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Minimum wages in developing countries: myth and reality

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Minimum wage legislation is often held to be a cause of unemployment in labour surplus developing countries owing to its supposed effect of forcing up wage levels. Findings of negative, often near-unity, elasticities of demand for labour (i.e. the tendency for a wage increase of a given percentage to be associated with a fall in employment of more or less the same percentage) in different parts of the world [2] seem to provide support for this argument. Its proponents have been greatly influenced by the studies of Professors Reynolds and Gregory in Puerto Rico and Professors Harris and Todaro in Kenya.

In spite of various technical limitations inherent in the existing studies [3], it seems undeniable that rapid wage increases will have negative employment effects in labour surplus developing economies where the shortage of complementary inputs (e.g. entrepreneurship, capital, skills and infrastructure) is a

[1] International Labour Office.

[2] Among the most frequently cited studies are Lloyd G. Reynolds: " Wages and employment in a labor-surplus economy ", in *American Economic Review* (Menasha (Wisconsin)), Mar. 1965, pp. 19-39; idem and Peter Gregory: *Wages, productivity, and industrialization in Puerto Rico* (Homewood (Illinois), Richard D. Irwin, 1965); C. R. Frank, Jr.: " Urban unemployment and economic growth in Africa ", in *Oxford Economic Papers*, July 1968, pp. 250-274; John R. Harris and Michael P. Todaro: " Wages, industrial employment and labour productivity: the Kenyan experience ", in *Eastern Africa Economic Review* (Nairobi), June 1969, pp. 29-46; John R. Ericksson: *Wage change and employment growth in Latin American industry*, Research memorandum No. 36, Center for Development Economics, Williams College (Williamstown (Massachusetts), 1970). See also ILO: *Minimum wage fixing and economic development*, Studies and reports, New series, No. 72 (Geneva, 1968), Ch. 2; and N. N. Franklin: " Minimum wage fixing and economic development ", in Anthony D. Smith (ed.): *Wage policy issues in economic development* (London, Melbourne and Toronto, Macmillan; New York, St. Martin's Press, 1969), pp. 338-353.

[3] See C. St. J. O'Herlihy: " Capital/labour substitution and the developing countries: a problem of measurement ", in *Bulletin of the Oxford University Institute of Economics and Statistics*, Aug. 1972, pp. 269-280; J. R. King: " Wages, employment and productivity in Kenya: a comment ", in *Eastern Africa Economic Review*, June 1972, pp. 71-74; W. M. Senga: " Wages, market imperfections and labour absorption in Kenya manufacturing industries ", ibid., June 1973, pp. 55-72; and William J. House: " Wages employment and productivity in Kenya: some further evidence ", ibid., pp. 73-77.

greater deterrent of economic growth and employment creation than the lack of purchasing power. But this is to beg the question whether the enforcement of minimum wage legislation has really been as effective in such developing countries as its critics imply. Puerto Rico's close association with the United States makes it very untypical of the developing countries: its administrative machinery must be incomparably superior to that of most others.[1] Nor does it appear reasonable to apply to the present situation a view formed in reference to Kenya's experience immediately before and after its independence.

The present author's doubts on this score grew rapidly during a recent visit to Africa. Like the ILO Comprehensive Employment Mission to the Philippines [2], I found almost everywhere a consensus among government, union and business officials that the impact of increases in the minimum wage is limited because of ineffective enforcement. " Most of the employers who can afford to pay new minimum rates were paying them already, and those who cannot will not pay them anyway ", as they put it. With a number of exceptions, particularly in some of the larger Latin American countries, minimum wage rates underwent few changes between the early 1960s and 1973-74, when accelerating inflation compelled many governments to raise them considerably (table 1), and where adjustments were made they appear usually to have followed rather than prompted changes in average wages and earnings. Even where statutory minimum wages do appear to have set the pace it is necessary, in order to assess the real impact of the legislation, to examine in greater depth how these changes in average wages and earnings have come about.

In the rest of this article I will discuss these points in some detail, although inevitably rather impressionistically owing to the poor data base. My argument will be concerned mainly with the statutory general (as opposed to sectoral) minimum wages [3] which are applied to the private as well as the public sector in labour surplus economies, but not with the minimum payments guaranteed to government employees only, which are also often referred to as minimum wages.

Minimum wages and general wage levels

The primary objective of minimum wage legislation tends to be far more ambitious in developing than in developed countries. In the latter its purpose has always been to protect a marginal proportion of workers for whom " no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low ".[4] In the developing countries its

[1] This point was duly noted by Reynolds and Gregory, op. cit., p. 3.

[2] ILO: *Sharing in development : a programme of employment, equity and growth for the Philippines* (Geneva, 1974), p. 346.

[3] The minimum rates discussed in this article are those applicable to non-agricultural adult male workers in capital cities and other major towns. Lower rates often apply to female and young workers, workers in other areas and in agriculture.

