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## Introduction

Wage, in all over the world, is one of the most basic and widely sources of income, and is compensated by the employer which give their workers for the work done. Wages are of great importance for developed and emerging economies. Thus, wage play the main role in the establishment of many economic and law relations. So, wage are the main factor which determine evaluation of product. The term of “Wage” belongs to the division category and the ideal division is that division the quality and quantity of labor. But the market does not provide it, and as a result, it could be look again at the nature of wages.

The role and value of wages are different for the employee and the employer. So that, according to an employee, wages are the main part of his or her income, so, it affects the well-being of both himself and family members. Wages play a stimulating role in improving the labor outputs and providing a rise in prize received. But employer think that, the employee's wage is the cost of production. Therefore, the employer tries to minimize these expenses. Due to this reason, today, wage formation is one the global problems, we will explore about this topic more widely.

So that, the process and the periode of wage is changed for some categories.

**The purpose of the research-** is to determine the wage formation problem in Global economy and to study the nature of the form of wage.

**The object of the research-** is to provide the main role of wage in Azerbaijan

**The method of the research** – is factors which affect formation of wage in Global Economy

**Research Tasks** – They can be shown as follows:

- Determination of the content theoretical basics of wage formation
- An analysis of world experience of wage formation in foreign countries .
- Determination of situation in wage formation in Azerbaijan
- Defining the ways of improvement of wage formation in Azerbaijan

As a source of information, sources of local and foreign scientists, official websites of relevant government agencies and Internet resources have been used.

## **Chapter 1. Theoretical aspects and world experience of wage formation**

### **1.1 Theoretical basics of wage formation**

Wage is one of the most basic and widely available sources of income all over the world and is compensated by the employer in proportion to the work done. Wages play the key role for the economics of developed and developing countries and thus, wages play an important role in determined and establishment of many economic and legal relations. Wages are important in the system of social-labor relations. Wage rate is the value paid for the utilizing of the work. In the situations of the development of market relations, some attention was paid to the formation of a mechanism for market regulation of wages, which should include the following links:

- a multi-level collective-bargaining system – so that labor market requirements would be reflected in labor wages;
- the tax system of regulating the incomes of each employee, designed to ensure the participation of all citizens in meeting national and regional needs;
- a system of minimum state guarantees in the field of labor wage;
- an information system that gives workers and employers an objective and complete picture of the price of labor by occupation, ranks, territories, branches of the economy, and so on.

The form of wages describes the relationship among the costs of working time, the productivity of labor of workers and the amount and earnings. The level and distribution of wages are determined by a wide range of factors. Selections are made in the education, the migration policies or childcare can impact the supply of male and female labors of various skill levels to the labor market, while trade

policies or technological innovations would be vary the relative demand for labors with various levels of qualifications.

Wage should be organized in such a way as to ensure the personal interest of the employees you know. This means that when paying wages, conditions, productivity and so on. depending on employee differences should be included.

The principles of labor organization are as follows

- Considering the intensity of labor
- Taking into account the labor conditions
- Consideration of the ratio between labor productivity and wages
- Considering quantitative and qualitative thinking
- Equal rights for equal employment
- Differentiation of national economy
- Business geographical location.

The following are elements of labor compensation

- Forms and systems of wage
- Labor regeneration
- Tarif system

Wage schemes and systems are as follows

- our everyday life and its systems
- your fever and its systems

Labor adjustment is as follows

- time standard
- production norm
- service norm
- wage scheme

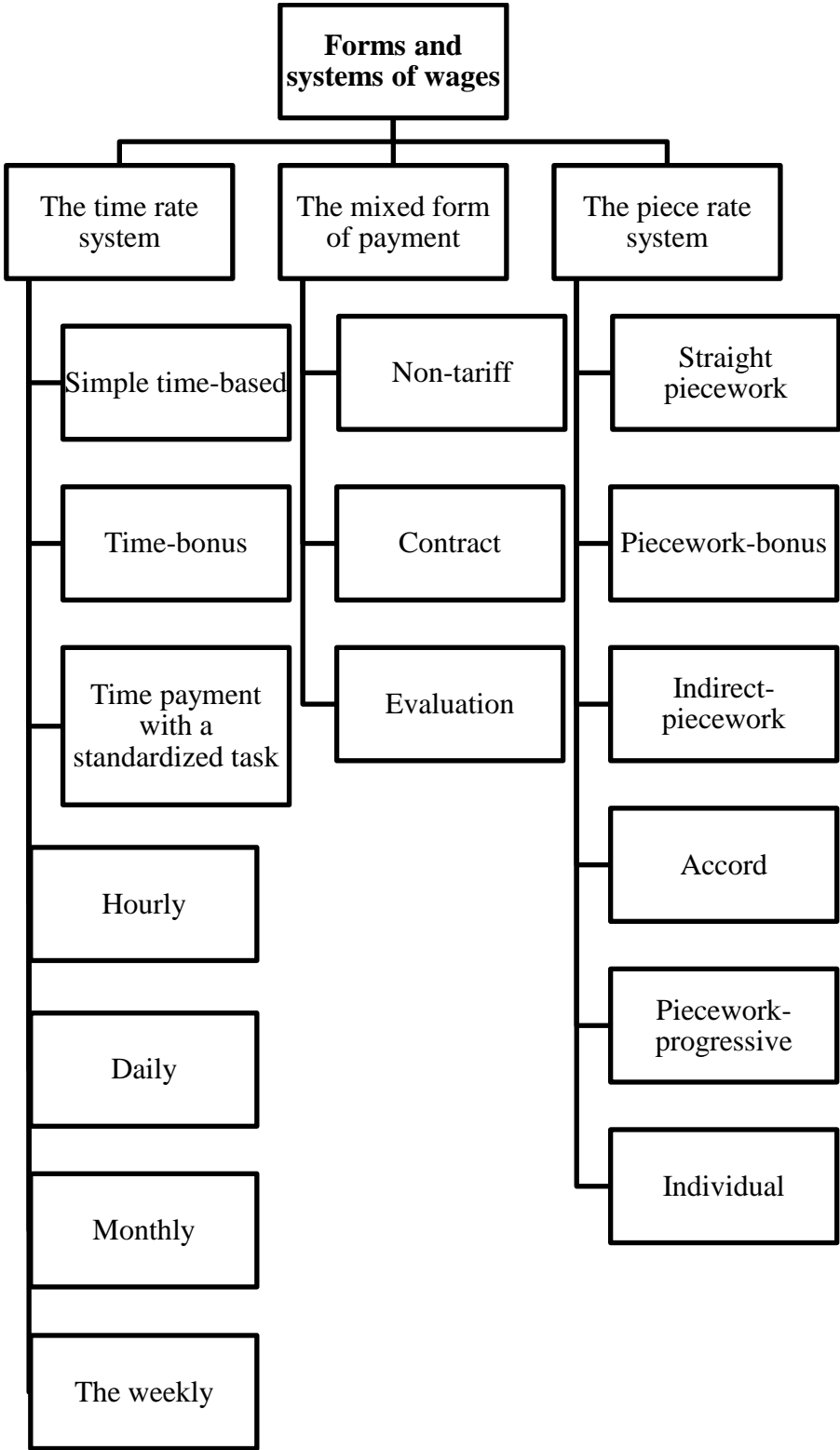
The wage scheme consists of the following elements:

- schedule
- tarif wages

- specialty - specialty inquiry books,
- District Ratios Added to

In modern period, there are three forms of payment which includes piecework, time and mixed. A time form is a form of payment that, in which the amount of earnings is proportional to the actual hours worked. With piece-rate payment, the earnings of an employee are proportional to the amount of manufactured goods. Each of the forms includes several systems. The wage system characterizes the interrelationships of the elements of wages: the tariff part, allowances, surcharges , bonuses, which are selected in accordance with specific production situations. Tariff system is the basis for the development of piece-rate and time-based forms of wages. Wages define in three important forms: time-based, piecework and mixed.

**Forms and systems of wages can be represented in the form of a scheme**



Firstly, Piece rate system is a method of wage payment to workers based on the quantity of output they have produced. In other words, piece rates — payment and the price of the commodity labor power, depending on the sizes of the opening per unit time. it pays the labors due to the units of output manufactured. Piece-wage is a converted form of hourly. The cost of labor in this form are measured by the quantity and quality of output. Piecework wage stimulates labor intensity, reducing the cost of supervision of workers, increasing competition between them. The first rational form of piecework wages, which was based on the duration of the working day and the establishment of norms for the strongest skilled workers, was Taylor's system. The features of Piecework wage are as follows:

- Piece rate system gives for the largest quantity of products.
- Piece rate system distinguishes the staffs and pays more wages to efficient and skilled employee.
- Piece rate system requires strict control to obtain the required quality products.
- Piece rate system helps to fix in advance the costs per unit of labor.
- Piece rate system does not bring uniformity in the flow of production and causes an excessive wastage of inputs.

Piecework form of payment appears as:

- straight piece rate – it means that rates do not change for any implementation of production standards
- piecework-bonus it means that along with payment for the amount of products made by the payment of bonuses for certain indicators
- piecework-progressive it means that work performed on overtime, billed on a progressive scale
- piecework wage system it means that installed on the entire scope of work regardless of the number of employees
- piecework-bonus wage system it means that installed for the reduction of regulatory deadlines.



Second form is Time rate. Time rate system have some features that are as follows.

