

ILO Technical Seminar - Strengthening LMI in Africa

Minimum Wages and
Decent Work Agenda

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Wages and decent work- Introduction

- Importance of wages to Decent Work agenda
 - Bad jobs pay poverty wages; they are insecure
 - Bad jobs turn out low output; bad industries; bad economies
- Multiple determinants/dimensions of decent work:
 - Measured wages; micro & macroecon job security
 - Work, environmental conditions
 - Skills and training
 - Social equity, community dividends
- Need to develop comprehensive framework incorporating real sector, HRD, and decent work, for MW determination

The general purpose of minimum wages

- To break vicious circle of working poverty
- To eliminate “sweated labour”
- To protect real incomes
- To encourage firms to seek other ways of cutting costs
- To ensure equal wages for vulnerable groups
- To prevent industrial conflicts
- To minimise incidence of cost-inflation and ensure macro-stability

Minimum Wage: relevance to poverty reduction

- About 48-55% of workers in Africa earn less than \$1.25/day
 - What would setting min wage above \$1.25/day mean to working poor?
 - In formal sector
 - In informal sector
- Low productivity as cause of poverty
 - Do low wages mean low value of output generated?
 - How about market structures (goods, labour, financial, etc)?

Minimum wage concepts

- Statutory minimum wage (smw)
- Daily minimum wage (effective rate)-
 - Usually above smw
 - Wide variation among enterprises due to differences in collective bargaining strengths
- Living wage
 - Historical basis for minimum wages
 - Issues in computation -concept of min(nutritive needs, basic needs, basic needs plus, etc.)

Approaches to minimum wage determination

- Macroeconomic approaches
 - Take into a/c growth, inflation, etc.
 - Small, homogenous economies
 - Action lags high
- Sectoral and demographic approaches
 - Take into a/c specific conditions, e.g. youth
 - Large, heterogeneous economies
- Microeconomic approaches
 - Take into a/c enterprise level factors
 - High transaction cost
- Tripartite involvement likely to decline with level

Human capital approach

- Identify key productive factors households/individuals bring to their work (as influenced by technology, producers' profit motivations, HK base, etc.)
- Evaluate returns to key factors
- Determine minimum set of HK factors required to be in any occupation/sector
- Determine min wage based on min set of factors and average returns
- Approach helps to:
 - integrate HRD with labour market and real sector
 - Incorporate various aspects of job improvement- standards, job ladders, training, etc. in HRD

Accounting for vulnerability

- Vulnerability: the likelihood of dropping into poverty, unemployment
 - What are the determinants/dimensions of vulnerability
- Social aversion for poverty, vulnerability, inequality, factored into HK model

Expanding coverage of minimum wages (mw)

- Empirical observations
 - Bad jobs drive away good
 - Lack of standards worsens overall job security (see, e.g. Bernhardt et al., ILR, vol. 147 2008)
- Labour force covered by MW low
 - 5%-20% of formal sector LF in African countries
- Potential for MW to be extended to urban informal sector, rural agric. (cash crops)?
 - Application of principles (universality)
 - Application of regulation (new urban economy- horticulture, hospitality industry, domestic help, etc.)

LMI Issues (1)-Database

- Empirical determinants of minimum wages in Africa?
 - Per capita GDP growth, public revenue, inflation, political economy factors (union objectives, union strength, govt-union relations)
- Developing database on key indicators: daily minimum wages at enterprise level; productivity; quality of inputs; market structures, job contracts, off-the-clock work; health and safety
- Not enough to focus on wages

LMI Issues (2)-Social welfare considerations

- Distributional implications of minimum wages
 - Household transfers- larger households more likely to be at min wage jobs; household-level donors more likely to be at min wage jobs
- Do minimum wages reduce profit levels?
 - Theoretically and empirically no firm conclusion
- Strengthening LMInsts., research, and policy networks necessary

Thank you

