohibits competition based on “unfair” labor usage/exploitation. Most of the European countries have a statutory MW. There are only Nordic and few other countries left in Europe with no statutory MW (Norway, Finland, Sweden, Denmark, Italy and Austria). However, these countries are highly unionized and regulate the minimum wages with collective agreements, and use direct bargaining power to negotiate salaries directly with employers. In all former Soviet countries, statutory minimum wage is introduced and law regulates them.

From the human rights’ economic as well as social perspective, international practice indicates that providing the MW and its periodic adjustment affects the society in many terms, namely:

1. Underlines the importance of MW as human rights’ tool for receiving reward for decent work

In the context of changing economic conditions of the country, with setting MWs and its adjustment mechanisms, worker’s rights are protected with legislation to avoid exploitation. With properly adjusted MWs, the floor of employee’s earning for their work are not depended on the employer’s willingness-to-pay if there are no other sufficient labor market conditions, such as: a) no or very limited alternative employment opportunities to regulate wages competitively by market itself, or b) strong labor organizations (trade unions) to protect workers’ rights.

Having insufficient regulation framework of MW, employers have a right to pay their workers as much as they wish, with no consideration of social-economic factors related to their workers’ and their dependents well-being, poverty or minimum

living conditions and policies (subsistence minimum, pensions, allowances, other social policies) for decent life.

In developed countries, As Yao et al. (2017) findings indicate, currently, a MW is shifting its role from a “survival” to a “decent” amount of income and it is becoming a tool to improve overall well-being of a human, the values of freedom linked with job satisfaction, equity and security¹⁷.

Georgia is no exception in this regard. However, it is fact that, so far, the current minimum wage (20 GEL per month) and even some actual low-paid salaries are not enough for survival as it is less than SM (150 GEL), nothing to speak of improving job satisfaction, equity and security. It is important to introduce a new MW and put in place its proper adjustment mechanism to protect the workers’ rights for having somewhat relevant MWs and step-by-step move from “survival” to “decent” income.

2. Creates universal coverage for all workers and balances interest of different groups while considering economic development indicators

With having MW regulated by law, all workers are equally guaranteed with their basic right of having at least a MW in exchange of the work they provide. Which gives trade unions and employers a basic starting point for bargaining more social benefits as well as setting wages for workers. Trade unions may negotiate salaries and other related benefits above MW for their constituents based on their bargaining power in various sectors, occupations, using seniority, maternity or other factors. Employers willing to pay decent wages will have more opportunity to do so and not be driven out of business by competitor employers who are exploiting labor (underpaid work). In addition, the labor not willing or having opportunity to be unionized will have at least minimum amount of guaranteed earning.

ILO: General Survey of 1992, para 42.

17. Christian Yao, Jane Parker, James Arrowsmith, Stuart C. Carr, (2017). The living wage as an income range for decent work and life, *Employee Relations*, Vol. 39 Issue: 6, pp.875, <https://doi.org/10.1108/ER-03-2017-0071>

Moreover, with creation of the committee regulating the MW in Georgia, trade unions, employers' associations and government are involved in setting as well as periodically adjusting the MW based on assessment of the economic indicators as well as other social economic factors. The committee will serve as a platform for social dialogue to understand labor market trends, needs and opportunities of the parties for regulating issue more effectively, providing equal participation of all key stakeholders and balancing their interests.

3. Elevates issues of employment vs unemployment, growth of demand vs increase of prices on consumer goods, growth of informal sector.

As highlighted above the MW should not be high to avoid its negative effect on employment and economic development in general. As Jan Rutkowski in his World Bank research highlighted, a MW is neither "Cure" nor "curse"; its setting is purely a balancing act. As he recommends, as a rule of thumb, in developing countries, MW should be higher than 40 % of average wage, approximately 1/3 of wage if unemployment is high and much linked with low-skilled workers and Youth¹⁸.

In practice, it was found in Puerto Rico, that a new MW resulted in a massive increase in the average manufacturing wage up to 70% precipitated job losses and increased unemployment¹⁹. In certain cases, it may also lead to growth of informal sector (unofficial employment of the labor to pay less than increased Statutory MWs).