- Time rate system pays the staffs due to the time spent in the place of work.
- Time rate system for the best quality of products.
- Time rate system does not distinguish the staffs and pay.
- Time rate system does not help to record labor cost per unit in order to increase the same wages for efficient and inefficient staffs.
- Time rate system requires strict supervision to get required quantity of output
- Time rate system helps maintain a uniform flow of production and ensures an efficient use of materials, tools and equipments

We know that time rate system are consist of time-phased bonus and simple time-phased . According to Time-bonus wage is that it provides the payment of labor minimum wage for the per time unit, as well as payment of the premium for production beyond standard. The basis of the bonus ,which exceeds the standard, is time saving on production. Remuneration system have some difference each other, so it is the subsystem points, in which pay the same premium amount for each unit produced in excess of for any time for instance day or hour and is grounded on a guaranteed minimum hourly wage. For instance, when producing 20 units per hour each unit shall be 3 items and the working in case of exceeding quotas 15 points receives a bonus 5 points, and award the last point is the same as the prize for first. More perfect is the bonuses, the subsystem progressive points, and which provides that the increasing premium in the increasing development. So that, if you exceed 15 — 20% bonus and if you exceed the standards by 5 the worker gives a 5% bonus.

The third form is mixed that, which include combinations of hourly and piece-rate form of payment of the rate of labor and the results of its utilize. Their use is practiced, in the condition of exceeding the level, in specific, in cases where there is a low level of output.

## **Nominal and real wages**

According to Marx's report, working class must receive enough wages, because this wage must be sufficient for to preserve its existence and efficiency, as a result, workers can obtain the level of standart living. Therefore, in the conditions of market relatives, distinguish among nominal and real wages. So nominal wage is amount of money received by the worker for selling to the capitalist labor force and the performance of its operation without considering inflation. The amount of this wage does not provide a real understanding of the life level of the employee, a measure of consumption. However, no index of nominal wages does not calculate real wages. Considered level of development of society, economic, institutional factors and even the climatic conditions of wages as the price of any product is determined by many factors:

- the degree of development of scientific-technical, economic and spiritual process of the country;
- the degree of balance of labor resources and jobs, i.e., the ratio of demand and supply of labor;
- the level of organization of wage-workers in the struggle for their social rights;
- situations of work for example harm , attractiveness, organization);
- physical health of a person, his educational, cultural and professional level;
- the level of protection of employees of the state, the establishment and observance of social guarantees (limitation of the working day, obtaining normal ratio between the minimum wage and subsistence minimum).

Organizations provide various facilities to workers apart from paying wages. The additional facilities such as medical facilities, transportation facilities, accommodation, and other allowances paid in addition to the wage constitute the real wages of labors. In other words, real wages the amount of goods and services costs that a employee can purchase for his money earnings at a certain level of

costs after taxes. The real wages are the main part of real income. It is determined by dividing the nominal wage index of consumer prices for goods and services:

$$W_r = \frac{W_n}{I}$$

Where

$W_r$ — real wages

$W_n$  — nominal wages

$I$  - consumer price index

Real wages refer to the buying power of the labor's wage, for example, the amount of material, comforts and luxuries which the labor can direct in return for his services.

For instance, if worker earned 500 per month, his nominal wage is 500. Real wages serve as indicators with consider the progress level of workers. If the buying power of money is high, real wages are would be rise. According to economist A. Smith, stated that the laborer is rich or poor, is well or ill-rewarded in proportion to the real, not the nominal, wages of his labor.

### **Components of wages**

In a market economy, the state takes care of only certain, limited types of guarantees and compensations. It establishes the obligation of their payment as the minimum necessary. With this approach, hired workers have the opportunity, as labor efficiency grows with the help of trade unions, to agree on higher guarantees in negotiations with employers. Additional payments and compensatory allowances are guaranteed by the state for working conditions that deviate from

normal ones. Currently, about 50 types of the most common surcharges and compensatory allowances are applied. These include co-payments:

- work in the evening;
- overtime work;
- work on weekends and holidays;
- the traveling nature of the work;
- to minors in connection with the reduction of their working day;
- workers, performing work below the assigned to them a tariff level;
- if the norms for producing and manufacturing defective products are not fulfilled, not through the fault of the employee;
- up to the average earnings in the conditions provided by the legislation;
- workers in connection with a deviation from normal working conditions;
- for work on the schedule with the division of the day into parts with interruptions of at least 2 hours;
- for multi-shift operation mode;
- work over the normative duration of working time in the period of mass acceptance and storage of agricultural products.

Compulsory payments include surcharges and allowances for harmful, difficult and dangerous working conditions.

### **Wage theory**

There are some theories that it define wage formation, and brief explain of wage formation theory follows. The English classical economist David Ricardo wrote that the “natural price” of labor would always tend toward the minimum required for subsistence. Ricardo’s statement was based on the population theory of Thomas Malthus. If wages increased above subsistence, the great part of workers would increase and push the wage rates down and vice versa. So if wages declined below subsistence, the number of workers would reduce and bring the wage rates up. In other words, if the supply of labor grow up, wages would decrease, finally causing

a reduce in the labor supply. If the wage rose above the subsistence level, population would rise until the greater worker force would again force wages down.

One of the other theories is the wage-fund theory that wages depended on the relative amounts of capital available for the payment of workers and the size of the labour force. Adam Smith describe this theoretical fund as the surplus or disposable income that could be used by the wealthy to employ others. According to thought of Ricardo, wages in terms of the capital such as food, tools, clothing, machinery, raw materials needed for situations of employment. Wages increase just with a rise in capital or a decrease in the number of labors. The size of the wage fund could change over periods of time, but at any given moment it was fixed. If the wage fund was great in relation to the number of labors, wages would be high and vice versa, so when it was relatively few, wages would be low. If population increased too quickly in relation to food and another, wages would be driven to the subsistence level. Therefore, speculating workers, workers would be at a benefits if they accumulate capital to raise fund; if they made far too much demands on employers or other organizations that reduced capital, they would be reducing the size of the wage fund, thus forcing wages down.

The bargaining theory of wages means that hours, wages and working situations are determined by the relative bargaining power of the organizations to the agreement. So this theory is propounded by Professor of Political Economy John Davidson. Employers were in good position to unite their opposition to labor demands, and employers can bear the loss of income for more time than staffs. This theory means that any factors not determines wages and no payment is required. Therefore, there is a range of rates which may be present at the same time. So upper limit of the range reflect the rate to which employers refuse to hire some workers. This rate can be affected by a lot of factors, including the labor's productivity, the competitive condition, the volume of the investment and estimate of future business situations of the employer's. But the lower limit of the range

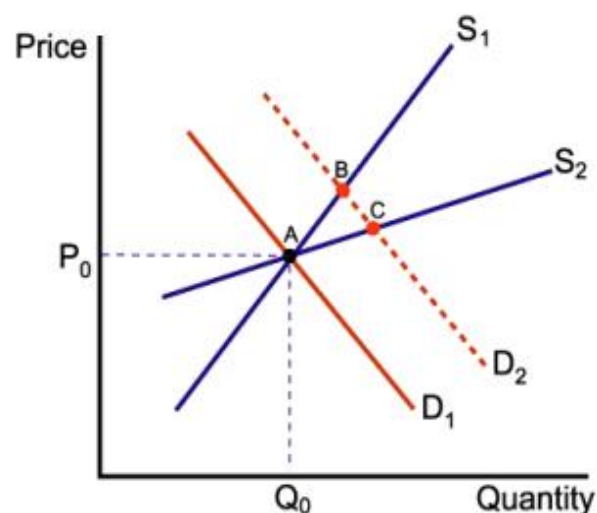
determine the rate to which the employees will not provide their services to the employer. Impacts on the rate include minimum wage legislation, the standard of living of employees and their knowledge of the tariffs paid to others.

Formulated the end of the 19th century, the marginal productivity theory of wages means that employers will hire workers of a particular type until the contribution that the last or the marginal worker to be hired equals the cost of hiring one more worker.

The wage rate will equal the worth of the marginal product of the last-hired employee. The marginal-productivity type of theory for wages had been worked out the German economist Johann H. Thünen in 1826.

So the wage rate is determined on the market by the demand and supply of labor needed for the job. We know that some of labors are interchangeable each other and everyone could be considered a marginal labor. Due to this, all employees receive the same wage and that's why the company maximizes his profits by hiring to the margin. If every additional labors contributes overall costs in wages, so it pays the company to go on hiring. So beyond the margin, additional labors would spent more than their subscription and would get out from achieved profits.

According to the marginal productivity theory, guide to long-run trends in determining wages and applies more usually than the bargain theory.