[4] Article 1 of the ILO Minimum Wage Fixing Machinery Convention, 1928 (No. 26).

function is seen to be the provision of an " acceptable minimum standard of living " for all workers (and their families), the improvement of income distribution, etc.[1]

Accordingly, minimum wage rates in developed countries tend to be fixed at low levels compared with average wage rates. In the United States they have always stayed in the range between 40 and 54 per cent of average earnings in manufacturing.[2] The situation in Canada has been much the same. In Japan, where sectoral minimum wages were introduced in 1959—a year near the turning-point from a labour surplus to a full employment economy [3]—the average minimum rate has been linked with the average starting wage rate of 15-year-old junior high school leavers. These are the lowest-paid employees under the peculiarly Japanese *nenkô-joretsu* system (i.e. payment according to length of service in the enterprise), their average wage in 1972 being only 49 per cent of the average for all non-agricultural enterprises with five or more workers. During the period 1961-67 the minimum wages were fixed, on the average, at levels ranging from 80 to 85 per cent of these school leavers' starting wage rates, and at more or less 100 per cent in the subsequent years, reflecting the increasing tightness of labour supply.[4] In France and the Netherlands the minimum rates are set at about 75 to 80 per cent of average hourly earnings, but here too they have followed the over-all trends in wages and prices rather than giving a lead. Finally, in the socialist countries of Eastern Europe, preferential increases in statutory minimum wages had brought them up from about 25 to 30 per cent of average wages in 1956 to about 40 to 50 per cent in most countries by 1970.[5]

In contrast, the criterion of an " acceptable minimum standard of living " tends to result in minimum wages being set at relatively high levels in many developing countries where the current standard of living is extremely low.[6] The governments of such countries may not have enough time, information and expert knowledge to assess the economic implications of high and rapidly increasing minimum wage rates. Moreover, they need the support of organised urban workers, who were often in the vanguard of the independence struggle and continue to wield great political influence.

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[1] ILO: *Minimum wage fixing and economic development*, op. cit., pp. 7-9.

[2] John M. Peterson and Charles T. Stewart, Jr.: *Employment effects of minimum wage rates* (Washington, American Enterprise Institute for Public Policy Research, 1969), p. 19.

[3] Ryoshin Minami: *The turning point in economic development: Japan's experience* (Tokyo, Kinokuniya Bookstore Co. Ltd., 1973). See also Keichi Inoue: " From labour surplus to labour shortage economy: the case of Japan ", in *International Labour Review*, Mar.-Apr. 1976.

[4] Masakatsu Fujinawa: *Nihon no saitei chingin* [Minimum wages in Japan] (Tokyo, Nikkan Rôdô Tsûshin-sha, 1972), pp. 228, 244 and 387; and Manabu Mine: " Waga-kuni saitei chingin-sei no eikyô " [Effects of the minimum wage system in Japan], in *Rôdô Kyôkai Zasshi* [Monthly Journal of the Japan Institute of Labour] (Tokyo), Aug. 1973, pp. 14-15.

[5] ILO: *Some recent wage trends in Eastern European countries*, General conditions of work series, No. 26 (Geneva, 1973), p. 3.

[6] See idem: *Minimum wage fixing and economic development*, op. cit., pp. 60-65.

Table 1. Statutory general minimum wages (non-agricultural private sector) in capital cities of selected developing countries, 1963-74

Country	1963 [1]	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Africa												
Algeria (dinars/day)	1.32	.	1.36	.	.	.	.	.	.	1.73	.	2.08
Burundi (francs/day)	33	.	.	.	.	.	.	.	.	.	.	.
Cameroon (CFA/hour)	36	.	.	.	.	37	.	.	.	.	43	49
Central African Rep. (CFA/hour)	19	22.80	.	.	.	.	.	28.50	.	.	.	.
Chad (CFA/hour)	15	22	.	.	.	.	.	30	.	.	.	.
Congo (CFA/hour)	31.90	.	39.90	.	.	45.88	.	.	.	.	.	86.55
Dahomey (CFA/hour)	34	38.08	.	.	.	.	39.60	.	.	.	.	45
Gabon (CFA/hour)	33	.	40	.	42	.	48	.	55	.	.	.
Ghana (pesewas/day)	65	.	.	.	70	75	.	.	.	.	.	.
Guinea (CFA/day)	36	.	.	.	.	40.30	.	.	.	.	.	.
Ivory Coast (CFA/day)	42.40	.	.	.	.	46.64	.	58.30	.	.	73	92
Kenya (shillings/month)	115	.	.	175	.	.	.	.	.	.	225	240
Liberia (cents/hour)	15	.	.	.	.	.	.	.	.	.	.	.
Libyan Arab Rep. (dinars/day)	–	–	0.50	.	.	.	1	.	.	1.35	.	1.78
Madagascar (CFA/hour)	29	.	.	.	.	.	.	.	.	34	.	.
Mali (CFA/hour)	32	.	.	.	.	.	.	.	.	.	.	.
Mauritania (CFA/hour)	35.20	.	.	.	.	.	41.30	.	.	44.60	.	.
Morocco (dirhams/day)	0.85	.	.	.	.	.	.	.	.	0.96	1.15	2.21
Niger (CFA/hour)	27	.	.	.	.	.	30	.	.	.	.	.

