

## Section 5. Economics

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### THE IMPACT OF CONSTANT MINIMUM WAGE INCREASE ON POVERTY REDUCTION IN DEVELOPING COUNTRY

#### **Abstract**

Poverty in Kazakhstan is understood as the state of the economic situation of an individual or an entire social group, in which they cannot satisfy a certain range of minimum needs necessary for life, preservation of working capacity, procreation. Currently, in our country, the poverty line is the level of the subsistence minimum. According to Kazakhstani legislation, the poor strata of the population who are entitled to receive social support include citizens who have an average per capita income below the subsistence level established in the corresponding subject of the Republic of Kazakhstan. In this article the effect of minimum wage regulation on poverty reduction in developing country is observed.

**Keywords:** poverty, poverty reduction, minimum wage, economy of developing countries.

The subsistence minimum is understood as the valuation of the consumer basket, which includes the minimum set of food, non-food products and services necessary to maintain human health and ensure its vital activity.

The consistent increase in the minimum wage is one of the important government initiatives in recent years. In May 2020, the minimum wage was brought up to the subsistence minimum for the able-bodied population. The paper gives estimates of the expected impact of the increase in the minimum wage on poverty, without taking into account possible negative consequences for employment. If the minimum wage rises to the subsistence level, only slightly more than

a quarter of all additional salary payments will go to poor households. At the same time, almost half of the recipients of such payments live in families with low incomes close to the poverty line. Greater poverty reduction can be achieved by setting the minimum wage in terms of regional living wages [1]. However, the main emphasis in overcoming poverty should be placed on targeted programs, according to which assistance is provided taking into account the income of households, and not the individual income of workers, as in the case of an increase in the minimum wage.

The need to raise the minimum wage is generally driven by a desire to improve the situation of low-paid workers and reduce poverty among workers and the general population. However, the relationship between the minimum wage and poverty is not so clear. An increase in the minimum wage sets in motion several processes at once that affect the incomes of the least skilled workers in different ways – the growth of their wages, the elimination of some jobs, their transfer to the informal sector, as well as rising prices due to increased costs of producers. As a result, minimum wage increases create both winners and losers, with the ultimate impact on poverty depending on which factor is stronger.

The introduction of a minimum wage and its subsequent increase is intended to protect the rights of low-paid workers and increase their income levels, which could help reduce poverty. Studies conducted in foreign countries show that the minimum wage does contribute to reducing inequality in the distribution of wages.

At the same time, numerous foreign studies indicate a weak link between the increase in the minimum wage and poverty reduction. Thus, a study of the impact of the minimum wage on poverty in the United States showed that an increase in the minimum wage contributes to the redistribution of income between low-income families, which in general does not reduce poverty, and may even contribute to its growth. One reason for the weak link between minimum wage increases and poverty is the poor labor force participation of the poor. One reason for the weak link between minimum wage increases and poverty is the poor labor force participation of the poor.

In addition, studies by foreign scientists indicate that the minimum wage is not an effective mechanism for reducing poverty, since the majority of low-skilled workers who benefit from its increase do not live in low-income families. A study examining the impact of the U.S. minimum wage increase found that only 11% of workers receiving

a minimum wage increase live in poor households, while 63% are second or third workers in nonpoor households. Households [2].

Another reason for the low impact of the minimum wage on poverty reduction may be its negative impact on the employment of low-skilled workers. Although the increase in the minimum wage increases the income of some low-skilled workers, the increase in unemployment among them, on the contrary, reduces the income of the households in which they live. At the same time, a number of studies have shown that there is no negative impact on employment or it is insignificant.

In response to an increase in the minimum wage, employers, in addition to the number of employees, can either reduce working hours or increase them to compensate for costs. In addition, a possible consequence of the increase in the minimum wage is an increase in consumer prices, which negatively affects the incomes of the poor in general [3].

Another aspect that needs to be taken into account when raising the minimum wage is the possibility of some workers moving into the informal sector. A similar effect has been noted in many studies conducted in developing countries. In the works of western researchers, it was shown that the increase in the minimum wage leads to a significant increase in unemployment among young people from 16 to 24 years old and a slight increase in overall unemployment. In addition, the increase in the minimum wage leads to an increase in the share of people employed in the informal sector due to the transition of workers from the formal sector to the informal one [4].

