Morocco's Minimum Wage Hike: A Double-Edged Sword for the Economy

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Abstract:

Morocco's recent 10% minimum wage increase has sparked significant debate regarding its economic implications. While the hike aims to improve living standards and address social discontent, it poses potential risks to the country's labor market and the broader economy. This paper explores the multifaceted impacts of Morocco's high minimum wage, highlighting its challenges, such as job losses, reduced competitiveness in international markets, and the growth of the informal economy. Additionally, the analysis examines the paradox of Morocco's labor market, where structural inefficiencies, slow job growth, and low-quality employment persist despite regulatory reforms. The paper argues that while protecting workers' rights is essential, policymakers must carefully balance this with fostering a dynamic labor market that encourages job creation, economic growth, and competitiveness. The study concludes by advocating for a more flexible, market-driven approach to wage-setting, alongside complementary policies to enhance labor market inclusion, particularly for youth and women. This approach would ensure sustainable economic growth and a more equitable distribution of the benefits across Morocco's diverse regions.

Introduction:

Morocco's recent decision to raise its minimum wage by 10% across industrial, commercial, and agricultural sectors has ignited a heated debate about the economic implications of such a policy.[1] In April 2024, following intense negotiations with major trade unions UMT and UGTM, the Moroccan government agreed to this significant minimum wage hike, marking the latest in a series of increases implemented since the early 2000s. While the move aims to address growing social discontent and alleviate the burden of rising prices on Moroccan households, it has also raised concerns among economists and business leaders about potential unintended consequences.

At first glance, increasing the minimum wage appears to be a straightforward solution to improve workers' living standards and reduce income inequality. Indeed, higher wages offer many struggling Moroccan families a glimmer of hope in the face of eroding real incomes. However, beneath this surface-level appeal lies a complex web of economic factors that demand careful consideration. Critics argue that while well-intentioned, such interventions in the labor market can have adverse effects that may ultimately harm the workers they aim to protect.

Minimum wage policies that deviate significantly from market-determined wages can distort labor markets, reduce employment opportunities, and hinder economic efficiency and innovation. While ensuring fair compensation for workers is essential, policymakers in Morocco should consider the unintended consequences of high minimum wages on job creation, market dynamics, and overall economic competitiveness. Striking a balance between protecting workers' rights and fostering a dynamic and responsive labor market is crucial for sustainable economic growth and prosperity in a free market framework.

The debate over Morocco's minimum wage policy reflects broader global discussions about the role of government intervention in labor markets and the best strategies for promoting economic development and social welfare. As the effects of the recent increase unfold, economists, policymakers, and citizens alike will be closely watching to see how it impacts employment, business competitiveness, and overall economic growth in the country.

[1] 1,000 Dhs raise for public servants, SMIG up 10% in Morocco
https://en.yabiladi.com/articles/details/149183/raise-public-servants-smig-morocco.html

Morocco's High Minimum Wage and the Paradox of Morocco's Labor Market

Over the past few decades, Morocco has undergone significant transformation. The country's infrastructure has seen substantial improvements, with virtually the entire population now having access to reliable electricity and over two-thirds able to connect to the internet.[2] Morocco has actively expanded its trading networks by securing numerous trade agreements and developing the largest container port in the Mediterranean.[3] The government has also significantly enhanced the investment environment by overhauling the 2018 insolvency code and strengthening intellectual property protections.[4] Additionally, several reforms have improved business conditions by considerably reducing the time required for regulatory and tax compliance.