Rwanda (francs/day)	9	.	.	12	.	.	.	.	.	.	.	28.50
Senegal (CFA/hour)	44	.	.	.	.	50.60	.	.	.	.	58.19	107.05
Tanzania (shillings/month)	150	.	.	.	.	.	170	.	.	240	.	340
Togo (CFA/hour)	29.70	.	.	.	.	.	.	35.64	39.20	.	.	.
Tunisia (dinars/hour)	0.076	.	.	0.084	.	.	.	.	0.104	.	.	0.130
Upper Volta (CFA/hour)	29	.	.	.	.	.	31	.	.	.	.	.
Zaire (zaires/day)	0.133	.	.	.	0.173	0.248	0.273	0.328	0.394	0.433	.	.
Zambia (ngwee/hour)	10	.	.	.	.	13	.	.	.	16	.	.
Asia												
Pakistan [2] (rupees/month)	—	—	—	—	—	—	140	.	.	.	.	.
Philippines (pesos/day)	4	.	6	.	.	.	.	8	.	.	.	.
Thailand (bahts/day)	—	—	—	—	—	—	—	—	—	12	16	20
Turkey [3] (lira/day)	—	—	—	—	—	—	—	—	—	—	—	40
Latin America												
Argentina (pesos/month)	—	98	115.50	157.50	.	.	200	220	300	450	1 000	1 300
Brazil (cruzeiros/month)	21.20	42	66	84	105	129.60	156	187.20	225.60	268.80	312	376.80
Colombia (pesos/day)	11.20	.	.	.	.	.	14.50	.	.	19	.	27
Mexico (pesos/day)	17.50	21.50	.	25	.	28.25	.	32	.	38	.	52
Peru (soles/day)	25	.	40	.	.	.	.	66	.	80	.	100

[1] Existing rates. [2] Undertakings employing 50 or more workers only. [3] A nation-wide minimum wage rate replaced a number of regional rates in June 1974.

Sources: Various internal sources of the ILO; International Monetary Fund: *Surveys of African economies*, Five volumes (Washington, 1968-73); Confédération internationale des syndicats libres: *Les systèmes de fixation des salaires minima* (Brussels, 1973), p. 34; and " Le SMIG en Afrique et à Madagascar ", in *Travail et professions d'outre-mer* (Paris), 16 Feb. 1970, p. 6069.

This seems to have been particularly true in East African countries just before and after their independence, i.e. in the early 1960s.[1] It was believed that minimum wages should be fixed at a level substantially higher than the then prevailing level of wages [2], and that, although high minimum wages might lead to redundancy, they would make it possible for workers to live with their families (thus reducing labour turnover) and would enhance their productivity.[3] Thus in 1963 the general minimum wage rate for unskilled urban workers in Tanganyika was slightly over 75 per cent of the average earnings of non-agricultural adult male workers, and over 90 per cent of the average for all adult male workers. In Kenya, also in 1963, the minimum wage of adult male workers in Nairobi and Mombasa was fixed at 76 per cent of the median income of African workers in private industry and commerce.[4]

The growing power of the trade unions and frequent work stoppages [5] compelled employers to grant large wage increases. In Tanganyika, where minimum monthly rates were introduced in January 1963, the number of adult males earning less than 80 shillings a month decreased from over 25 per cent of all adult male workers in 1962 to about 8 per cent in 1963, and the proportion of workers earning less than 100 shillings a month fell from 51 per cent to 19 per cent.[6] Similarly, the introduction of relatively high minimum wages led to rapid increases in general wage levels in other East African countries, Ghana and the British territories in central Africa in the early 1960s.[7] This gave rise to a suspicion that the observed slow or even negative growth in recorded wage employment might be a consequence of such wage increases.[8]

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[1] Cf. R. D. Scott: " The determination of statutory minimum wages in East Africa: a case study in the politics of resource allocation ", in *Canadian Journal of African Studies* (Montreal), Nov. 1967, pp. 143-154, particularly pp. 150-152.

[2] D. Chesworth: " Statutory minimum wage fixing in Tanganyika ", in *International Labour Review*, July 1967, p. 43, quoting the *Report of the Territorial Minimum Wages Board* (Dar es Salaam, Government Printer, 1962).

[3] See ibid.; Scott, op. cit.; and Elliot J. Berg: " Major issues of wage policy in Africa ", in Arthur M. Ross (ed.): *Industrial relations and economic development* (London, Macmillan, 1966), p. 187.