However, it is not always the case; consideration needs to be given how big the growth rate of MWs is. If economic conditions are favorable, average salaries are big enough with real growing pattern, key economic indicators are improving, business sectors are developing, enforcement of the law is in place as well as penalties for violation of laws are big enough, then, with well-thought gradual,

not a dramatic change in MWs, unemployment is not expected to grow, neither prices on consumer goods are going to change much. Even in informal sector, employers take into consideration of MW when deciding on how much to pay on low-paid jobs they provide²⁰.

In addition, it is fact, not a big increase of MWs does not lead to making savings, but results in an additional spending on consumer goods, which may cause positive cumulative effects, additional job creation in certain industries (e.g. food and basic consumer goods' production, distribution, and sale), less likely drive inflation or raise of prices on consumer goods.

Some studies even indicate that a proper growth of MW in some countries has positive effects in certain cases and the US is a good example in this regard.

The study of 2013, conducted by Economic Policy Institute found that a MW increase in the US from the current rate (\$7.25 h) to new rate (\$10.10 h) would inject billions (\$22.1 bln) net into the economy and create thousands of new jobs (About 85,000 jobs) over a three-year phase-in period²¹. The other study provided by Economists of Federal Reserve Bank of Chicago noted that a \$1.75 rise in the federal MW, would lead to aggregate household spending increase as much as \$48 billion, resulting in GDP and job growth²². The survey of American Sustainable Business Council (2014) stated, "58% of small business employers say that raising the MW would increase consumer purchasing power in the economy".

Even though every country has its specific economic conditions, it is still important to learn from their experience and find how changes in MW affect economies (employment/unemployment,

18. Rutkowski, J. (2003). The minimum wage: curse or cure, Human Development Economics, Europe and Central Asia Region, The World Bank.

19. Castillo-Freeman A., and Freeman R. (1992), "When the Minimum Wage Really Bites: the Effect of the U.S. Level Minimum on Puerto Rico", in: G. Borjas and R. Freeman, eds., Immigration and the Workforce, pp. 177-211, Chicago: University of Chicago Press.

20. Maloney, W.F., Nunez, J. (2001), Measuring the Impact of Minimum Wages: Evidence from Latin America, The World Bank Policy Research Working Paper.

21. Cooper, D. (2013). Raising the Federal MW to \$10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost, Economic Policy Institute website.

22. Aaronson D., & French E. (2013), How Does a Federal MW Hike Affect Aggregate Household Spending?, Chicago Fed Letter

growth of GDP as well as Purchasing Power Parity). It is also important to note that most of the high quality scientific studies are related to developed countries and very limited number to developing ones. Therefore, applying developed countries experience in developing ones directly may not be the best solution and it needs always critical assessment.

As Georgia is moving from the developing to the developed countries' list, it is important to assess all studies and with careful examination use relevant international experience for Georgia from both types of countries.

In Georgia, as highlighted in the previous sections, since 1999, real growth of salaries were considerably high, while adjustment of the MWs did not happen. Currently, low paid jobs are paid much more than the MWs of 1999, they are mostly more than proposed new MW (20-30% of average earning) and only few occupations are left with lower salaries with no dramatic difference from the new MW.

It means we do not expect high concentration of actual wages below the new MW. Therefore, we consider that with reasonable gradual changes and closer look at the economic growth conditions, the new MW will not cause additional unemployment or rise of prices on consumer goods.

4. Results in Improvement of overall productivity and efficiency of companies, Raise in worker's productivity and Reduction of employee turnover or closure of business

In order to minimize labor costs, organizations will/may try to introduce new, effective technologies, closer study inefficient labor use, create part-time workplaces where they have no necessary need for full-time employment, reduce layoffs and spend more on qualification improvement of their employees. While employees will have more willingness to do their job better, stop switching to other low-paid jobs and quit only with better opportunities, rather than moving to new job with MW again. Moreover, due to companies' efficiency measures and switching to more part-time work positions offered, work force will have more time

to continue study or look for other work opportunities with better earning or simply find another part-time job to complement current one and have more earning in a month. Though in this process, some employee dismissal or delay in recruiting maybe caused, but we expect it to be minimal and for a short period. As changes will be gradual, it will more like result in adaptation of the employers' behavior to the new circumstances and not a dramatic change overall.

It is fact, that in Georgia, most of jobs are full-time and there are very limited opportunities in terms of part-time employment. If new MW creates additional part-time jobs, it will be very beneficial for various target groups who cannot work full-time and are looking for more flexible job opportunities due to several factors (study, having dependents, etc.). International practice reveals that after increase of the MW, usually, turnover rates are reduced, with reduced turnover and more stable employment productively will probably increase as well.