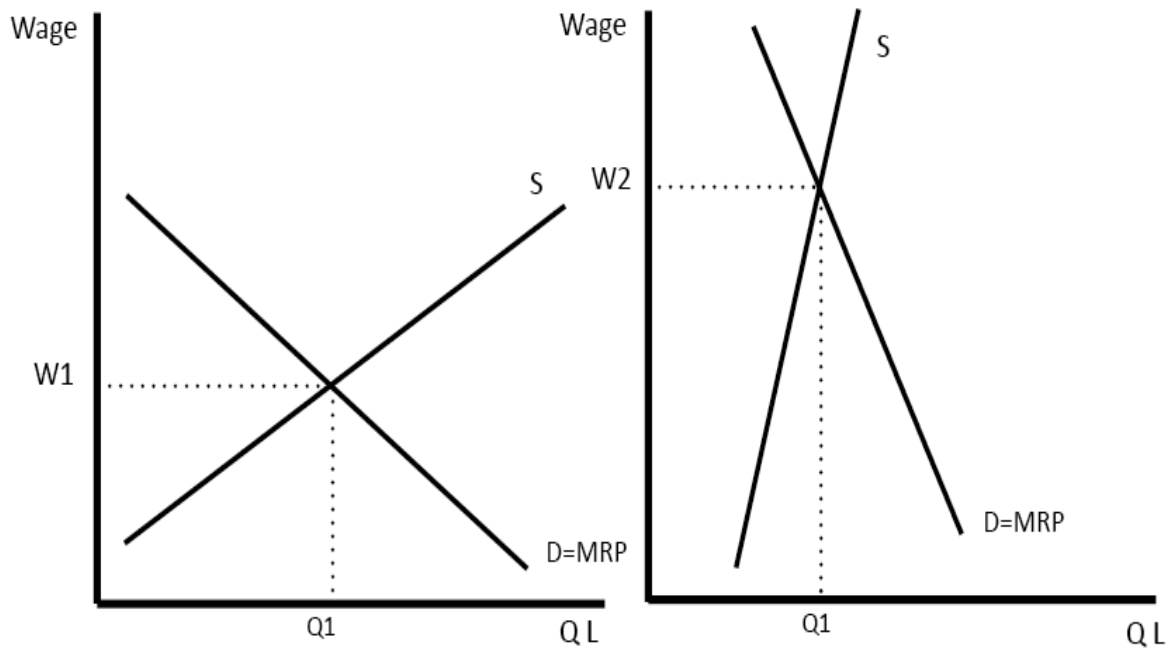
Now, we define link between wages and labor quantity for demand and supply. So, In Figure number 1 show that the increase in labor productivity from D1 to D2 will have a higher effect on wages, and reducing employment will lead to more business discipline. as S2 shows, in the short run, when labors can be more likely to work a lot then they will get higher wages, but if labors fit into higher living standards then they will return to normal work-leisure system. At the left of Q0 point, wages are lower the “marginal” worker productivity that, determine a labor demand curve so if it is downhill. If labors are the same duty, the last employee from 0 to Q0 is marginal in the line, and they are paid their marginal product. So the second is higher than the market-clearing wage on other line.

Also the labor supply side is the same. Employees who is on the left of Q0 get a higher wage than their marginal price of providing the labor, for example, the supply curve capture the disutility of work . Some labors are not marginal. So these employees seem to get any rents, this higher wage than essential to convince them to work.If other labors have equally low disutility of work, then the supply curve would be lower at Q0 point.

### What Determines Wages?

Accordint to some theory, wages depend on an employee’s marginal revenue product. So that MRP is defined by 2 factors which includes Marginal physical and Marginal revenue of last good sold. Marginal physical product means that it the productivity of a worker. Marginal revenue of last good sold means that it effectively the price and demand for the good that the employee produces.

Diagram of wage determination for 2 different kinds of labors

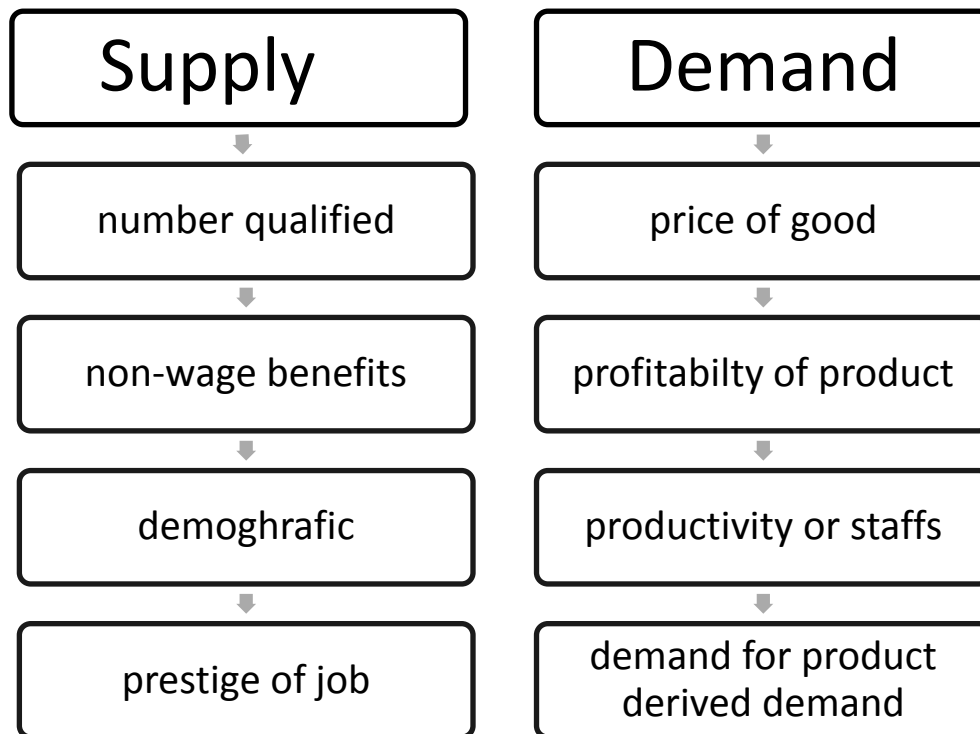


- Given diagram shows that on the left diagram, according to demand and supply are both elastic, this would be a cleaner – working with relatively low skill requirements, it means that many people can do this work.
- But On the right diagram, demand and supply are less elastic and as result higher pay. This could be a work like engineer. Relatively high skills required and engineer makes a more significant difference to a firm's profitability.

In market labor condition, demand and supply are some of factors which influence formation of wage. When the demand for a special kind of labor force is more and supply is less then the wage rates will be more. In the other words, if supply is more than demand and demand is less on the other hand, labors will receive lower wage rates. Market supply of labor and market demand of labor for a special vocation depends a figure 1.

**Figure 1. shows factors determining wages**





One of the factor of influencing wage is demand for the good. For example, we know that football players get higher wage than other volleyball players. Because football games is demanded a lot. And it means that there is more money in this kind of sport.

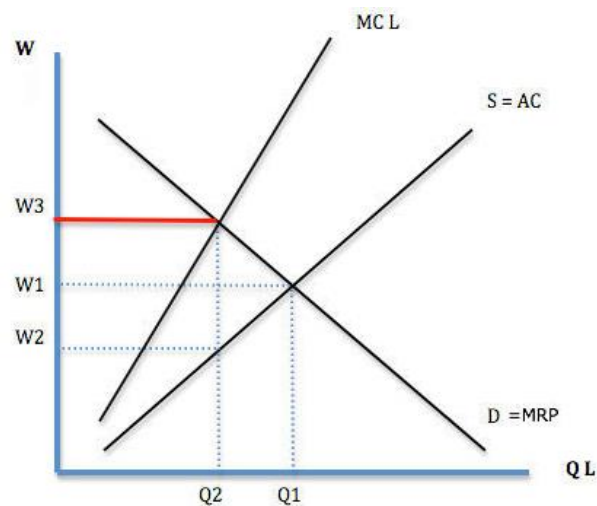
One of the factors is supply-side. supply pay will determine pay. Firstly, one of the supply-side factors is qualifications. Employees who have specialist ability will usually be highly rewarded. According to this, supply is more restricted and more inelastic for jobs which have specific qualifications. The shortage of supply causes increasing wages. High percentage of the worker are qualified. Therefore supply is more elastic. Another factor is non-wage benefits. Great number of employees want the same things which belong to high wage, health insurance, promotions, raises and other things. But firms or company do not give them all of benefits which labors want. If a job is more important for without monetary benefits, then the supply would be greater compared to another jobs. Due to this thought, company can give relatively lower wages for the same skills. For

instance, we know that workers of public sector get lower wages compare with labors of private sector. So, for example, teacher, nurse and other as this duty get lower wage.

The another factor is demographic factor. If the number of ageing population in the company, are more than skilled persons, then according to this theory, it would increase wages. Thus, such as fruit picking, migration of workers and the net movement of unskilled labors can lead to lower pay for jobs. As a result, if immigration slows down, then number of work place will be higher, and vice versa. So if immigration rise in the labor's supply curve, then wages of labor would be decrease. This theory have some limitations. They are following. measuring productivity is difficult

- competitiving markets is assumed.
- Pay will also changed due to cultural differences.
- Monopsony employers
- Discrimination
- Trade unions

Wages will be defined by another factors in the worldwide. Monopsony employers can occur when have market power in the wage formation. in other words, it similar monopoly that there have been a seller and a lot of buyers. Sometimes employers who is monopsony they pay lower wages to labors. If they decrease wage of labors then it causes inequality in community. For instance, employment of civil servants, police, teacher, nurses are example of monopsony in Government.



- firms pay a wage point of  $W_2$  and work  $Q_2$  point.
- A minimum wage of  $W_3$  would keep employment at  $Q_2$ .
- If minimum wage equal  $w_1$ , it would rise employment  $Q_1$

So that there is the main employer and market strength in setting wage. Of course there have some problems that which if firms pay only lower wage, at the moment labors would go to another company which give high wage. Wage discrimination occur when similar labors receive different wage. In other words, workers are distinguished by employers some features which include sex, age sexual orientation and others. Some of labors might get lower pay it harder to receive jobs as they are discriminated.

Trade unions affect influence wage rates, so that, trade unions who have power they will higher wage., Employees, in trade unions, would be to receive higher pay as the trade union could put pressure on the labor to rise wages. As a group working conditions and wages, one of the organization of workers is trade union that negotiates with labors. In other words, employee union look to change the control of negotiations among employees and labors by forcing employers to deal with employees collectively, prefer as individuals. Thus, it is called collective bargaining connection between firms and unions. Labor unions critics view them as having a tendency to grab as much as they can in the short term, even if it

injures workers in the long run by driving firms into bankruptcy or by blocking the new technologies and production methods that lead to economic growth. Labor unions' supporters view them as the employees' main line of defense against efforts by companies which to profit seek to hold down wages.