[4] Such small differences between minimum wages and average or median earnings are partly due to the fact that many of the better-paid jobs were then held by non-Africans.

[5] In Tanganyika the number of days lost because of labour disputes rose from only 60,000 in 1956 to 0.5 million in 1959 and 1.5 million in 1960. In Kenya it rose from fewer than 30,000 before 1957 to over 0.7 million in 1960 and 1962. This rapid increase in the incidence of strikes was to be observed in most of the African countries around the date of their independence, i.e. in the early 1960s (cf. ILO: *Year book of labour statistics* (Geneva), various issues).

[6] United Republic of Tanzania: *Statistical abstract, 1965* (Dar es Salaam).

[7] Frank, op. cit., pp. 263-264.

[8] Increases in unemployment during this period cannot of course be attributed to rising wage levels only. Chesworth points to the influence of other changes in industrial practice introduced in Tanganyika simultaneously, i.e. the abolition of the traditional *kipande* or African labour " ticket contract " and the introduction of a severance allowance system (op. cit., pp. 56-57). During my recent visit some of the Kenyan government officials and industrialists I interviewed also mentioned the loss of expatriate managerial skills resulting from Africanisation.

However, from around 1965 until 1973-74, when the pace of inflation accelerated sharply, the rate of increase in minimum wages slowed down considerably even in these countries (table 1). When a new minimum wage was set at 170 shillings a month in Tanzania in 1969, for example, it was equivalent to only 54 per cent of the average earnings of male workers. This tendency largely reflected the increasing concern about unemployment problems, and also, to some extent, the growing trend towards Africanisation.[1] In West Africa the pattern since independence, mainly in the early 1960s, has been " one of governments restraining changes in money wages "[2], probably owing to the widespread belief in the backward-bending supply curve of labour in this part of the world.[3]

An important exception to the general trend in Africa is the Libyan Arab Republic, where minimum wage rates have been rising rapidly and are enforced fairly effectively as far as Libyan nationals are concerned. The huge revenues from oil, the ideological convictions of the Government and the small size of the domestic labour force seem to be the major contributing factors. However, the enforcement of minimum wage and other labour legislation seems to be much less effective in the case of migrant workers from neighbouring countries, who now account for about 20 per cent of the total labour force and a much higher proportion of unskilled labour.[4]

In Latin America the larger countries have national or regional minimum wages of general application, while other countries, e.g. those in Central America, have industrial or sectoral ones. In the former group of countries the relative levels of minimum wages have generally been lower than in the East African countries but have been adjusted more regularly and frequently. In Brazil, where the minimum wage legislation used to play an important role, the need to fight inflation induced the Government to let the relative level of minimum wages fall from 54.1 per cent of the average earnings of all manufacturing workers (including salaried employees) in 1966 to 40.9 per cent in 1971. Even in Argentina, where an urban minimum wage was first introduced at a

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[1] Because, as Africans took over better-paid posts from non-Africans, their average earnings increased. I am indebted to Dharam P. Ghai for having drawn my attention to this point.

[2] Douglas Rimmer: *Wage politics in West Africa*, Occasional paper No. 12, Faculty of Commerce and Social Science, University of Birmingham (1970; mimeographed), p. 50. See also ILO: *Total involvement: a strategy for development in Liberia* (Geneva, 1972), pp. 30-31.

[3] Elliot Berg: " French West Africa ", in Walter Galenson (ed.): *Labor and economic development* (New York and London, John Wiley and Sons, 1959), p. 197; and Kodwo Ewusi: " The minimum wage issue reconsidered ", in *Ghana Social Science Journal* (Tema-Accra), Nov. 1971, pp. 82-83. The assumption underlying the backward-bending supply curve of labour is that workers set out to earn a definite sum and stop work as soon as they have reached their target. This theory has probably greater validity in Africa than in many other regions, because of the large numbers of migrant workers who leave their family behind and return home when they have earned enough money to support the whole family for some time.

[4] The facts and impressions reported in this paragraph are based on information obtained in the course of interviews at various ministries in February 1975.

level as high as 90.6 per cent of the basic contractual wage for industrial unskilled workers in 1964, it fell to 48.7 per cent of the latter by early 1973 in spite of frequent revisions—sometimes more than once a year. The case of Mexico is somewhat different and will be discussed later.