Various countries national scientific studies by: Alan Manning (2014), Professor of Economics at the London School of Economics²³; Brochu and Green (2013) in Canada²⁴, nationwide survey conducted in the US (2014)²⁵, University of California at Berkeley (2014)²⁶; and George Akerlof and Janet Yellen (economists, Chair of the Federal Reserve)²⁷ underline that in case of MW increase, labor turnover rates and absenteeism decline and work becomes more attractive.

23. Manning, A. (2014). Why Increasing the MW Does Not Necessarily Reduce Employment, *Social Europe*

24. Brochu, P., & Green, D. A. (2013). The impact of MWs on labour market transitions. *The Economic Journal*, 123(573), 1203-1235.

25. American Sustainable Business Council (2014). Small Business Owners Favor Raising Federal MW, ASBC and Business for a Fair MW, http://asbcouncil.org/sites/default/files/asbc_bfmw_poll_report_final_140709.pdf

26. Dube, A. Lester, T.W., and Reich, M. (2014) MW Shocks, Employment Flows and Labor Market Frictions, University of California at Berkeley, irle.berkeley.edu.

27. Akerlof, G. A., & Yellen, J. L. (Eds.). (1986). *Efficiency wage models of the labor market*. Cambridge University Press.

5. Highlights the topics: reduction vs Increase of poverty and government spending

A MW wage is not a universal tool to fight poverty; it only represents one of many avenues to reduce poverty, especially for the families with MW working member(s). Poverty covers much broader area and is related to insufficient income to satisfy basic needs: food, cloths, shelter, and other vital necessities. Usually families in extreme poverty suffer due to limited ability or opportunities to be employed for various reasons: low skills, inadequate education, remote locations, health conditions, no job opportunities, dependents (children, elderly, and other family members with or without disabilities). Therefore, in order to overcome extreme poverty, they need various types of intervention and support programs from the side of the state. In other terms, raising MW will not solve the poverty as it is more complex and is not only linked with having salary but a sufficient amount of income as well as considering other needs. Moreover, the introduction of MW needs an attention not to cause additional unemployment for this particular group, as commonly this type of families have members with low-paid jobs mostly and they are vulnerable to lose the job.

Usually some researchers concern is that an introduction of new MW will cause additional poverty and government spending, however, others argue that due to increase of the income, families have more ability to overcome poverty and be less dependent on government support programs. If the new MW does not dramatically differ from actually paid wages, it does not distort the market and cause additional unemployment, so, reduction of poverty and less dependency on state support programs is more expected.

As our analyses show, in Georgia, with the growths of MW up to 20%-30% of average monthly earnings, accordingly 224 - 463 families will be driven out of extreme poverty with assumption that they will not lose the MW jobs. Several international studies indicate to the same outcome.

According to the study by University of Massachusetts at Amherst (Dube, 2014), in US, on average, a

10 percent increase of statutory MW is expected to result in reduction of poverty, more precisely a 1.5 percent reduction in the number of individuals²⁸. As the Congressional Budget Office in the US has found (report, 2014), MW increase up to \$9 and \$10.1, would lift 300,000 and 900,000 persons out of poverty in the US accordingly²⁹.

Government spending on public servants salary due to MW increase is not expected to be high (max from 0,5 to 1,5% of total salary fund) in Georgia and most likely it will be at least partially covered by surplus revenues in budget due to additionally collected income tax as the total gross salary fund will increase. Moreover, this amount of spending is considered as maximum amount when in fact, it will be much less when partial (payment for few days due to worker's mobility) as well as part-time employment will be deducted.

6. Reduces income disproportion and better addresses gender inequality

As statistics indicate, gender inequality in terms of paid salaries is great concern all over the world, and especially, it is highlighted for countries with relatively low-income as well as in transition periods. As usually, women's occupation in service and manufacturing industries (education, hotel and restaurants, childcare, etc.) are mostly with lower wages. Therefore, introduction of the higher floor of payment with a new MW and its further increase, benefits female more than male workers and do not close, but narrows the gender gap.

