

## Minimum Wage Legislation and Informal Employment Expansion: The Case of Iran

by Zahra Karimi Moughari

The International Labour Organization and many labour economists believe 'labour force' should not be mentioned as a production input and the income of the workforce must not be set by the outcome of supply and demand in the labour market, because the welfare of human beings is the ultimate goal of economic growth and development. So, labour should not be regarded as a 'commodity'.

Economic systems must guarantee living wages for decent work. Minimum wage legislation is one of a number of important mechanisms used to support workers against the risk of absolute poverty caused by market wages. While the goals associated with minimum wages are right and proper, minimum wages cannot be effective for most unemployed people who cannot survive without jobs and prefer to work with wages lower than the formal minimum rather than remain unemployed for a long time. Therefore, the existence of informal employment is inevitable, especially when unemployment is rising.

Iran has a long history of minimum wage legislation since 1946. However, despite the emphasis of the Labour Law, jobs with wages lower than the formal minimum have increased rapidly in small, medium and even large enterprises, especially over the past two decades. As Iran's economy does not perform soundly and labour market institutions are not efficient, the Iranian government does not ensure the enforcement of the formal minimum wage. Therefore, low-paid jobs and informal employment is expanding.

### Iran's Labour Market Performance

Iran's labour market has encountered serious challenges due to rapid growth of labour supply and simultaneous low growth rates of labour demand. The baby boom (1980-1987) and an increase in women's labour force participation rates intensified the growth of labour supply since the mid 1990s.

About 60% of 4.1 million university students are women (Statistical Centre of Iran (SCI), 2012). The rise in female students at universities shows also the interest of Iranian women in economic and social activities. Women's labour force participation has increased from 9.1% in 1996 to 16% in 2006 (SCI, 2011). It is estimated that more than one million young and educated people will enter Iran's labour market during the period 2012-2017.

In contrast to the high growth of labour supply, the pace of increase in the demand for labour has been low mainly because of poor economic performance and low investment rates. Since 2008, GDP and investment growth rates have declined considerably. The implementation of economic adjustment policies since the 1990s

led to the destruction of a major part of secure and life-long jobs in both public and private enterprises.

Furthermore, during the period 2000-2007, oil revenues increased from less than US\$20 billion to more than US\$80 billion. Facing the challenge of rising inflation, the Iranian government did not adjust exchange rates according to the difference of domestic inflation rates and the inflation rates of its trading partners. Due to the appreciation of domestic money in real terms, imports of relatively cheap consumption goods became highly profitable; and because of high imports, the job opportunities in Iran were outsourced to other countries, such as China, Korea and India. Many workers lost their jobs, especially in large firms (with more than 50 employees) in the industrial sector that faced harsh competition from Chinese commodities. The highest employment decline was experienced in the textile, clothing and leather industries (Table 1).

**Table 1: Employment Change in Large Industrial Firms\* (%)**

	2004	2005	2006	2007
Food	-3,6	-5,4	-2,6	-1,8
Tobacco	0	0	-3,2	-3,3
Textile	-6,2	-13	-9,2	-5,8
Clothing	-1,2	-10,1	-7,9	-2,6
Leather	-34,2	-25,6	-1,5	-3,3
Wooden Products	-5	-11,4	-4,3	-5,1
Paper Products	-6,5	-8,5	-3,9	-3,4
<b>All Large Indus-</b>	<b>-3,4</b>	<b>-5,3</b>	<b>-2,2</b>	<b>0,1</b>

\*Firms with 50 employees and more; Source: Iran Central Bank 2011.

Besides low exchange rates and high imports, the high risk from economic sanctions against Iran and an unstable macro-economic environment have restricted investment, production and employment growth in Iran. The rate of unemployment jumped from 9.4% in 1996 to 14.6% in 2010, and the number of unemployed went from 1.5 to about 3.5 million. Yet, in 2010 the unemployment rate for women (25%) was much higher than men (12%). A growing number of job seekers, unable to find "suitable work", accept short-term and low paid jobs.

## The Effect of the Global Economic Downturn and International Sanctions on Informal Employment

The global economic crisis has had a large, negative effect on Iran's economic performance by reducing the demand for oil. International sanctions against Iran reduced oil export revenues further and worsened the economic situation by discouraging private investment, causing the already low demand for labour to plummet, and putting more pressure on real wages.

To investigate the changes in formal and informal employment, we used detailed data from the "Household Income and Expenditure Survey" conducted by the SCI in 2005 and 2008, and calculated the size of informal employment (jobs paying less than minimum wage). We did not count self-employment as we used wage data and could not calculate the wage share of the total income of the self-employed among the workforce in our sample.

Unemployment rates in our studied sample, 16% in 2005 and 18.2% in 2008, were higher than the results of official *Unemployment Surveys*.<sup>1</sup> However, unemployment rates for men (13.3% in 2005 and 14.9% in 2008) were lower than women (30% and 35.4% respectively). Our sample data shows clearly that economic stagnation and high unemployment rates have forced workers to accept low-paid jobs. As Table 2 indicates, between 2005 and 2008 the share of workers in the lowest paid jobs, less than formal minimum wage, increased considerably.

In 2005, 18.7% of employed workers in the sample received less than formal minimum wage; this rate for women and men was 25.8% and 17.6% respectively. In 2008, the share of low paid jobs, with wages lower than the formal minimum, increased to 24.5%. So, similar to unemployment rates, the share of informal employment among women in 2008 (29.9%) was higher than men (23.5%). However, in this period, informal employment expanded for both sexes; yet the share of women who had to accept jobs with wages less than half of the formal minimum wage (18.4% of all employed women) was more than double that of men (9.1%). The stereotypical belief, that women are not breadwinners and only need pocket money, justifies very low wages for women in modern stores, offices, clinics and even large food and textile factories.

**Table 2: Sample Distribution by Gender and Wage**

	2005		2008	
	Male	Female	Male	Female
Less than Half of Minimum Wage	6	12.3	9.1	18.7
Up to Half	11.6	13.5	14.4	11.2
<b>Minimum Wage</b>	<b>21.1</b>	<b>15.3</b>	<b>14.2</b>	<b>8.5</b>
Up to Twice	45.3	50.6	52.9	58.4
2 to 3 Times	10.4	3.9	8.6	2.6
4 Times +	2	0.4	0.7	0.3

Source: Statistical Centre of Iran 2005 and 2010; own calculations

In 2008, about a quarter of male and one-third of female wage earners had to accept wages lower than the formal minimum. By adding the share of the self-employed workforce that generally have low incomes and are most likely out of the realm of Iran's Labour Law, the share of informal employment rose to more than 55% – in line with the results of Raghfar's (2011) study which showed male members of 70% of Iranian households in absolute poverty are in informal employment.

Workers' families tolerate the heavy burden of stagflation that is caused by international economic sanctions, the global economic crisis and the Iranian government's unsound economic policies. The increasing unemployment rate compels growing numbers of unskilled, semi-skilled and even skilled workers to accept wages less than the formal minimum and legislative minimum wages cannot stop the real wage downward slope. In the absence of collective bargaining of strong employees' and employers' associations and a favourable macroeconomic environment, a legal minimum wage cannot be enforced and decent life cannot be accessible for workers and their families.

<sup>1</sup> We have used the detailed data of "Household Income and Expenditure Survey".

*Zahra Karimi Moughari is currently an academic staff member and member of the Women's Studies Center at the University of Mazandaran (Iran). Her research interests include labour market research in Iran with a gender perspective and institutional economics.*

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