Minimum wages are least common in Asia, where most of the existing schemes are sectoral, playing minor roles except in Sri Lanka. This is probably due to the greater seriousness of population pressures and surplus labour. The best developed general scheme in the region is found in the Philippines. Here the rate fixed in 1964 and 1965 for non-agricultural unskilled workers was around 94 per cent of the average earnings of unskilled workers in Manila; it was readjusted in 1970 to 8 pesos a day, or 87 per cent of the average earnings of unskilled urban workers. In Pakistan urban minimum wages for unskilled industrial and commercial workers were fixed in 1969 at 140 rupees a month in Karachi and 125 rupees in other industrial areas. They were applicable only to establishments with 50 or more workers and equivalent to 90 per cent and 80 per cent respectively of average earnings in manufacturing in that year. In Thailand a general minimum wage of 12 bahts a day for non-agricultural unskilled workers was introduced in urban areas in 1972. Annual adjustments under the pressure of rapid inflation and political unrest more than doubled this rate to 25 bahts a day by January 1975. Lack of wage statistics precludes comparison with average wages.

Table 2 shows how minimum wage movements in different countries compared with trends in consumer prices and average non-agricultural wages or earnings. If, in spite of their limitations, we accept the available statistics, it appears that in 15 out of 29 countries the minimum wage in real terms declined by more than 10 per cent over the period shown in the table. In three other countries it rose by less than 10 per cent, which might be considered insignificant in view of the quality of the price statistics. In only 11 of these countries had the real minimum wage risen by more than 10 per cent, including three countries (Congo, Morocco and Tunisia) which would not have figured in this group but for their large increases in 1974.

Of the 11 countries for which average wage statistics are available, only Mexico recorded an increase in the minimum wage substantially faster than that in average wages. The two rates moved at more or less the same pace over the period in Algeria, Argentina, Peru and the Philippines. In the first and last of these countries, however, where only one or two adjustments were made, it is difficult to imagine that the minimum wage could have acted as pacemaker to the average wage. On the other hand, it is natural to suspect that it exercised a considerable effect on the general wage level in Mexico, Peru and (to a lesser extent) Argentina, where as a result of regular adjustments the minimum wage increased as fast as or faster than consumer prices and average wages. Although no comparison with the average wage is possible, there seems good reason to suppose that the situation has been similar in Gabon, the Ivory Coast and the Libyan Arab Republic, and—in the past few years—in Morocco and Thailand as well.

Table 2. Changes in consumer prices, average and minimum wages in selected developing countries, 1963-74

Country	General consumer prices	Average non-agricultural wages/ earnings	Nominal minimum wages	% change in real minimum wages	Col. 3/ col. 2 [1]
	1963=100				
	(1)	(2)	(3)	(4)	(5)
Africa					
Algeria	.	131.3 [2]	157.6	.	0.97 [2]
Burundi	157.8 [3]	.	100.0 [3]	−36.6	.
Cameroon	155.7 [4, 5]	.	132.4 [5]	−14.9 [5]	.
Central African Rep.	186.0 [6]	.	150.0	−19.4	.
Chad	182.0 [6]	.	200.0	9.9	.
Congo	154.6 [6]	.	271.3	75.5	.
Dahomey	.	.	132.4	.	.
Gabon	155.8 [4]	.	166.7	7.0	.
Ghana	281.5	190.4 [7]	115.4	−59.0	0.61 [7]
Guinea	.	.	111.9	.	.
Ivory Coast	172.0 [4]	.	217.0	26.2	.
Kenya	160.0 [4]	206.3 [7]	208.7	30.4	0.74 [7]
Liberia	178.7 [3]	.	100.0 [3]	−44.0 [3]	.
Libyan Arab Rep.	160.6 [3]	.	356.0 [3]	121.7 [3]	.
Madagascar	168.7 [4, 8]	.	117.2 [8]	−30.5 [8]	.
Mali	.	.	100.0	.	.
Mauritania	185.9 [6]	.	126.7	−31.8	.
Morocco	146.6	.	260.0	77.4	.
Niger	166.3 [4, 8]	.	111.1 [8]	−33.2 [8]	.
Rwanda	.	.	316.7	.	.
Senegal	144.1 [4, 9]	.	211.6 [9]	46.8 [9]	.
Tanzania	199.6	139.9 [10]	226.7	13.6	0.81 [10]
Togo	151.0	.	132.0	−12.6	.
Tunisia	150.8	.	171.1	13.4	.
Upper Volta	.	.	106.9	.	.
Zaire	699.7	.	325.6	−53.5	.
Zambia	193.8	316.2	160.0	−17.4	0.51
Asia					
Pakistan	191.8 [11]	.	100.0 [11]	−47.9 [11]	.
Philippines	280.3	194.8	200.0	−28.6	1.03
Thailand	137.7 [12]	.	166.7 [12]	21.0 [12]	.
Latin America					
Argentina	1 323.0 [8]	1 114.1 [13, 14]	1 326.5 [8]	0.3 [8]	0.92 [13]
Brazil	2 110.5	483.7 [14, 15]	1 777.4	−15.8	0.66 [15]
Colombia	374.1	318.7 [14, 16]	241.1	−35.6	0.53 [16]
Mexico	211.3	248.0 [14, 17]	297.1	40.6	1.20 [17]
Peru	302.2	408.0 [18]	400.0	32.4	0.98