In terms of gender inequality, no exception is Georgia. Usually, there is no discrimination in salaries by gender on the same occupation. However, if we look at certain economic activities in terms of concentration of high-paid vs low-paid jobs, woman mainly occupy low-paid activities. This factor creates a big, uneven distribution of salary funds in terms of gender, 20% of women's average earning is 146.2 GEL, while 20% of men's average

28. Dube, A. (2014). "MWs and the Distribution of Family Incomes." Unpublished manuscript.

29. West, R., & March, M. R. (2014). The Effects of MWs on SNAP Enrollments and Expenditures.

earning is 223.3 GEL. In total employment, 46 % are women, while women's salary fund is only 36%. In case of MW increase up to 20-30% of average monthly earning, woman's MW will increase between 26%-39% (more finding on gender inequality is in section "Gender Aspect"). The same positive effect of MW increase on gender is found in developed countries as well.

In 2014, Jason Furman, PhD, Chairman of President Obama's Council of Economic Advisers, highlighted outcome of low MWs: „There are a lot of causes of inequality but [the erosion of the MW] is one of the important ones for inequality at the bottom“³⁰.

As research by David Metcalf highlights, introduction of MW in UK "has raised the real and relative pay of low wage workers, narrowed the gender pay gap and now covers around 1-worker-in-10"³¹.

As National Bureau of Economic Research has highlighted "decline in the real value of the MW explains a substantial proportion of this increase in wage inequality, particularly for women". (Dinardo et al, 1995)³².

7. Leads to improving health of the low-skilled workers with MW and their family members,

With salary increase, low skilled workers and their family have more resources for better nutrition and satisfaction of their basic needs. Accordingly, their health conditions improve considerably.

In terms of Georgia, we expect the same pattern as the new MW should give the families more resources to satisfy their basic needs, provide better nutrition, pursue healthier lifestyle and overall improve their wellbeing. International studies indicate the same effect.

As Rajiv Bhatia, MD, MPH in Human Impact Partners study (2014) highlights Income affects health in various terms: satisfying material needs (food, cloth, leisure, etc.), access to health care, affordability to quality neighborhood, child health and development, chronic stress, as well as interpersonal relationships. The study found that person earning a higher MW would have better diet and willingness to be physically active (exercise), less likely have negative behaviors such as smoking, having less emotional and psychological problems, better health and longer life expectancy³³.

In 2001, in APHA's American Journal of Public Health Bhatia published research, an assessment on the health benefits related to increase of hourly wage up to \$11. The research found that increase of hourly wage would decrease the death by 5% for adults (24-44 year-old, in households with income level about \$22,000)³⁴.

A study conducted by the Bay Area Regional Health Inequities Initiative (BARHII) found that „policies that reduce poverty and raise the wages of low-income people can be expected to significantly improve overall health and reduce health inequities“³⁵.

MW Adjustment

According to international practice, periodic review and adjustment of the MW is essential.

Adjustment mechanisms varies around the world depending on the strength and local culture of labor rights' lobbying and regulation institutions, though, we may group mechanisms in four main categories (Schulten, 2014):

I. Indexation: In the first group of countries, the MW is adjusted "automatically" based on the development of the countries' economic indicators. It is actually adjusted with price or wage

30. Sahadi, J. (2014). Will a Higher MW Really Reduce Income Inequality? CNNMoney.

31. Metcalf, D. (2008). Why has the British national MW had little or no impact on employment? *Journal of Industrial Relations*, 50(3), 489-512.

32. DiNardo, J., Fortin, N. M., & Lemieux, T. (1995). Labor market institutions and the distribution of wages, 1973-1992: A semiparametric approach (No. w5093). National bureau of economic research.

33. Bhatia, R. (2014). Health Impacts of Raising California's MW.

34. Bhatia, R., & Katz, M. (2001). Estimation of health benefits from a local living wage ordinance. *American Journal of Public Health*, 91(9), 1398-1402.

35. Bay Area Regional Health Inequities Initiative, (2014). The MW and Health: A Bay Area Analysis.

development periodically. For example: adjusted with inflation rate, average wages growth rate, or mixed mechanisms are used for indexation purposes. Indexation is usually used together with negotiation (Belgium) or consultation (Netherlands, Luxembourg, France, and Slovenia) mechanisms. Indexation linked with consumer prices is the case in Belgium, Luxembourg, Malta, and Slovenia, and with wages in Netherlands. Only in France, adjustment is made by use of both indicators of consumer price and wages. However, some countries have reservations to change it in case of an emergency (crises, war).