Despite these advancements, Morocco's overall regulatory environment remains inefficient. The country's labor freedom score is below[5] the global and regional average and most comparable countries, except for Ghana, Colombia, and Tunisia, indicate a significant labor market challenge. Morocco's labor market faces significant obstacles[6]:

1. *High minimum wage:* Morocco's minimum wage, while still relatively low compared to developed economies, is notably higher than many of its regional competitors.[7] This places Moroccan businesses at a disadvantage when competing for international markets, particularly in labor-intensive sectors like textiles, agriculture, and automotive components. Morocco's high minimum wage has contributed to job losses in these sectors, as companies either downsize or relocate operations to countries with lower labor costs. Additionally, the policy has been blamed for fueling the growth of the informal economy, which is estimated to account for a significant portion of Morocco's GDP.[8]
2. *Lack of Inclusion:* Youth and women are less integrated into the labor market, with female labor force participation being low. Although more youth are staying in school,

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[2] Economic Openness Morocco Case Study 2020 – Legatum Institute https://docs.prosperity.com/4916/8027/7474/GIEO-Economic-Openness-in-Morocco-2020.pdf
[3] Top 5: The busiest container ports in the Mediterranean – Container News https://container-news.com/top-5-the-busiest-container-ports-in-the-mediterranean/
[4] Reform of book V of the commercial code on the regulation of corporate insolvency https://www.cnea.ma/en/achievements/reform-book-v-commercial-code-regulation-corporate-insolvency
[5] Economic Openness Morocco Case Study 2020 – Legatum Institute https://docs.prosperity.com/4916/8027/7474/GIEO-Economic-Openness-in-Morocco-2020.pdf
[6] "Labor Market in Morocco: Challenges and Opportunities" World Bank, 2018.
[7] Study: Morocco Has 3rd Highest Minimum Wage Among EU Apparel Suppliers – Morocco World News https://www.moroccoworldnews.com/2024/01/360020/study-morocco-has-3rd-highest-minimum-wage-among-eu-apparel-suppliers
[8] Informal labour accounts for two-thirds of Morocco jobs, statistics agency reports https://www.reuters.com/world/africa/informal-labour-accounts-two-thirds-morocco-jobs-stats-agency-2023-05-30/#:~:text=The%20informal%20economy%20represented%2030,central%20bank%20said%20in%202019.

and enhancing their skills, youth unemployment has risen, especially among those with higher education, indicating challenges in entering the workforce. Youth unemployment can reach 40%, and female labor force participation is only 23%.[9]

3. *Slow Job Growth:* Job creation has not kept pace with the growing working-age population. Formal employment is primarily found in older, larger firms, while small and medium enterprises (SMEs) struggle with various operational and expansion constraints.
4. *Low Quality of Jobs*: Informality prevails in the labor market, with slow growth in non-agricultural employment and a concentration of low-skilled jobs in the services sector. Low productivity and insufficient worker protections and social dialogue mechanisms lead to labor misallocation and under-utilization, hindering the economy from reaching its full potential.

These challenges stem from several factors, including strict labor market regulations, high labor costs, complex recruitment procedures, and bureaucratic obstacles to dismissals. Morocco's high minimum wage, one of the highest in the region, further exacerbates the situation. High labor costs diminish the competitiveness of Moroccan industries, particularly in the global market. While labor costs are only one aspect of production expenses, they significantly impact overall competitiveness. Businesses with elevated production costs find it difficult to compete with foreign firms that benefit from lower labor expenses, deterring foreign investment and stalling economic growth.

Raising Minimum Wages: Boon or Bane for the Economy?

Morocco implemented minimum wage legislation as early as 1936 to define minimum pay levels for employees in urban and rural areas. The process for increasing the minimum wage, both the guaranteed minimum wage (SMIG) for non-agricultural sectors and the minimum guaranteed agricultural wage (SMAG), does not follow a set timetable. Instead, adjustments result from discussions among various stakeholders within the framework of social dialogue. In contrast, some countries adopt a more flexible model for setting the minimum wage, not specifying criteria in their legislation.

Since the early 2000s, Morocco has witnessed approximately ten increases in the minimum wage, primarily driven by the government's efforts to address social unrest and public dissatisfaction. These wage hikes were often implemented in response to growing economic pressures, such as rising living costs and unemployment, which have fueled discontent among the population. The government has used these increases to mitigate the impact of inflation and ease tensions among workers, particularly in urban areas where the cost of living is significantly higher. However, these measures have not addressed the underlying structural issues in the Moroccan economy.