[1] Calculated using the nominal minimum wage rates in force at the beginning and end of the period covered by the data in column 2. [2] 1968-73. [3] 1965=100. [4] Price index is applicable to Africans or lower income groups only. [5] 1968=100. [6] Price index is applicable to Europeans or higher income groups only. [7] 1963-72. [8] 1964=100. [9] 1970-74. [10] 1965-70. [11] 1969=100. [12] 1972=100. [13] 1964-73. Basic contractual earnings of unskilled workers. [14] General wage/earnings level in manufacturing only. [15] 1966-72. [16] 1963-73. [17] The scope of the wage series has been revised each year. [18] Excludes mining and quarrying.

Sources: Col. 1: ILO: *Year book of labour statistics* (Geneva), supplemented by IMF: *International financial statistics*. Col. 2: ILO: *Year book of labour statistics*; and Republic of Kenya: *Statistical abstract, 1973* (Nairobi). Col. 3: Calculated from table 1.

The effectiveness of minimum wage legislation

The impression that the impact of minimum wage adjustments has been rather marginal is in conformity with the consensus to that effect among government, union and business officials in Africa and the Philippines to which I alluded earlier. The major explanations seem to be as follows:

Many countries have been confronted by growing unemployment and underemployment. This has caused a shift from a high-wage to a low-wage policy in some countries, e.g. in East Africa.[1] In some other countries, e.g. Brazil, anti-inflationary considerations have resulted in a similar change. In order to avoid triggering off a round of wage increases, governments tend to fix new minimum rates below what most of the eligible workers are already earning in enterprises that are responsive to the legislation.[2] At the same time, wage and salary increases for more highly paid employees that are inspired by changes in the minimum wage are made subject to government approval.

But a far more important reason may be the lack of effective enforcement of the legal provisions.

In Kenya wage employment in the enumerated (i.e. modern) sector accounts for about 60 per cent of total estimated wage employment (or about 17 per cent of the total labour force and 25 per cent of the male labour force).[3] Even within this sector not all workers, particularly in the smaller enterprises, are effectively covered by the minimum wage or indeed by other labour legislation.[4] In 1972, for instance, six years after the previous increases in urban minimum wages to 175 shillings a month (Nairobi and Mombasa) and 160 shillings (other towns) for adult males, and to 140 and 128 shillings for adult females, and the year before new rates were introduced, 6.4 per cent of regular employees in the urban non-agricultural private sector and in the public sector were earning less than 100 shillings a month, and 11.3 per cent less than 150 shillings, excluding some 200,000 casual workers (or 15 per cent of total wage employment in the modern sector).[5]

Many aspects of this problem, which are by no means unique to Kenya [6], have been brought out in a rare study recently conducted by the Kenya Ministry of Labour and are summarised below.[7]

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[1] For the Kenyan Government's shift from a high-wage to a low-wage policy see its *Development Plan, 1970-1974*, p. 139. Uganda's *Third Five-Year Development Plan, 1971/2-1975/6* indicates a similar change (pp. 86-87).

[2] In Kenya the Ministry of Labour uses data from registered collective agreements to develop its minimum wage proposals.

[3] Dharam P. Ghai: " Employment performance, prospects and policies in Kenya ", in Ronald Robinson and Peter Johnston (eds.): *Prospects for employment opportunities in the nineteen seventies* (London, HM Stationery Office, 1971), p. 46.

[4] Cf. John S. Henley: " Employment relationships and economic development—the Kenyan experience ", in *Journal of Modern African Studies* (London), Dec. 1973, pp. 571-572.

[5] Republic of Kenya: *Statistical abstract, 1973*, op. cit.

[6] This has been confirmed in talks I had with a number of delegates at the ILO general conference as well as during my visit to Africa. See also ILO: *Towards full employment : a*

The existing general minimum wage legislation is too ambitious in its scope and coverage for the available governmental administrative resources[1]: the number of inspectors is too small and their training and experience are insufficient. Without the co-operation of local trade unions it would be virtually impossible to investigate and prosecute violations.

The multiplicity and complexity of wage orders make it difficult for labour inspectors even to decide which rate applies to the job in question. Lack of transport is another recurrent problem in all field work, particularly in rural areas and towns where no branch of the Ministry of Labour has yet been established.

Frequently employers make their employees certify that they receive higher wages than they actually do; for fear of losing their jobs, employees will not bring these cases to the attention of the inspectors until they have lost or left their employment, which obviously weakens their case. Sometimes workers write to the inspectorate anonymously. In such cases prosecution of employers is of course impossible.

Penalties are almost never imposed on an underpaying employer. At most he will have to pay the back wage due. The employee may even accept partial payment, with the tacit consent of a labour officer, if the employer can show that he cannot afford the full amount.