Russian studies also note that the increase in the minimum wage increases the unemployment rate, reduces inequality in the distribution of wages of low-paid workers in the private and public sectors, helps to reduce inter-sectoral and gender wage differentiation, and leads to some reduction in poverty, its depth and severity.

In Kazakhstan, the minimum wage is set at the state level and can be adjusted in accordance with the labor code of Kazakhstan, a special tripartite agreement between trade unions, employers' associations and executive authorities of the subject of the republic at the regional level. The size of the minimum wage in the region must not be lower than the minimum wage established at the republican level, and can be introduced for all workers employed in the territory of the given region, with the exception of employees of governmental institutions. The nationally established minimum wage applies to all full-time workers,

regardless of their socio-demographic characteristics. The definition of the minimum wage at the regional level allows for more flexibility in taking into account regional differences in price levels and quality of life.

As a rule, the regional minimum wage is set at the level of national importance, in some regions — as a share of the subsistence minimum for the able-bodied population or as a fixed amount. In the context of severe budget constraints, the regions began to set different minimum wage thresholds for employees in the public and non-budgetary sectors, which contributes to the growth of wage differentiation and can lead to a negative selection of specialists in the public sector. The intra-regional differentiation of the minimum wage and the frequency of its revision differ significantly by region.

Increasing the minimum wage is often perceived and declared as an effective means of combating poverty, however, as calculations by scientists in this field show, the level of poverty reacts poorly to the increase in the minimum wage. Among the main reasons are informal employment, as well as wage mismatch with the level of dependent burden on workers — many workers living in poor households are not low-paid, but their wages do not allow for an acceptable level of income for all household members.

Even a significant increase in the minimum wage, requiring large budget expenditures, will not significantly reduce poverty. A greater impact on poverty can be achieved by defining the minimum wage using regional values of the subsistence minimum. However, the main emphasis in overcoming poverty should be placed on targeted programs in which assistance is provided taking into account the income of specific households, and not the individual income of workers, as in the case of an increase in the minimum wage [5].

Currently, the main causes of poverty in the rural population of Kazakhstan are a deep crisis in all sectors, including the agro-industrial complex, as well as the absence of any effective measures that would help reduce the social consequences of many reforms. In addition, most villagers still have limited access to credit, to the services of market infrastructure enterprises, to information, and so on. Thus, as noted in most modern programs and concepts, the creation of conditions for the sustainable development of rural areas is one of the most important goals of social policy, which ensures the effective use of the existing potential of the country's economy.

For the real movement of our society towards a social market state, minimum state guarantees for the normal reproduction of the population and labor force are necessary. In our opinion, such a “set of guarantees” should include not only a living wage, minimum wage, minimum pensions, allowances and scholarships, but also a minimum program of medical and educational services, as well as a minimum level of housing provision [6].

In all countries pursuing a poverty reduction policy, uniform principles for establishing a living wage are applied, as defined by ILO Convention No. 117 (Art. 5, Part 2) and ILO Convention No. 82 (Art. 9, Part 2): attention to such basic needs of working families as food, their energy content, housing, clothing, medical care and education.

The subsistence minimum is a real tool of social policy, which makes it possible to sufficiently reliably estimate the size of the population in need of urgent special forms of social support. The latter, to the most acute extent, is characteristic of the population of rural areas in connection with large-scale negative trends in the dynamics of the socio-economic development of the village.

The level of wages is one of the main factors in shaping the level of income in the countryside. The level of wages in agriculture does not exceed 40% of the level of wages in the economy as a whole. Moreover, during the study period, there is a tendency to increase this gap. The incomes of rural residents include not only wages, but in-kind income from personal subsidiary plots. Over the past six years, the disposable resources of rural households have grown at faster rates than urban ones, and extreme poverty, characterized by the proportion of the population with disposable incomes that are 2 or more times lower than the subsistence minimum, has been decreasing at the same rate [7].

Therefore, in order to increase the efficiency of work to create conditions for a decent standard of living for the population of Kazakhstan as a whole, including the rural population, it is important to determine and regulate the values of the “optimal set of guarantees” for the population. One of these areas is the determination of the minimum industry standard for remuneration of employees of agricultural organizations. At the same time, an addition to the employee’s budget for the maintenance of dependents (children, pensioners and the unemployed) with cash incomes below the subsistence minimum should be taken into account.

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