- Poor productivity growth. Companies can not afford higher wages according to decrease in productivity growth.
- Increased labor market flexibility, which gives companies more power to keep wages low
- Increased monopsony strength of companies/decline in trade unions
- Growth in low-paid part-time or temporary jobs.

Wage differentiation is a widespread phenomenon: different occupations and different industries pay working time at uneven rates. Even wage segregation is common: certain jobs are "socially" attributed to a certain gender or ethnicity, which in turn might strive to widen the jobs it is "allowed" to perform. Wage structure for occupations, industries and regions is subject to very slow long-term change. Imitation of wage increase in other parts of the country is a common force in action.

Wage rates for the same position can be different between "normal hours" (e.g. 40 hours a week) and overtime, i.e. the hours exceeding regular working hours. Usually overtime are paid better, as it occurs when the work is performed during the night or festivities (e.g. Sundays). A part of the remuneration can be linked to results, both on an individual and collective term of reference.

Wages are changed at discrete intervals of time, often a year, possibly within a multi-year perspective plan.

Wage dynamics are linked to the following main determinants:

1. the balance of power among workers and employers, which in turn depends on effective mobilization, solidarity and labor organization;
2. sales and employment perspectives;
3. previous and current profitability of employers;
4. past and forecasted inflation trends;
5. labour productivity increases;
6. shortage of workers or, more often, abundance of unemployed;

The legal framework about industrial relations, including the right to strike and its possible limitations, the type of trade union allowed or historically prevailing, the number of working hours and (effective or ineffective) limitations to child labour is very important for actual results in negotiations. Legal requirements, like minimum wages, are important in many countries.

This in turn make the electoral process very important for wages, with trade associations and trade unions (and their respective constituencies) spending and organizing support to candidates in exchange for favourable laws.

The potential of wage increase may differ from industry to industry, with export-oriented and foreign-owned companies possibly being the first target for requests and strikes to achieve such goals.

Diffusion across companies and sectors of wage rise requests follow a spontaneous S-shape or are dependent on the spread of trade union members organisation.

For certain jobs, international levels of wages and immigration may be additional determinants, with a large pool of emigrants exerting downward pressure on current domestic wages, on the one hand, and being the source of international remittances, on the other.

More analytically, a firm's labour market can be purposefully separated in internal market (within firm) and external market (in other firms and the unemployed). Internal market is ruled by hierarchy (with different layers of workers, some being at the fringe and other at the core of the firm, with all degrees of low, middle and management strata) and put in motion with career processes, together with firm-specific wage policy. To a certain degree, external conditions exert only a marginal role in internal negotiations. In fact, employees have cumulated firm-specific skills, difficult to find ready on the market. Seamless effective work requires mutual trust, which in turn depends on stability of work for, at least, a core of employees.

By contrast, external market is relevant when employees choose a voluntary dismiss for getting better conditions outside. When a relevant turnover takes place, the management is possibly forced to choose another wage policy.

The unemployed may be characterised by a much lower wage expectations than the employees and they are prone to more flexible working conditions, but they lack competence and are often characterised by lower productivity.

This analysis explains on the one hand, why a higher unemployment may brake wages but also, on the other hand, why wages can grow even if there exists unemployment.

## **1.2 World experience of wage formation**

World experience shows that the important factors of maintaining high productivity are the efficiency and flexibility of management; business, social and political climate, stimulating production and productivity; size of the domestic market, which can provide enterprises with the possibility of realization of goods of mass production. The General level of wages is the maximum in countries such as Switzerland, Sweden, USA, Japan and, primarily, because the demand for labor is higher with respect to its proposal, and also due to its enhanced performance. The higher the productivity, the higher will be the demand for it.

It is important to note that between real hourly wages and output per unit of time there is a close relationship. If you remember that the actual income and actual output are two sides of the same coin, it is not surprising that real income (total earnings) per worker can grow about the same pace as the volume of production per worker. The issue of actual output per hour means more distribution of real income for each operating hour. According to many Russian economists, from the standpoint of efficiency of production it is reasonable that the rate of productivity growth slightly outpacing the growth of wages.

However, even in countries with a classical market economy allowed rapid growth of wages with the aim of improving motivation and productivity. In Ukraine for the period from 1991 to 2001 real GDP at constant 1990 prices grew 2.1 times, labor productivity — 1.1, the number of employed — 1.4 times, while real wages 2.6 times. Consequently, the rate of decline in real wages has been significantly below the growth rates of real GDP (2.45%) and the number of employees (1.4 times). These data indicate that the decline in real income employed in previous years was much higher than the indicators of economic growth. Therefore, in recent years an important component of reforming remuneration of labour in Ukraine began to

increase. So, for the period 2001-2003 increased the average real wages in 2001, 19.3 % in 2002 to 18.2 % in 2003 to 15.2 % in 2004 to 27.5 %

In Ukraine, wages are formed not only on the basis of cooperation with capital. Organization of remuneration of labor in our state are based on General collective agreements, sectoral and regional agreements, collective and individual contracts.

The real wage is determined by the volume of the means of subsistence, which can be purchased for a nominal wage. Consequently, the real wage is the monetary equivalent of the weight of the goods and services that can be bought by the employee for the payment of its workforce.

Between nominal and real wages there is no direct proportional dependence. They can vary in the same direction, and can vary in different directions (table. 13.2). For example, in terms of inflation, growth in nominal wages is often accompanied by a decrease in real wages. This is because in a market economy are free prices. And in most cases they are growing faster than nominal wages, and this leads to a decline in real wages and the reduction of material welfare. However, this is only one of the problems in the ratio of nominal and real wages.

The second problem is that in Ukraine, Russia, other CIS countries wages are divorced from the cost of labor, personal labor contribution of workers and the work team. Education, qualifications, work experience, even working hours a significant impact on its level don't have. As a result, real wages fell by no less than 5, and with the payments from social funds, about 10 times.

The basic wage is the money paid to him by the worker which is characterized by its high durability. Employees' core labor on the basis of a position or rate of rank held as the typical fees defined duties and tariffs. It should be noted that the level of wages is in line with the growth rate of life indexed. In developed countries, there is a tendency for the growth of basic wages are. For example, pay special



wages for the employee's overall earnings 80-85% in the United States, 85% in Japan, 75-80% in the UK.

By contrast, additional wage or non-recourse by the performance of specific tasks set by the employer he is gifted. Additional wage can include:

- extra earnings;
- additional payments (extra time or night shift, holiday and leisure days, in hazardous and hazardous working conditions);
- payments that are regulated and discharged on a case-by-case basis;
- regular payments (for a long time in one enterprise, specialty level);
- one-time prizes (for example, for specific work);
- awards (high quality products, raw materials and energy according to the opinion);
- regular rewards (those included in the wage system).

Unlike other payments, regular rewards include extra wages as a transitional form between basic and extra wages is. Generally, additional payroll components can be systematized as follows:

- legislatively regulated;
- defined in different labor contracts;
- paid by the employer.

The role of extra wages is particularly important in high-tech areas in the United States. For example, its specific weight in oil refineries is 29.2%, in the automotive industry - 22.2%.

Wages are the costs incurred for the entity if the income is payable to the public.

Wage Earlier in order to calculate the unit wage fund it is necessary to define the economic income:

$$T_g = V - M_x - P_f - F_k - B_{\ddot{o}} - I_n \pm$$

Where: V - the amount of revenue from the sale of goods, services,

$M_x$  - material costs;

$P_f$  - Funds and labor reserves;

$F_k$  - Interest on loans;

Payments from budgeted earnings to the budget;

$I_n$  - rental fee;

J - paid or purchased transactions.

Enterprise Accounts, Enterprise Risk Fund, Production, Science and Technology development and social development fund, the rest of the funds a single fund of payment.

$$AWF = T_g \pm P_{sair} - F_r - F_i - F_s$$

Here:  $P_{sair}$  - Unplanned (unintended) revenues, expenses, losses, etc.

$F_r$  - risk fund;

$F_i$  - development fund for production, science and technology;

$F_s$  - Social Development Fund.

## **Trade and Wages**

Trade could affect the wages of employee. Because trade raises the amount that an economy can produce by letting firms and workers play to their comparative advantage, trade will also cause the average level of wages in an economy to

increase. Workers who can produce more will be more desirable to employers, which will shift the demand for their labor out to the right and increase wages in the labor market.

However, even if trade increases the overall wage level, it will still benefit some workers and hurt others. Workers in industries that are confronted by competition from imported products may find that demand for their labor decreases and shifts back to the left, so that their wages decline with a rise in international trade. Conversely, workers in industries that benefit from selling in global markets may find that demand for their labor shifts out to the right, so that trade raises their wages. One concern is that while globalization may be benefiting high-skilled, high-wage workers, it may also impose costs on low-skilled, low-wage workers. After all, high skilled U.S. workers presumably benefit from increased sales of sophisticated products like computers, machinery, and pharmaceuticals in world markets. Meanwhile, low-skilled U.S. workers must now compete against low-wage workers worldwide for making simpler products like toys and clothing. But there are a number of reasons to believe that while globalization has helped some U.S. industries and hurt others, it has not focused its negative impacts on the wages of low-skilled Americans.

First, it seems unlikely that intra-industry trade, where the United States trades similar goods like machinery, computers, and cars with other high-wage economies like Canada, Japan, Germany, and the United Kingdom, has a heavier impact on the wages of low-skill, low-wage Americans. After all, most U.S. workers in these industries have above-average skills and wages—and many of them are doing quite well in the world of globalization. Remember, an intra-industry trade makes up about half of all U.S. trade.

Second, many low-skilled U.S. workers hold service jobs that cannot be replaced by imports from low-wage countries. For example, lawn care services or moving and hauling services or hotel maids cannot be imported from countries of long

distances like China or Bangladesh. Competition from imported products is not the primary determinant of their wages.