One of the primary concerns about high minimum wage laws is their impact on employment levels. There are fears that higher labor costs could force businesses, particularly those operating on thin margins or facing stiff international competition, to reduce their workforce or

[9] "Le marché du travail au Maroc : défis et opportunités" (2017) Haut-Commissariat au Plan et la Banque mondiale, 2017.

limit new hiring. This could lead to increased unemployment, especially among young people and low-skilled workers who are often the most vulnerable in the job market.

Even before a 10% rise in the minimum wage, the minimum wage in Morocco stood as one of the highest in North Africa and for EU garment providers.[10] At $307 monthly, it surpasses the minimum wages in Bangladesh, Pakistan, and Myanmar and is notably 50% higher than Tunisia's, causing obstacles for Moroccan manufacturers.[11] A study by Evalliance[12] highlights the challenges Moroccan textile manufacturers face due to high minimum wages, including pressure to reduce profit margins or adjust pricing to stay competitive internationally. In an increasingly globalized economy, the issue of business competitiveness looms large. Rising labor costs could disadvantage Moroccan businesses in both domestic and export markets. Industries that rely heavily on labor, such as manufacturing and agriculture, may find it harder to compete with countries with low wages, potentially leading to reduced exports and a loss of market share for Moroccan products, at home and abroad.

Another significant concern is the potential growth of the informal sector. Higher minimum wages may incentivize some employers to shift workers into the informal economy to avoid compliance with labor regulations. This move would deprive workers of legal protections, social benefits, and job security. The expansion of the informal sector could undermine efforts to formalize the economy and improve working conditions for all Moroccan workers.

Furthermore, a high minimum wage significantly impacts small businesses, particularly those with low-profit margins, leading to reduced hiring, cut employee hours, or layoffs, raising unemployment among vulnerable groups like young, unskilled workers. It makes employers more selective, creating barriers for those with limited skills or experience, particularly youth. A recent study by the IMF has argued that reducing hiring costs alongside other barriers to entry, particularly for SMEs, could lead to a 2.5% increase in output and a 2.2% reduction in unemployment over the medium term.[13]

Finally, uniform minimum wage policies across the country may not account for regional differences in the cost of living and economic development. What might be a reasonable minimum wage in urban centers like Casablanca or Rabat could be burdensome for businesses operating in more rural or economically disadvantaged regions. This disparity can further exacerbate inequalities within the country.

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[10] Morocco's monthly minimum wage ranks third among major EU clothing suppliers – Hespress English https://en.hespress.com/77789-moroccos-monthly-minimum-wage-ranks-third-among-major-eu-clothing-suppliers.html

[11] Study: Morocco Has 3rd Highest Minimum Wage Among EU Apparel Suppliers – Morocco World News https://www.moroccoworldnews.com/2024/01/360020/study-morocco-has-3rd-highest-minimum-wage-among-eu-apparel-suppliers

[12] Textile et Habillement : Les salaires dans les pays fournisseurs de l'UE – Evalliance https://www.linkedin.com/pulse/textile-et-habillement-les-salaires-dans-pays-de-lue-limantour-k866e/

[13] Morocco: 2019 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Morocco – IMF https://www.imf.org/en/Publications/CR/Issues/2019/07/12/Morocco-2019-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-47114

Rethinking Minimum Wage Laws: Top-Down vs. Bottom-Up Approach

Many mistakenly believe that minimum wage increases drive wages up, overlooking the role of market dynamics. The real debate is whether wages should rise through top-down mandates or by investing in skills and education.