II. Negotiation: In the second group of states, labor organizations (trade unions mostly) are strong, they are using bargaining tools via bi- or tripartite mechanisms, negotiating with government and private sector for the growth of MWs periodically. Examples are Bulgaria, Estonia, Germany (from 2015), Poland, and Slovakia.

III. Consultation: The third group of countries usually have institutionalized consultations between employers and trade unions and other groups such as research/science institutions. In this mechanism, government makes the decision. As highlighted by Schulten in his report, this mechanism is important due to need of greater social acceptance. Croatia, Latvia, Lithuania, Portugal, United Kingdom, and Spain are good example of using this approach.

IV. Unilateral decision-making: In the fourth group of states, a government makes decision unilaterally. Greece, Ireland, Romania, and Czech Republic are the example of this practice. In former Soviet countries, this mechanism is used as well.

Adjustment of MW usually happens once in a year, though in some countries, such as Netherlands, it is in every six months. Some countries have no special predefined periodic adjustment mechanism for MWs in place and this type of countries usually have challenges of not adjusting MWs on time as required, that causes always dissatisfaction and negative critics of having MWs not res-

ponding real purchasing power, consumer prices, growth of economy/wages and so on. Good example of not having adjustment mechanism is Georgian case as well: the MW, 20 GEL was not adjusted since its introduction in 1999.

New MW Introduction and Adjustment

Introduction of new MWs:

Introduction of the MW for full time-worker may be made via different stages:

Stage I:

Introduction of 20% of average monthly nominal earning of previous year in 2019.

$MW (MW) = \text{Average Monthly Earning (AME) of previous year} \times 20\%$

With 2016 years statistics: $MW = 940 \text{ GEL} \times 20\% = 188 \text{ GEL}$.

Stage II:

Minimum monthly wage increase up to 25% of average monthly earning of 2019 in 2020, e.g. with 2016 statistics, it is 235 GEL.

$MW = \text{AME previous year} \times 25\% = 940 \text{ GEL} \times 25\% = 235 \text{ GEL}$.

Stage III:

In 2021, it should reach 30% of average minimum earning of previous year. E.g. with 2016 data, it is 282 GEL.

$MW = \text{AME previous year} \times 30\% = 940 \text{ GEL} \times 30\% = 282 \text{ GEL}$.

As a full-time work, at least 20 days or 160 Hours in a month should be considered, if not regulated otherwise by other Georgian regulation.

MW for Part-time Worker:

Accordingly, for part-time workers hourly MW should be introduced. It should be monthly MW divided by on average working month's hours: 174 Hours. In our calculation, it was 1.1 GEL, 1.3 GEL and 1.6 GEL per hour according to 3 stages.

After 2021, annually, MWs should be adjusted based on the official statistics of average monthly earnings (50%) as well as inflation factor (50%) of previous year, to enable automated adjustment to economic development of the country.

Adjustment should be made in a months period, after official statistics of are available. For adjustment, following formula should be used:

$$MW_{adj} = MW_{t-1} \times (CPI_{t-1} \times 0.5 + WI_{t-1} \times 0.5)$$

MW_{adj} – MW adjusted

MW_{t-1} – MW of previous year

CPI_{t-1} – Average Consumer Price Index of previous year

WI_{t-1} – Average Monthly Earning change Index of previous year (Wage Index)

t – Year of adjustment

MW Review Commission and Adjustments mechanism:

Government should form MW adjustment commission with at least eight members. Commission should include representatives from government, employers, trade unions and academic parties with two members from each. Under the commission, a consultative platform should be created in order to give every interested party chance to provide its perspective and be involved in the process.

Every year the commission should review the MW.

In case, the MW Review Commission decides need for the further adjustment of MW beyond the formula, it should be made with justified scientific research in close consultation with government for final approval.

In case of high inflation (more than 10%), economic crisis, war, or other nation-wide emergency, government will make decision on MW adjustment in close consultation with the commission.