Finally, while the focus of the discussion here is on wages, it's worth pointing out that low-wage U.S. workers suffer from protectionism in all the industries that they don't work in because protectionism forces them to pay higher prices for basic necessities like clothing and food. The benefits and costs of increased trade in terms of its effect on wages are not distributed evenly across the economy and may contribute to inequality of wages. However, the growth of international trade has helped to raise the productivity of U.S. workers as a whole—and thus has helped to raise the average level of wages.

### **For example U.S**

U.S. labors which works part-time averaged 38 hours per week on the job in 2014. But full-time workers includes it which the average was 42.5 hours per week. Exhibit 8 shows that more than half of all labors are on the job 36–48 hours per week of work, but important proportions work less or more than this quantity. Exhibit 8-8 breaks down the average compensation received by private industry staffs, including wages and bonuses.

Wages are about three-quarters of total compensation received by workers and the rest is in the form of health insurance, vacation pay, and others. The compensation received by employees differs for a lot of reasons, including practice, education, ability, talent, membership in a labor union, and the presence of discrimination against main groups in the labor market.

In general, one of the main part of Human resources management is compensation. So, very large component of operating costs include wages ,wage and other form of labor compensation. Therefore wage is the main payment that it is given by employer or firms and for workday of labor.

## gross Average Monthly Wages by Indicator, Country and Year

### Discrimination

In his pioneering work *The Economics of Discrimination* (1971), Gary Becker argued that labor market competition will eliminate wage discrimination. If, for example, blacks are paid less than are equally productive whites, unprejudiced employers will hire blacks and make more profit than do employers who hire whites. Nondiscriminating firms will expand, hire more blacks, and drive some discriminating firms out of business. The process continues until black and white wages are equalized. Some discriminating firms that hire only white workers may survive, but there will be no wage discrimination. Similarly, if workers discriminate by requiring a premium to work with blacks, they will be employed in segregated firms, but wages will not depend on group membership.

This conclusion must be tempered somewhat if customers are prejudiced. In this case, blacks will work in jobs where race is invisible and, if there are enough such jobs, receive the same wages as comparable whites. However, in areas such as professional sports, where workers have highly specialized skills and race is clearly visible, wage discrimination may persist.

If labor markets operate less smoothly than the competitive model implies, through a variety of mechanisms they can exacerbate, not eliminate, the effect of prejudice. For example, firms that announce high wages to attract many applicants may deter black applicants who anticipate losing out to white applicants. Instead, blacks may apply to low-wage jobs in order to avoid competition with whites. Wage discrimination may also persist if workers and firms act collectively and wages are governed by bargaining. Workers may coalesce to exclude those who are “different,” and firms may pay lower wages to those with less bargaining power.

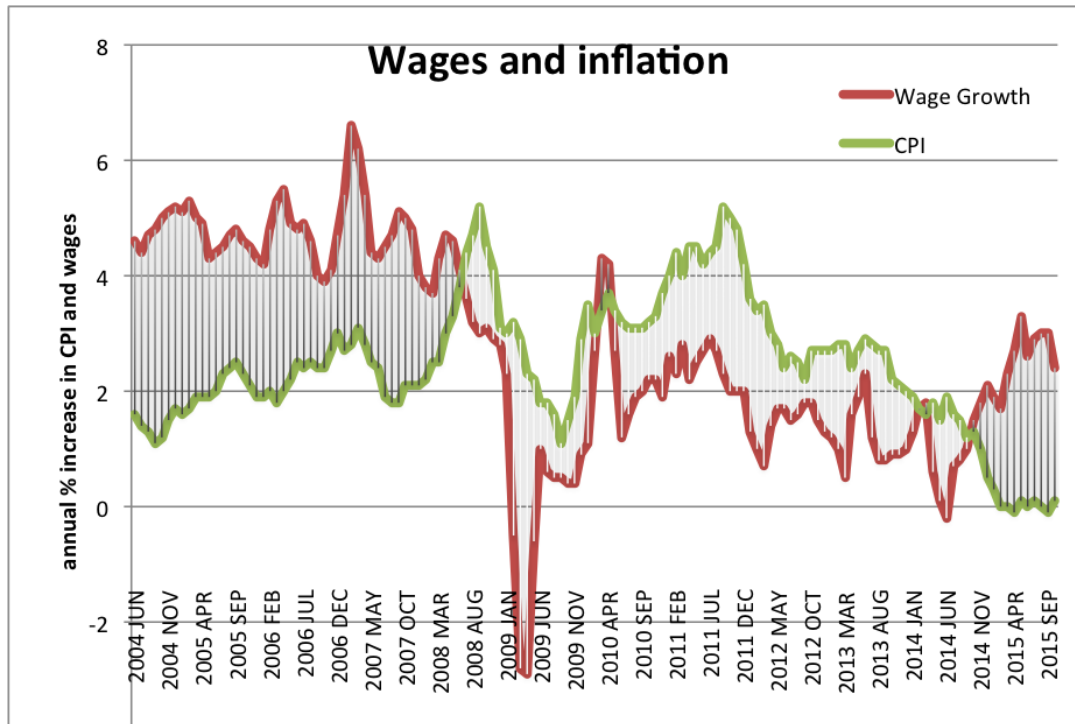
Social distance and the absence of shared networks may also reduce the ability of employers to evaluate potential employees from other groups. In this case, employers may engage in statistical discrimination, whereby they rely more on

group membership and less on information about the particular individual. Such workers have less incentive to make unobservable investments in themselves (e.g., work hard in school) and thus will earn less than do observably similar workers whom employers evaluate individually. However, they may also have an incentive to make more observable investments (e.g., years of schooling). Similar mechanisms apply when statistical discrimination reflects self-confirming stereotypes rather than social distance.

There are large earnings differentials between men and women, blacks and whites, and non-Hispanic whites and Hispanics if we take no other factors into account. Skin-shade studies have found that darker Hispanics and African Americans are paid less than Hispanics and Africans with lighter complexions. Controlling for cognitive test scores in high school eliminates much of the difference between black and white men, but a significant difference reappears if we also control for years of education. Differences in the earnings of black and white (employed) women are modest, but are much larger if we take account of the potential earnings of nonworkers. Much of the Hispanic–non-Hispanic wage differential can be “accounted for” by education and by knowledge of English. Career interruptions are important in “explaining” female-male wage differentials. In the United States the Equal Pay Act of 1963 outlawed payment of different wages for the same job on the basis of race, but this had little effect because most wage discrimination probably arises through workers holding different jobs and working in different firms. The 1964 Civil Rights Act forbade employment discrimination based on race, ethnicity, sex, or religion, and Executive Order 11246 required federal contractors to take affirmative action to ensure that they did not discriminate on the basis of race. Over time, the scope of civil rights legislation in the United States has been extended so that it covers, in various degrees, age, disability, and sexual orientation, as well as race, ethnicity, sex, and religion. Many countries have similar laws. Although most analysts believe that these policies

reduced wage discrimination against African Americans, women, and other groups, the extent of the effect is hotly debated.

One of factors is inflation which influence wage formation. especially, in 2008, when crisis occurred, then inflation



This diagram shows trends in real wages since 2004. Up until the economic crisis of 2009, real wages were growing at a post-war trend of 2-3% a year. Since 2009, we have seen a fall in real wages. This is due to several factors

For gauging inflationary pressures, many policymakers and financial market analysts pay close attention to the behavior of wages. It is widely believed that if wage costs rise faster than productivity, the price level may rise as firms pass forward increased wage costs in the form of higher product prices. Hence changes in productivity-adjusted wages are believed to be a leading indicator of future inflation.

Higher inflation has reduced disposable income'

But cause for concern is the impact high inflation has on wages, especially as wage growth has fallen since the beginning of the year, growing on average at just over 2%.

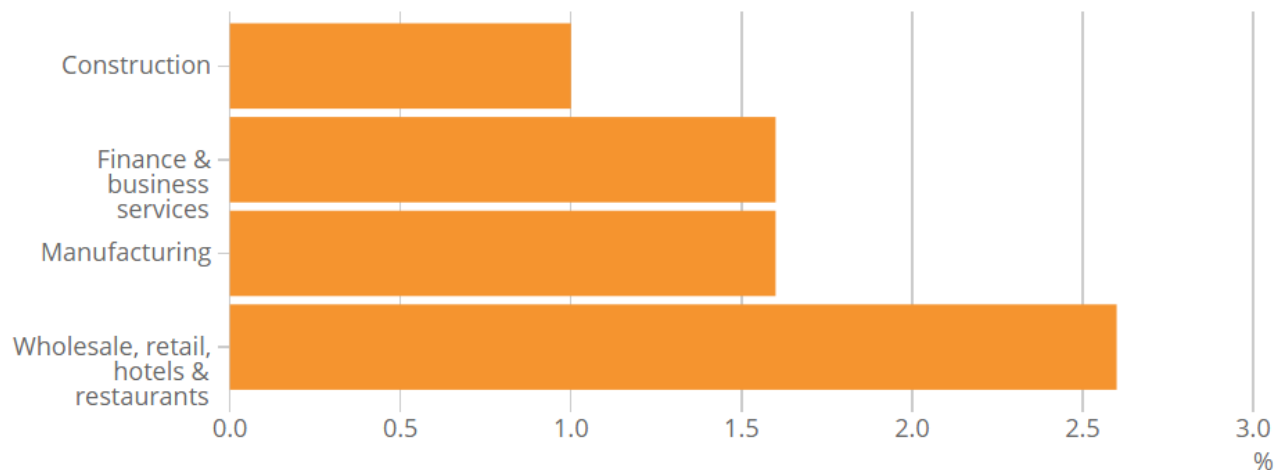
Azad Zangana, senior European economist and strategist at Schroders, comments: “The sharp rise in inflation has coincided with a slowdown in economic growth along with wage growth.