Another cause of difficulty lies in the extended family labour system, which is very common in the developing world. Employers can claim their employees to be " family members " and so evade the application of minimum wage legislation. In some countries they can also escape its provisions if they give their employees free board and lodging.

The most important explanation for poor enforcement in developing countries is, however, the concern felt by governments that strict application of the legislation may force enterprises out of business and make workers redundant. Rather than run this risk, the Government of Ghana has kept the statutory minimum wage rate unchanged (at 0.75 cedis a day) since 1968 and " expresses its wish " that employers in the private sector will follow suit whenever it increases the lowest wages guaranteed to its own employees (2 cedis a day in January 1975). Similarly, the Government of the Philippines introduced a selective system of " emergency " living allowances, instead of increasing minimum wages, when the oil crisis and other factors began to cause serious inflation of consumer prices in 1973. Under this system, enterprises with a capitalisation of 1 million pesos or more are required to pay a monthly allowance of 50 pesos to each of their employees earning less than 600 pesos a month. I was also told by delegates from another Asian country at the Inter-

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programme for Colombia (Geneva, 1970), p. 407; and Nadr Atasi: " Minimum wage fixing and wage structure in Syria ", in *International Labour Review*, Oct. 1968, p. 341.

[7] See Gus Edgren: " Reforming the structure of minimum wage regulations in Kenya ", in ILO/DANIDA African Regional Wages Seminar, Dar es Salaam, 18 to 29 November 1974: *Report* (Geneva, ILO, 1975), p. 66.

[1] See also ILO: *Sharing in development*..., op. cit., p. 346.

national Labour Conference that, even when fairly large employers were found to have been paying wages below the minimum, the government could not press them too hard if their offer to pay the statutory rates was accompanied by the proviso that they would have to reduce their workforce. In Kenya similar considerations have prompted the thought that " rather than wiping out [enterprises by enforcing minimum wages], the specific order should exclude small and informal establishments from its jurisdiction ".[1] This principle of selectivity is already applied in Pakistan where, as noted earlier, establishments with fewer than 50 workers are excluded from the scope of the legislation.

As a result of all these constraints and difficulties, the enforcement of minimum wage legislation is limited mainly to the unionised sector, where the trade unions may be relied upon to exercise efficient inspection and supervision. Nowhere are the statutory rates observed more strictly than by foreign employers from the developed countries, for fear of jeopardising their relations with the national authorities and the local population. Minimum wage legislation tends to be more widely enforced in countries where, largely as a result of the government's ideological position, higher proportions of workers are unionised or work in the public sector, as is the case in the Libyan Arab Republic, Tanzania and Sri Lanka.[2]

It is important to note that all this is directly contrary to the initial objective of minimum wage legislation, i.e. the protection of unorganised workers whose wages are exceptionally low. Such workers are not necessarily protected effectively even where minimum wages appear to have been acting as pacemaker to the general wage level. In Mexico, for example, the wages of skilled and semi-skilled workers, who are not covered by the minimum wage rates, are usually fixed according to the outcome of the biennial minimum wage adjustments. As a result, average wages increase with the minimum rates, but a large proportion of workers (65 per cent in the case of the construction industry [3]) earn less than the minimum.[4] In many other parts of the world too it is a common phenomenon, following adjustments to the minimum wage, for increases to be won by workers whose wage rates are already over the new minimum [5], the size of these increases depending largely on the strength of

[1] Edgren, op. cit., p. 66.

[2] For a description of minimum wage schemes in Sri Lanka see ILO: *Matching employment opportunities and expectations : a programme of action for Ceylon*, Vol. II: *Technical papers* (Geneva, 1971), pp. 47-49.

[3] H. Muñoz, O. de Oliveira and C. Stern: *Migración y marginalidad : una aproximación al caso de la Ciudad de México* (Mexico City, El Colegio de México, 1970), cited by Dimitrios A. Germidis: *The construction industry in Mexico* (Paris, OECD, 1972), p. 73.

[4] Germidis, op. cit., p. 64. See also William E. Cole and Richard D. Sanders: " Income distribution, profits and savings in the recent economic experience of Mexico ", in *Inter-American Economic Affairs* (Washington), Autumn 1970, p. 59.

[5] Berg: " Major issues of wage policy in Africa ", op. cit., p. 186; Reynolds, op. cit. p. 28; Reynolds and Gregory, op. cit., pp. 41-42; Peter Gregory: *Industrial wages in Chile* (Ithaca (New York), Cornell University, 1967), p. 43; J. P. Arlès: " Minimum wages in the Congo (Kinshasa) ", in *International Labour Review*, Oct. 1967, p. 397; Ian Little, Tibor

the unions concerned.[1] The latter are, however, naturally preoccupied with the interests of their own members, and large numbers of workers in unorganised sectors continue to earn less than the minimum rates.