Conclusion

As studies indicate, according to international practice, setting MW is a balancing act to provide sufficient earning for workers to meet their needs, avoid their exploitation, as well as understand economic development parameters to introduce its right amount, not too little but not too much. Usually, there are two types of arguments when discussing MW:

Proponents (e.g. trade unions or other human rights advocating institutions) of advocating better salaries, with setting MW and its adjustment mechanism try to maximize the earning of low-paid workers in order to meet employee's (and their family's) needs for better standard of living. As studies reveal, MWs is becoming more a tool for providing enough income for decent life of a worker and its family, not merely a survival tool as it used to be before. Only several employers with high reputation, are looking for creating business in the countries where MW are set enough so as no one will dispute that they are exploiting labor and their business is competitive as no other competitors get advantage of exploiting workers as well.

While opponents, represented by most of employers, oppose the introduction or increase of the MW, as they prefer minimizing marginal costs and argue that increased labor wages will drive them out of business, and cause detrimental effect on business environment (loss of competitiveness, increase of prices on local production or services, etc.).

In fact, both arguments carry some truth, however, the best solution is somewhere between this two distinct point of views. It is fact that having no MW or very little one will not serve the purpose of avoiding labor exploitation, while setting very high MW will definitely affect economic development nega-

tively (reduction of economic activities, increase of unemployment, inflation, etc.). Cases, valid finding supporting both arguments needs to be considered for particular country. As international studies indicate, best solution is to set the minimum wages with proper understanding of the social-economic conditions of the country (average wages, wage distribution, subsistence minimum, social policies and allowances, inflation, growth indicators, etc.). In addition, as the highly cited World Bank study presented, proportion of MW to average earning does matter, setting a MW lower than 20% of average earning is considered very low, from 20-30% – a modest, 30-50% – a medium to high, and more than 50% – a very high. Usually recommended level is the modest level. If we look in practice, only countries with strong economy, can afford MWs with medium to high level.

Current MW (20 GEL,) in Georgia is far below the modest level of MWs (only 2.1% of average earning much less than 20%). It is below the subsistence minimum (SM, 154 GEL, Oct. 2017) as well as pension for elderly (180 GEL) or other social benefits set by Georgian legislation. Accordingly, current MW is not enough for satisfying basic needs of an average person, especially if the person has dependents or family to support. Moreover, the current MW does not serve as workers' social protection mechanism: to avoid employees' exploitation by employers. It is fact that the current low-paid wages are much more than MW, and even in case of violation of MW regulation, penalties are very little (40 GEL), so, today the enforcement of this outdated, acting regulation does not make sense at all.

In addition, among former Soviet countries, Georgia has the lowest MW (\$8). Georgia's neighbor as well as former Soviet countries have at least 9 times higher statutory MWs [Azerbaijan (\$76), Armenia (\$114), Moldova (\$115), Ukraine (\$123), Russia (\$132) and Belarus (\$155)] and they periodically adjust it to their standards of living. Some countries (Armenia, Azerbaijan, and Ukraine) have even ratified ILO MW Fixing Convention of 1970 (No. 131).

As this study highlighted, introduction of new MW

is essential. According to international practice, its increase from 20% to 30% of average earning is considered as an appropriate action. Moreover, setting 20% of average monthly nominal earnings as a starting new MW and its growth up to 30% is found to be realistic based on the growth of the economic indicators of the country. Current practice of the amount of salaries paid by employers, positive tendency of real growth of wages and GDP, gives us an indication that this policy will not much affect the economy as well as development of business sector.

On the first stage, the new MWs increase up to 20% of average monthly nominal earning for all sectors is proposed. As a result, the new MW will be around 188 GEL (gross). If we take out the 20% of income tax, than it is approximately as much as a SM for average person (150GEL), but still, less than a SM for working age male (170 GEL) as well as a pension for elderly (180 GEL). The practice as well as official statistics specify that low-paid salaries are usually higher than this amount. Only in few cases, one may find it less and difference is not big usually. This stage will serve as a period for employers to reflex on introduction of a new MW, and adopt to changes gradually.

On the second stage, the new MW increases up to 25% - approximately 235 GEL (gross), actual earning (net) will be approximately 188 GEL, a bit more than the pension for elderly as well as the SM. In this case, Georgia's MW will be more than the MW of Azerbaijan, but, still, less than Armenia's or other EaP countries' MWs.

On the third stage, with increases up to 30%, the new MW reaches 282 GEL Gross (226 GEL net), which is below average household SM. In this case, it is around the MW of Armenia, but far less than Ukraine's and Russia's MW.