“While jobs are still being created for now, higher inflation has reduced the disposable income of households, and therefore has contributed to the slowdown in spending.”

Nine savings accounts to beat inflation

According to data from the ONS, the worst affected are those in the construction industry, where wages are rising at just 1% on average.

Those working in finance and business services, manufacturing, and wholesale, retail, hotels, and restaurants have also all seen earnings growth of less than inflation. See the graph below.



*Source: ONS EARN01 figures, 12 July 2017: Average annual earnings growth by industry sector.*



For example, the average median wage was £28,200 between 2015 and 2016, according to the ONS. Based on calculations from the tool, if that pay packet rose at the average growth rate of 1.8%, it would devalue £254 against current inflation.

Employee compensation: Wage, incentives and commissions

Compensation describes the cash rewards paid to employees in exchange for the services they provide. It may include base wages, incentives and/or commission. Total compensation includes cash rewards as well as any other company benefits.

#### 1. Bonuses

- Individuals are rewarded based on attainment of performance-based goals (individual, team and/or company).
- Goals must be realistic and closely matched to the business and people involved.
- Payout potential should be large enough to be significant to the individual.
- Bonuses can be set up to directly drive and support the company's needs (for example, profitability, annual results, successful completion of projects and/or significant project milestones).

#### 2. Profit sharing

- Payment is tied to company profits.
- A pre-determined percentage of profit is shared among all employees.
- Profit-sharing bonuses are generally paid out once a year in the form of cash or on a deferred basis.

#### 3. Stock options

- An individual receives the option to buy company shares for a set price during a specified time frame.
- Option can be exercised by the individual at any time during the agreed-upon term and subject to any vesting schedule.

- Stock options are often part of management's executive compensation but may be offered to key employees in lieu of a higher wage—especially where the business is not yet profitable and/or cash flow is constrained.
- If the business does well and the company's stock rises, the holders of the options share in the financial benefits.
- In general, if the company permits a long period from the date of issue to the last date for exercising the option, it will encourage the employee to stay with the company and be fully committed to its success.

## Commissions

Commissions are a common way to remunerate employees (salespeople) for securing the sale of a product or service. The intent is to create a strong incentive for the individual to invest the maximum effort into their work. Commissions are usually calculated as a percentage of the sale of the product or service (for example, 5% of a computer component's retail selling price).

Payment may be either straight commission (no base wage) or a combination of base wage and commission. In general, the commission structure is based on reaching specific targets or quotas that have been previously agreed upon by management and the employee. These targets or quotas are typically tied to sales revenue, unit sales or some other volume-based metric.

## ***Chapter 2. Wage formation problem in Azerbaijan and ways for their alleviation***

### ***2.1 Situation in wage formation in Azerbaijan***

The German engineer and businessman Robert Bosch GmbH has gone on to work for the first eight hours in Germany, has the following idea of free wages:

"I'm paying a good wage, not because I'm wealthy. I'm paying for a good wage."

Wages play important role for the community.

In public bodies, laws and negotiations decide wages. A government wanting to cut public expenditure might try to freeze or reduce public wages, whereas a stimulus-oriented policy might include increases.

Firms and organizations pay wages to employees usually depending on working time and/or on results (production made or objectives reached). Individual wage often depends on occupied position in the organization as well as on education, cumulated experience and seniority. Wages for the same job outside the firm may serve as a (conventional or mandatory) reference point in wage-setting routines.

Of fundamental importance, and as international experience shows, an effective method of state regulation of wages and wages is the statutory minimum wage. The minimum wage may be a republic-wide and differentiated by region and climatic zones of the country in relation to the cost of a minimum set of calculated using the same methodology of goods and services.

Guidelines for determination of the consumer basket for the main socio-demographic groups on 22 regions of Azerbaijan are calculated based on the approved Cabinet of Ministers of April 30, 2009, the regulations.

Chance and the approach used in developed countries with a market economy, - to establish the minimum wage at the state (national) level as a percentage of the existing level of the average wage. In the US, for example, the minimum wage at the national level is set at 40-50% of the average wage.

If you can not immediately establish a science-based relationship between the minimum wage and cost of living, it is necessary to move in that direction, raising the minimum wage at least 1.5-2 times. This step is carried out with the use of general and sectoral tariff agreements with the participation of all social partners, will enable changes in the system through payroll taxes negate the informal sector of the labor market.

At the stage of market relations, wages have become an uncontrollable problem. This has manifested itself in the following areas:

- The increase in wages is largely behind the rise in consumer prices;
- The actual increase in wages has weak relationships with labor activity and labor outcomes;
- There are significant differences in the level of inter-company wages due to the monopoly of individual producers. State regulation tools are not sufficiently accurate to affect this process;
- As a result of these or other reasons, negative results have been achieved in both directions of wages - both for material needs and for stimulating labor productivity. That wage could not play its role in a situation where labor wage increased the labor productivity;
- The mechanism of control over business income and wages is extremely weak;
- In the case where the quantitative role of remuneration of labor in the workforce is minimal (20-30%), in many enterprises and areas the allocation to the consumer fund was at 80-90%. This has dropped the accumulative fund, has hit the production fund seriously, thereby reducing the investment activity of the enterprise and the large fields;
- The situation in the wage sector is also exacerbated by the fact that in many enterprises, loans other than profits, some funds, and even funds of the development fund of the Fund have been transferred to the wage fund;
- In the wage sector, the situation was exacerbated by the negative formation of the price. This is only due to price, wage and family income, as well as to the fact that the price factor has consistently increased production costs as a kind of catalyst.
- Large differences between wage earnings on same issues and the amount of earnings on separate issues, depending on the forms of property, have resulted in excessive levels of wage differences.

According to Article 35 of the Constitution of the Republic of Azerbaijan, "Everyone has the right to work in a safe and healthy atmosphere without any discrimination and to get a minimum wage. According to Article 155 of the Labor Code Minimum wage is a social norm that defines the lowest level of monthly wage for labor and service in the economic and social situations. The minimum wage of Republic of Azerbaijan is 105 manat in January 1, 2017, while, in April 1991, this figure was 13 manat and gradually have increased from that period to the indicated level. During the last ten years, the minimum wage has increased 2.9 times in our republic. The periodic increase of minimum wage is ensured and as a next step, the minimum wage has been increased by 10.5% to 116 manat by the relevant Order of the Head of State ".

**Defined minimum wages and wages in Azerbaijan  
Republic from 1991 to 2017**

	<b>manat*</b>
from the 1st April 1991	13.0
from the 1st January 1992	32.0
from the 1st July 1992	70.0
from the 1st December 1992	250.0
from the 1st January 1993	300.0
from the 1st July 1993	500.0
from the 15th November 1993	900.0
from the 1st June 1994	2000.0
from the 15th October 1994	4000.0
from the 1st February 1995	1.1
from the 1st January 2001	5.5
from the 1st September 2003	9.0
from the 1st January 2004	12.0

from the 1st July 2004	20.0
from the 1st January 2005	25.0
from the 1st October 2005	30.0
from the 1st January 2007	40.0
from the 1st February 2007	50.0
from the 1st January 2008	60.0
from the 1st September 2008	75.0
from the 1st September 2010	85.0
from the 1st December 2011	93.5
from the 1st September 2013	105.0
from the 1st January 2017	116.0

\* Since 1995 the denomination was taken into account (1AZN = 5000 AZM).

Now in Azerbaijan (2016) minimum monthly wage is 77.2% subsistence level. For a comparative analysis it should be noted that in the European Union in 2015 the minimum wage was much higher than in our country. The average wage in the country in 2015 amounted to 467 manats or 297 US dollars.

**The level of the minimum wage in the Republic of Azerbaijan and some countries Europe and the CIS in 2015, in US dollars.**

	<b>The minimum wage</b>
<b>Belgium</b>	<b>1667</b>
<b>Germany</b>	<b>1635</b>
<b>France</b>	<b>1658</b>
<b>United Kingdom</b>	<b>1530</b>
<b>Greece</b>	<b>759</b>
<b>Estonia</b>	<b>432</b>
<b>Turkmenistan</b>	<b>168</b>

<b>Russia</b>	<b>85</b>
<b>Azerbaijan</b>	<b>67</b>

Wages refers to gross remuneration (i.e., before the deduction of taxes and other withholdings in accordance with the legislation) accrued in cash or payable in kind (goods and services) to hired workers at their place of employment in accordance with labour contract, as a rule regularly for time worked (or work performed), and also for time not worked (annual leave, other paid leave, holidays, etc.), incentive payments and bonuses, and compensation payments related to the work schedule and working conditions.

According to the State Statistical Committee, the average monthly wage of 2005 hired workers amounted to 123.6 manat. According to the results of 5 years in 2010 average monthly wage of hired workers was 331.5 manat. In 2013, the average monthly wage was 425.1 manat. This figure have been 444.5 manat in 2014, 466.9 manat in 2015, 499.8 manat in 2016, in other words average monthly nominal wages of workers increased 4 times to 499.8 manat in 2005-2016 and 618.1 manat in 2017.