Under these circumstances, it is difficult to attribute changes in *average* wages and earnings to minimum wage adjustments more than indirectly. A recent study in Kenya concludes, quite understandably, that " unionism is the principal cause of high wages in the modern sector of Kenya ".[2] In fact where minimum wages are adjusted regularly and frequently and where they are used as a criterion in collective bargaining for the wages and salaries of unionised workers, minimum wage legislation may be said to have become a tool for restraining wage increases in the better-paid organised sector.

The economic impact of minimum wages

Minimum wage legislation in developing countries, having started out with a view to providing a reasonable standard of living for all workers, improving income distribution, etc., appears to have failed so far to attain even the more modest objective of similar legislation in developed countries, i.e. protection of the marginal proportions of exceptionally low-paid unorganised workers. As we have seen, its scope and coverage are often too ambitious for the administrative and financial resources available in these countries. The existence of enormous amounts of surplus labour practically precludes its enforcement outside the unionised sector, since there will be no shortage of applicants for jobs at any wage if the alternative is starving to death. Governments appear to have been operating the enforcement machinery deliberately loosely for fear of increasing unemployment.

Minimum wage legislation, as well as many other labour laws, remains therefore largely a dead letter where trade unions are weak, and to some extent irrelevant where its enforcement is limited fairly narrowly to the unionised (and public) sectors. In the latter case it has served not so much as a means of protecting otherwise defenceless non-unionised workers, as a point of reference

Scitovsky and Maurice Scott: *Industry and trade in some developing countries : a comparative study* (London, New York and Toronto, Oxford University Press, 1970), p. 82; and Richard U. Miller: " The relevance of surplus labour theory to the urban labour markets of Latin America ", in *IILS Bulletin* (Geneva, International Institute for Labour Studies), No. 8 (1971), p. 228; and Wage Commission, Department of Labor, Philippines: *Annual report* for the fiscal year 1974 (Manila), p. 8.

[1] An important exception seems to be the case of domestic servants employed by foreigners, who generally benefit under minimum wage adjustments even though they are not as a rule unionised.

[2] George E. Johnson: " The determination of individual hourly earnings in urban Kenya ", Discussion paper No. 115 of the Institute for Development Studies, University of Nairobi, 1971, using data obtained by the household survey conducted by the Institute in the Nairobi area, pp. 23 and 31. In Nairobi in 1971 hourly wages earned by workers in the unionised private sector, in the unionised public sector and in the non-unionised public sector were respectively 30 per cent, 29 per cent and 16 per cent higher than those earned by workers in the non-unionised private sector.

for collective bargaining in the better-paid unionised sector. The nature and magnitude of the effect of minimum wage adjustments depend largely on the strength of the unions and on the size of the public and foreign-owned sectors.

It seems then that the views on minimum wage legislation formed on the basis of some countries' experience in the early 1960s are not applicable to the present situation. Increases in *average* wages and earnings should be attributed not so much to minimum wage adjustments as to union activity. The key question in assessing the impact of minimum wage legislation is whether, without such legislation, the rates of increase in average earnings and in the earnings of better-paid workers, attained largely as a result of union efforts, would have been higher or lower than the ones observed. It may be that governments can control the rate of increase in wages and salaries much more easily by setting up guideposts like minimum wages than by imposing outright restrictions on union demands.

Where this has been the case, it can be argued that minimum wage legislation may have had a positive, not a negative, effect on employment in the unionised sector (and on income distribution) by slowing down the pace of wage and salary increases there. The existing literature neglects this possibility. However, this type of incomes policy has an important drawback: entrepreneurs will tend to keep their enterprises small and their contracts with employees of short duration, so that they can evade the unionisation of their workforce and effective enforcement of the legislation. This may impair enterprises' efficiency seriously if it leads them to operate at less than the optimum scale and to employ workers with inadequate training.

Moreover, just as recent increases in wages can hardly be attributed to minimum wage legislation in most of the developing countries, it is difficult to deny that minimum wage legislation has proved ineffective in improving the working poor's lot where the existence of surplus labour induces masses of people to accept much lower wages than the legal minima.[1] Policy-makers must recognise this point.

If minimum wage legislation is to achieve at least its original, modest objective of protecting exceptionally low-paid workers, governments and unions will have to devote greater efforts to improving the effectiveness of its enforcement, e.g. through the training of inspectors. At the same time, in order to avoid increasing unemployment, minimum wage rates will have to be fixed near—or below, as was the case in Japan—the natural entry wage. Under conditions of massive surplus labour, however, the natural entry wage will be extremely low, and in that case it has to be admitted that the idea of providing an " acceptable minimum standard of living " for all workers by means of statutory minimum wages is just not workable.

[1] Cf. C. L. G. Bell and John H. Duloy: " Rural target groups ", in Hollis Chenery *et al.* : *Redistribution with growth* (London, Oxford University Press), p. 134.