When considering hourly earnings, it was 1.1, 1.3, or 1.6 GEL (1/176th of monthly MW) for 20%, 25% and 30% growth scenarios accordingly.

After proposed three stages, based on the international experience, and actual changes in the economy of the country periodic update of MW will

be a necessary action. The new MW will require adjustment annually based on the formula as presented in the research, which equally takes into account changing pattern of wages and inflation.

As research indicated introduction of the new MW is essential and viable action, Georgia needs to pursue, in order to meet its aspirations of becoming part of EU family as well as international society firmly advocating human rights as well as sustainable economic development perspectives:

Workers right of minimum earning needs to be guaranteed – With setting proper new MW, minimum amount of hourly as well as monthly earning is guaranteed by law, and employers will have no right to further exploit the labor. This law provides only a floor for all workers' remuneration for their work, no matter they are a member of the associations that may advocate their rights for decent wages or not. While trade unions and other labor organizations, based on their bargaining power, may further negotiate with employers for better salaries or other benefits. Step by step MW should become a tool to support decent earning for high standard of living of the workers and their families.

Productivity improvement is important for boosting competitiveness, create additional cumulative spending on consumer goods, not necessarily causing a job loss – Due to increase of MWs, business entities will try to use labor more efficiently, improve workers retention and reduce lay-offs, create part-time jobs, pay more attention to worker's skill development, improve labor intensive business processes, and introduce policies and technologies to increase the effectiveness overall. Employers willing to pay more to their workers will be in better competitive stand, as competitors will have no opportunity to compete with low labor costs via workers' exploitation. Workers will less like switch from one job to another if payment is the same MW, which will improve worker's productivity and skills/experience in a particular occupation. Now, Georgia's market does not providing much of the part-time employment opportunities, which are essential for labor market development. Certain employees are still studying, occupied with other activities (sports, religion, etc.) or have

dependents, so, part-time employment is the only option for them to enter the labor market.

Growth of business closure rate, Unemployment or other significant negative economic effects are not expected to happen due to MW increase. Recommended changes in MW are proposed to be implemented in three stages, making it easier for employers to adapt to new circumstances. Only for a short time, in transition period, some employers may stop recruiting new employees, or dismiss few workers, but after a while, the process will be continues as before.

Improved earning for low-paid occupations (including low-skilled jobs) and Increase in consumer spending – In the sectors of education, agribusiness, hotels and restaurants, and homecare services, with improvement in average earning on low-paid occupations (including low-skilled positions), employees will receive some additional money to spend on various basic needs. Making significant additional saving is less likely expected as salary growth is not considered to be big enough. Which will further create additional spending pattern and a small cumulative effect for additional economic activity and job creation.

Poverty reduction – it is generally agreed that MW is not the most effective tool to fight poverty. However, with increased MWs, families receiving state support (allowances) and having low-paid employed family members will have chances to overcome the extreme poverty threshold. With our calculation in different scenarios, having assumption that no other circumstances change (e.g. no job losses) but salaries increase up to new MW, we expect from 224 to 463 families to overcome the extreme poverty.

Improved gender equality (better salaries for women) – the new MW affects gender equality significantly. As studies underline, women's average earning is 65% of man's average earning. In total employment, 46 % is woman, while woman's salary fund is only 36%. A difference is mainly due to a high employment of woman in the economic activities (Education, health and social work, retail and wholesale economic activities) where ear-

nings are relatively low on average. Setting new minimum payment will increase benefits for women more than for men, do not close, but narrow the gap of gender inequality. The new MW of 188 GEL (20% of average earning) is 26% for woman's average earning, while for man it is only 16%. With further increase of MW, woman benefits even more: in case of the MW of 282 GEL (30% of average earning for both sex), the new MW is 39% of female average earnings compare to the same indicator - 25% for male.

Improved healthcare and standard of life – Better salaries lead to improving health of the low-paid workers with MW. Persons with increased MW will better satisfy their basic needs (food, cloth, medicine, leisure, etc.); more probably, timely use healthcare services; have more time and resources for child health and development; deal with less chronic stress; improve interpersonal relationships; have better diet and willingness to be physically active (exercise). In addition, they are less likely having negative habits (e.g. smoking); experience less emotional and psychological problems, and have better health and longer life expectancy.

In Georgia, unemployment in youth showed the tendency of reduction, while pattern of employment of youth was growing slowly, so making exception for setting lower MW for youth was not considered as a necessary action.