<b>Average monthly nominal wages by of statistical Classification of Economic Activities</b>												
<b>Indicator manat</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>On economy , total</b>	123.6	149	215.8	274.4	298	331.5	364.2	398.4	425.1	444.5	466.9	499.8
<b>Agriculture, forestry and</b>	41.6	52.5	86.7	114.5	134.3	160.3	196.4	201.1	217.9	241.3	245.8	253.8

<b>fishing</b>												
<b>Mining</b>	507.3	636.8	851.2	1008.	992.8	1004.	1180.	1402	1516.	1753.	2171.	2807.
<b>Manufac turing</b>	115.9	141	190.4	251.7	267.5	320.5	354.5	398.8	439.3	495.4	527.9	542.9
<b>Producti on, share and supply of electricit y, gas and steam</b>	134.6	164.1	226.6	314.9	322.7	349.4	413.4	443.7	467.2	489.3	513.2	504.7
<b>Water supply, cleaning and processin g of wastes</b>	64.4	80.8	135.6	182.6	189.9	197.7	231.9	274.8	324.9	331.8	333.3	321.4
<b>Construc tion</b>	233.3	293.2	372.3	398.4	440.6	505.8	519.4	587.5	625.5	626.9	677.7	812.9
<b>Trade: repair of transpor t means</b>	120	129.1	173.5	211.5	215.2	282.8	335.2	343.7	363.8	374	378.1	382.3
<b>Transpo rtation and storage</b>	124.6	157.2	226.6	300	349.2	395.1	446.8	511.5	536.3	530.3	575.8	649.3
<b>Accomm odation of tourists</b>	157.9	164.6	212.3	265.4	297.9	333.7	385	404.6	444.6	463.9	464.6	476.1



<b>and public catering</b>												
<b>Informat ion and communi cation</b>	204.8	223	364.2	465.6	496.7	531.3	576.6	621.9	675.4	735	747.2	782
<b>Financial and insuranc e activities</b>	311.7	535.5	707.8	785.4	812.8	990.2	1004. 5	1055. 5	1126. 4	1198. 8	1210. 9	1229. 2
<b>Real estate activities</b>	56.3	77.7	104.9	147.2	175.8	168.1	228.3	255.6	293.9	308.2	308.2	337
<b>Professio nal, scientific and technical activities</b>	324.4	410.5	556.2	596.1	585.3	592.2	600	620.7	667.1	669.7	752.4	886.5
<b>Administ rative and support service activities</b>	448.5	489.8	534.2	477.9	456.9	526.7	535.1	563.2	583.9	566.6	542.6	543.6
<b>State manage ment and defence, social</b>	133.9	157.8	209.1	287	350.1	376.5	402.7	452.6	455	479.6	494.7	510.6

<b>security</b>												
<b>Educatio n</b>	66	79.6	145.4	214.4	260	271.8	283.4	287.3	293.6	298	301.1	307
<b>Human health and social work activities</b>	45.2	69.6	94.2	130.1	154.1	155.2	164	175.1	181.6	197.8	204.2	214.8
<b>Art, entertain ment and recreatio n</b>	51.4	63.2	103.8	143.5	204.2	208.4	211	211.3	220.6	250.1	252.7	258.9
<b>Other service activities</b>	75.8	96	155.3	227.8	250.5	280.3	331.8	367.6	377.6	400.2	441.9	473.4

Although these indicators are high in comparison with the countries of the Commonwealth of Independent States (lower than in Russia and Kazakhstan), but they are much lower than the European indicators. Therefore, all indicators influence economy of Azerbaijan Republic.

### **BP Company wage formation**

By 2018, there was a system called CMAS called bp. CMAS Launch Competency Management Assurance System. This is a system that helps to overpower the labor of a worker and his vizier. How it works, I'll tell her. In general, all workers are rated. Ranking happens with herfes. The most extreme degree belongs to the technical team and is K1. A technician at K1 will have a K2 grade after being tested on a wire and an automatic maashi. The second degree of K2 is the second méretle wire, with its semi-practical half-seal. Earlier each year, all employees of

the company come to the My Plan plan annual plan. This is a way to get to know what will happen to the worker, what will be his training, and where to go. At the beginning of the year, each cut sets this plan and directs it to the head. These processes are based on automated systems that are not created, and are not driven by cigar-hooks. After the plan is published, the guides capture the writer's work and examine the plan in which he / she writes separately with each worker. The plan is examined again at the end of the 6th month, as it is closely related to the plan and it is only a matter of six months since the distance is far away and what is missing. Finally, the plan is discussed at the beginning of the year and a specific coefficient is given by the coincidence of the year before the plan of the year is over, and this cofferant is influenced by the 13th maasha of the worker in the province and a certain amount of shadow maacha each month.

How much is that plan to be fulfilled?

After being a technician for a technician in K2, he or she will be able to use the device and systems used therein on his user base. This base is CMAS system as I said earlier. The technician examines a little instructor in the separate separation of how each device and system works, how to iron, and how to diagnose. The examinations will be both regular and practical. Shortly after the exam, the instructor reports to the CMASA and the percentage of workers' wages increases. It is possible to get the J1 degree of the newcomer, who collects 25 percent. The wage of the employee who receives this degree also has a significant disadvantage with the previous wage. When the percentage is 65, J2 is 85, and J3 is 100% le j4 after all online trainings and practical exams are over. With the early grades, the K1-based technique is 900, while the J4 is longer than 2400U. It was a shame to get out of this new mausoleum. The Maash base is the only one with fewer contacts. It can then rise to a degree that the last stop of the technical team is J5. However, if it is upgraded, the J5, J4, and J3, according to the company's internal regulations, will also be awarded I grade in accordance with the grading system of

the engineer, if they have a high degree of skill. The I degree has a high profile as well. There are no degrees after that. After the new I - H, G, F, and A. And the shexs of these degrees can be, in fact, the high-ranking delegates, and they have their own peculiarities. The person who is at the G-level of the issue is the same as the company's taxpayer, or when crediting with a loan, such as the payment of a portion of the company's goodwill. And so on. I do not write too much. But there are many opportunities to enthusiastically have the most extreme degree of grasp, not just counting.

### **Tax system affect wage formation**

Social potential of the tax system in the Republic of Azerbaijan, its ability to redistribute income from high net to medium- and low-income segments of the population practically little used.

The current tax system does not take into account the situation in the Azerbaijani economy and the associated sharp property stratification, a strong degree of income inequality. Therefore, the severity of the tax must be transferred from the poorer population better off using a progressive scale of taxation income taxes. However, it is important to comply with a measure of this: as international experience shows, if 40-45% of the income withdrawn, the owner loses interest in his case. Lowering taxing payroll and shifting of the recipients of income tax, you can provide additional revenues to the budget due to the fact that employers would stop issuing their employees much greater wages than specified in the payment documents submitted to the tax authorities, as well as crediting it to deposits, insurance funds and the like. Used in Azerbaijan fiscal policy stimulates and strengthens these structures of employment and remuneration, under which non-prestigious and low-paid labor appears in the sectors of the economy, defining the prospects of its development - in industry, science and culture. Tax payroll and social security, that is, payments to the state social fund amount to  $AR -22\% + 3\% = 25\%$  (3% -pay workers themselves) and 14 per cent income tax, 14% tax on the value-added tax.

In a market economy, government regulation of income, including through the tax system, must be seen as a necessary condition for ending the recession and move towards growth. This is due to the following factors:

- high-population group AR are not inclined to save and invest in the domestic economy, and are guided by the export of capital and consumption of imported goods;
- while reducing production and reducing the income of the majority of the population to the physiological minimum, a sharp deterioration in the quality of labor resources, at the same time as reducing the consumption of services such as education, health care, directly affecting the reproduction of the labor force;
- raising the level of income of low-wage (low-income) groups focused on domestic consumption of goods and services, contributes to the development of domestic production, investment activity and employment growth. If the policy of the state will boost demand for domestic products, it will also create the preconditions for economic growth;
- a more balanced approach to the allocation of income - the psychologically important positive factor. If income inequality and differentiation in the income levels of different groups of the population will increase, increasing resistance to reform on the part of quite highly, but the low-income group of population.

Therefore, government regulation of income should be directed first of all to overcome their excessive differentiation through progressive taxation

### **Team-contractual regulation of wages**

Collectively-contractual regulation of wages should ensure and develop social partnership, to increase the guarantee to pay for each employee labor, depending on the level of their qualifications and work performed, and the productivity of work. In addition, the task of collectively-contractual regulation is the regulation of relations in the wage levels between sectors, regions and certain categories of workers.

The subjects of the negotiations in accordance with the Labor Code of the Azerbaijan Republic dated 01.02.1999, the project from representatives of employers, employees and the relevant executive authorities. Article 21 of the Act provides that the content of the agreement by the parties, they conclude. At the same time, the law does not specify what conditions and principles of remuneration should be contained in the agreements, and does not provide the link between certain types of collective agreements (general, sectoral, regional, professional) and the collective agreement concluded by the company (the organization) .

Therefore, one of the most important aspects of the negotiation processes at different levels of social partnership is the definition of meaningful negotiations, the parties providing the optimum combination of interests of the state, employers and employees. The severity of the problems regulation of wages in the current practice is exacerbated by the fact that the industry and the professional tariff agreements often represent institutional interests and the interests of entrepreneurs. As a result, unreasonably enhanced intersectoral and interprofessional differentiation of wages and family incomes of employees.

Many agreements and collective agreements do not contain terms of payment, the size of tariff rates and wages, as well as the requirements of the labor norms, although it is stipulated by the law "On Trade Unions, their Rights and Guarantees". In this regard, for each level (or mind) agreements must be secured by law (at least in the case of recommendation) order rules and regulations on wage regulation.