Market dynamics primarily influence wages, a view supported by theory and empirical data, but many political leaders prefer the top-down approach. Historically, economists widely[14] acknowledged the harmful effects of minimum wage increases on jobs and productivity[15], a view still prevalent in current research. A recent paper from the National Bureau of Economic Research reviews studies on minimum wage hikes and challenges the notion that they do not affect employment.[16] The authors highlight strong evidence indicating job losses, especially among teenagers, young adults, and those with lower education levels. This study emphasizes that raising the minimum wage leads to higher unemployment, an essential economic fact.

Research consistently indicates that higher minimum wage laws can contribute to rising consumer prices. When employers face increased labor costs due to wage hikes, they often pass these costs onto consumers in the form of higher prices. A 2020 study by the University of California, Berkeley, specifically found that a 10% increase in the minimum wage led to an average 0.36% rise in grocery prices.[17] This suggests that while minimum wage increases are intended to boost workers' incomes, they may also inadvertently reduce purchasing power by making everyday goods more expensive.

Minimum wage laws, though well-intentioned, can disrupt the labor market and business environment. Policymakers in Morocco should consider these impacts on job creation, market dynamics, and economic competitiveness. Morocco can build a robust economy that benefits everyone by prioritizing economic growth policies and skill development. Improving worker well-being involves promoting growth and job creation and equipping workers with skills through education and training, enabling them to earn higher wages. Moreover, reducing business burdens through tax cuts, labor freedom, and deregulation will encourage investment, economic growth, and employment.

Abolishing minimum wage laws is essential as they harm both workers and businesses and violate their rights to self-ownership and free association. While this may seem radical, many developed countries like Switzerland, Finland, Sweden, Denmark, and Norway, where workers

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[14] Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research – NBER, David Neumark & William Wascher, Working Paper 12663 DOI 10.3386/w12663 https://www.nber.org/papers/w12663

[15] When the Minimum Wage Really Bites Hard: Impact on Top Earners and Skill Supply, *ZEW - Centre for European Economic Research Discussion Paper No. 20-042* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3697884

[16] Myth or Measurement: What Does the New Minimum Wage Research Say about Minimum Wages and Job Loss in the United States? David Neumark & Peter Shirley, Working Paper 28388, DOI 10.3386/w28388 https://www.nber.org/papers/w28388?utm_campaign=ntwh&utm_medium=email&utm_source=ntwg2

[17] The Pass-Through of Minimum Wages into US Retail Prices: Evidence from Supermarket Scanner Data – Berkley Public Policy, The Goldman School https://gspp.berkeley.edu/research-and-impact/publications/the-pass-through-of-minimum-wages-into-us-retail-prices-evidence-from-supermarket-scanner-data

enjoy high wages, do not have such laws. The government's role should be to protect rights, not interfere in consensual agreements between employers and employees.

Conclusion

High minimum wages, although aimed at enhancing worker income, can disrupt market equilibrium by increasing businesses' labor costs. This can lead to unintended consequences such as reduced hiring, job losses, and a shift toward informal employment, which undermines economic efficiency and worker protection. Businesses facing higher labor costs may struggle to compete internationally, particularly in labor-intensive sectors, which can diminish Morocco’s global competitiveness and slow economic growth.

Morocco's recent 10% increase in the minimum wage exemplifies the tension between government intervention and market efficiency. While the intention behind raising the minimum wage is to improve living standards and address social grievances, the potential economic drawbacks highlight the challenges of such interventions. Wage rates ought to be established by market dynamics instead of being dictated by government regulations. Permitting wages to be influenced by supply and demand can result in more effective labor markets where pay aligns with productivity and prevailing market conditions. Government interventions such as minimum wage laws can disrupt these market indicators, causing inefficiencies and unforeseen consequences.

To foster a robust and dynamic labor market, Morocco would benefit from policies that enhance market flexibility, reduce regulatory burdens, and promote skill development. Emphasizing education and training to improve workforce skills, alongside fewer barriers to business operations, can create a more favorable environment for job creation and economic growth. By aligning wage levels with market realities and focusing on reducing interventionist policies, Morocco can better achieve a balance between protecting worker interests and ensuring a competitive, thriving economy.

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