Public spending and revenues– Public budget spending on salaries in case of introducing new MW will be less than 1.5%, as for all three stages expenditure growths is expected to be comparatively little and will be farther reduced with additional budget revenues collected via income tax levied on increased total salary fund. The new MW growth up to 20% of average earning does not exceed 10 mln GEL more spending annually for public sector, 0.45% growth (total public sector salary fund is 2.3 bln. GEL) and could be driven down significantly if official statistics will be able to identify full-time vs part-time earnings, as well as full monthly payment vs partial payments as we had no opportunity to excluded any of these categories. Moreover, if other conditions kept the same, on average, the budget will have privilege of 0.34

– 0.7 mln GEL paying less in subsistence allowances and approximately 2 mln GEL in income tax from the salaries of the public sector, if we add levies of the non-public sector budget revenues will considerably increase and it may even exceed the public spending. All these estimations are based on our calculation with the use of official statistics of Ministry of Finance on public employers' actual earnings in October 2017, as well as Ministry of Labor, Health, and Social affairs.

Farther consideration and research is required to assess MW with regional economic development factors. As a brief analyses, and limited regional statistical indicators, revealed: salaries, informal sector, self-employment, living costs and other factors in villages and small cities compared to big cities are significantly different and it needs further research. We were only able to define difference in earning for public sector between municipalities and central government institutions. Research underlined comparatively low salaries in municipalities as expected in advance.

National Statistics Office' information on average earnings by sectors, activities, gender, age appeared very helpful to analyze general picture of earnings, though we were not able to examine difference of earnings by different salary segments due to having no statistics of dispersion of actual wages. Having more detailed data could have given us more information of homogeneity of salaries inside the sector or activity, better examine distribution of earnings: from low to high earning segments. More information on earnings by regions would be very interesting to assess as well. We, definitely recommend the National Statistics Office to collect information that is more detailed on earning, as it is important for better decision-making on labor policies.

As a body to oversight annual adjustment of new MW, the government should form MW Review Commission and include equal number of representatives from employers' organization, labor organizations (trade unions), government, and academic institutions; Also, create a consultative platform under the commission to involve all other interested stakeholders in process.

Overall, study revealed that if have a close look at economic indicators as well as actual salaries in Georgia, we find that introduction of the new minimum wage will provide better life for workers and further promote an inclusive growth of Georgia's economy.

Recommendations:

- Raise of the current MW to a reasonable, modest level (20-30% of average earning) is essential, as we aspire to become part of the European and international community where workers right for minimum wage and decent work is recognized. Georgia is the only country significantly left behind even among the former Soviet countries. Georgia's MW is approximately 4 euro cent per hour, most of former Soviet countries (Armenia, Azerbaijan, Ukraine, Russia, Belarus, etc.) have approximately 9 time more MW than Georgia does;
- In order to come close to average MW in the region, it should be increased gradually and reach at least 30% (282 GEL Gross) of average earning of the employed persons in the country;
- Proper penalty for violating minimum wage regulation should be introduced, as the current one is not big enough, and strict enforcement of the minimum wage should be provided;
- Ratification of the ILO convention #131 related to MWs may be considered;
- Collection of more detailed information on salaries/earnings, not only calculating average indices but deviation of monthly earnings is important in order to have more precise information on earnings for better policy analyses and timely decision-making. At the moment, National Statistics Office does not collect the information of earnings to categorize it by full-time vs part-time employment, or various income level groups;
- Forming the Minimum Wage Review Commission consisting of representatives of trade unions, employers, government and academia (research) representatives, two members from each. The commission will deal with the issues of MWs and its periodic adjustment negotiations; Under commission a consultative platform for discussing the theme among government (parliament, ministries), labor organizations, private sector and other interested parties (NGOs and International organizations, community groups) might be organized;
- Creation of special group in parliament discussing the MW, its growth opportunities and reasonability;
- Starting campaign among different interest groups for raising awareness on the new MW Introduction is needed.

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Acronyms

AME	Average Monthly Earning
CPI	Consumer Price Index
GEL	Georgian Lari
ILO	International Labor Organization
MW	Minimum Wage
NGOs	Non-Governmental organizations
PPP	Purchasing Power Parity
SM	Subsistence Minimum
WB	World Bank
WI	Wage Index

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