The General Agreement concluded between the Trade Union Confederation of workers' representatives, representatives of the Confederation of Employers and representatives of the State (Government of Azerbaijan), should include measures aimed at increasing wages and the strengthening of its catalytic role. It is expedient to provide for:

- the amount of the minimum wage as a percentage of the value of the minimum consumer basket the lone employee working age with a quarterly breakdown for

the period of the agreement, the agreed decision on terms of gradual convergence of these key indicators in the whole of Azerbaijan and its regions, measures to increase the average monthly wage of workers in the whole economy of Azerbaijan, taking into account the minimum subsistence level of the working population;

- recommended payment differentiating factors of labor complexity (qualifications) of the main groups of workers (skilled workers, managers, technical performers) for all sectors of the economy, including the business sector. If the actual existing relations provided for in the existing sectoral agreements and collective agreements of enterprises (organizations), differ substantially from those recommended and their use will lead to a drastic reduction or unjustified increase in wages in individual industries or organizations, the order can be set in which the first apply the interim ratios relations so as to gradually over a number of years to achieve the recommended ratio of the wage;

- measures to improve the payment of the tariff, charging and regulation of labor workers. These measures include:

Development of regulatory and legal documents on pricing and standardization of work, continuous improvement mezhotrasle-voy regulatory framework for the labor norms;

the procedure for applying for jobs and occupations of working single tariff-qualification reference (ETCS), Qualification schedule of employees for charging works and works-nicks;

lists of cross-sectoral normative materials recommended for the valuation of labor, labor issues ETCS for charging (the lists can be applied to the General Agreement);

limiting the ratio between minimum and maximum wages in the enterprise, organization (obviously not exceeding 12-15 times);

establishing a lower boundary of the share of the tariff wages (tariff rates and wages payment) in the wage structure of employees;

improvement of the Unified Tariff Scale (ETC) for the wages of public sector employees (proposals to increase the tariff rate of class I to the subsistence level, for improving other parameters ETC);

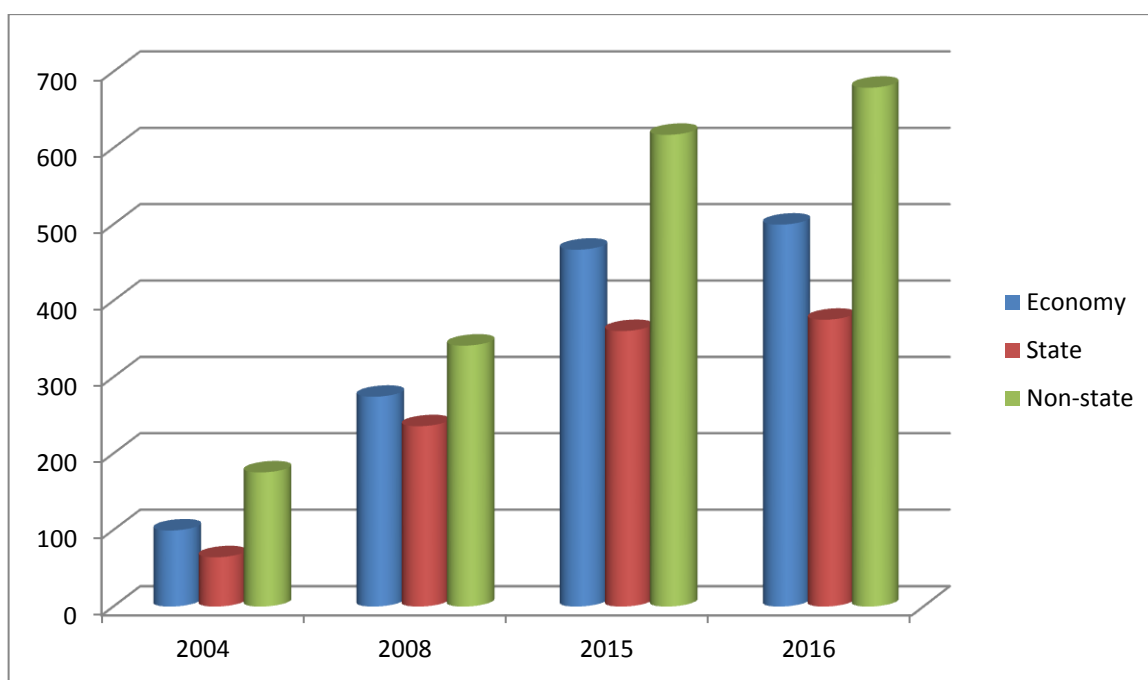
- cross-sectoral differences in wages in the form of ratios or levels of tariff rates (wages) by occupation - Representatives (profiling professions);
- measures to protect wages from inflation and measures of responsibility for late payments of wages.

Territorial (regional) agreement between the trade union bodies, employer associations and executive bodies should include all remuneration norms according to which the territorial agreement provides higher quantitative indicators in comparison with the General Agreement (the minimum wage, wage differentiation factor of complexity and conditions the labor, the main activities and groups of workers, for the protection of wages from inflation, as well as the responsibility for late payment of wages). In addition, regional agreements are regulated by:

- Charging procedure works on the complexity of their implementation, working conditions and the intensity of the circle of professions, activities and positions not included in the General Agreement;
- the lower limit of the proportion of the Tariff payment, ie, Payment for the implementation of labor standards (job duties), wage structure in organizations located on the territory;
- the size of the payment of workers through trades (positions), best suited to the interests of workers and employers;
- limits the differentiation of the average wage in enterprises, organizations with a view to ensuring maximum efficiency of the region's economy;
- list of the enterprises (organizations), which is recommended in the interest of balanced development of the territory of slow (or accelerate) the rate of growth of wages until the establishment of regulated rates or growth retardation;
- the allowances to wages and payment conditions stimulating inflow of labor in a given territory and the long term (length) of the work on it.



Particular attention should be given to the types and sizes of compensatory allowances and additional payments (for work experience in the region), reflecting the actual cost structure of the reproduction of the labor force and providing an enabling and regulatory role of wages. The tariff part of the wage, taking into account allowances and bonuses should not be below the subsistence level of the working population, calculated in relation to the conditions of the region.



As can be seen from Figure 1, annual growth of the average monthly wage of those engaged in the economy of Azerbaijan is enshrined. In 2004-2008, this growth was 2.8 times the overall economy. Analysis of the dynamics of wages in the sectors of the economy has led to some differences. In the non-state sector, average monthly wage increased by 1.9 times in 2004-2008.

## **2.2 The ways of improvement of wage formation in Azerbaijan**

According to our research, there are some solution ways of wage formation problem. So that according to the law of demand, if the supply of labor resources decreases or the demand for labor increases, wages will increase as well as at any price. The demand for the production factor reflects the final productivity of this factor and is defined as additional revenue from the use of the additional unit of this factor. According to the declining coefficient law, each additional unit of labor increases the product at least.

In other words, there are two main ways to increase productivity and wages. First, if the employees are provided with good quality and quantitative welfare, then the last product will increase. Secondly, if the workers are more educated or experienced, their last product will be increased.

In modern competition conditions, there are some differences in wage because of it is possible to reflect education differences or to reward unique talent. Although there are still some inequalities. The main reason for these inequalities is that labor markets are divided into groups which do not compete. For instance, doctors and mathematicians are not competing with each other, because it is difficult and expensive to change to from one profession to other professions. The main reason for this is the amount of time and money.

So that some differences in wage depend on unequal quality of workplace. Different duty differ from each other, so wages can be increased so that the employee can be attracted to the less attractive area (for example, the garbage collector's job is more than the office clerk's work).

## **Conclusion**

The main objective of this study was to evaluate the benefits of Azerbaijan labor market. The first two sections reviewed about wage and their factors, functions, formation of a mechanism for market regulation of wages, the principles of wages, wage schemes and systems and the role of development in foreign countries, in other words, world experience of wage formation. Today, differences between countries are high in paying wages. For example, wages in Mexico, India and other developing countries such as the developed USA, Japan and England are significantly higher than in other countries. Unlike this difference, it comes from demand and supply and depends on the fields of economy. For example, wages in agriculture and trade are very low compared to the processing industry and communications industry. An experienced worker-woman can get lower wages than a unexperienced worker-man.

- 1) The increase in wages is largely behind the rise in consumer prices;
- 2) The actual increase in wages has weak relationships with labor activity and labor outcomes;
- 3) There are significant differences in the level of inter-company wages due to the monopoly of individual producers. State regulation tools are not sufficiently accurate to affect this process;
- 4) As a result of these or other reasons, negative results have been achieved in both directions of wages - both for material needs and for stimulating labor productivity. That wage could not play its role in a situation where labor wage increased the labor productivity;

The descriptive overview showed that the minimum wage of Republic of Azerbaijan is 105 manat in January 1, 2017, while, in April 1991, it is 13 manat and gradually have increased from that period to the indicated level. During the last ten years, the minimum wage, in our republic, has increased 2.9 times.

The theory of non-competitive groups helps to understand the causes of discrimination in the labor market. Discrimination occurs as a result of traditions, laws, wrong ideas and, at the same time, shows that workers are divided into non-competitive groups for sex, race or ethnicity.

The paper ends with a situation wage formation in Azerbaijan, minimum wage, average wage and effects of a permanent increase in Azerbaijan economy.

Wage formation problem are as follows:

- If the supply of labor resources increases or the demand for labor decreases, wages will decline as well as any price.
- The increase or decrease in wages depends on the demand and supply of labor and depends on the fields of economy.
- Differences in labor often depend on the unequal quality of the workplace.
- Labor markets are divided into groups that do not compete
- There are the discrimination in the labor market and the difference in income of men and women.

The final section addressed connections of improvement of wage formation in Azerbaijan. The above, therefore, has attempted a detailed overview of the nature of the wage formation and determination in the Azerbaijan labor market. It is clear that, while the role of trade unions is evident and is made plain so the often under-appreciated significance of bargaining councils in this arena has been analysed in detail.

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