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MINIMUM WAGES IN UGANDA: Comments by P. Clark, A. Baryaruha, E. Rado, and B. Van Arkadie for the Minimum Wages Advisory Board.

The issue of raising minimum wages in Uganda involves a complex mixture of economic and social considerations, and some of the specifically economic considerations are surrounded with great uncertainty. Rather than attempt to present any comprehensive consensus among economists at Makerere about the entire subject, it seems more practicable to submit to the Minimum Wages Advisory Board four related contributions: (I) a summary by Mr. Clark of a few points which seem to emerge from the other contributions and from the discussion at a seminar on minimum wages recently held at Makerere; (II) an analysis by Mr. Baryaruha of labour market changes following the 1962 increases in government wages and minimum wages, as well as general economic trends; (III) and (IV) presentations by Mr. Rado and Mr. Van Arkadie of the general cases for and against raising minimum wages from the standpoint of development strategy.

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Classification

I. Some Relevant Points about the Issue of Raising Minimum Wages in Uganda. (P.G. Clark).

(1) The 1962 increases in government wages and minimum wages led directly to marked increases in wage rates for low-wage employees in the geographical areas affected. High-wage employees received much smaller increases, so the net effect was a narrowing of the wage structure. For low-wage employees, the increases in wage rates were larger than the decrease in employment which also occurred, so that their total wage earnings also rose, both absolutely and as a share of wage earnings in the economy as a whole.

(2) These wage increases were associated with further decreases in employment. Several influences contributed to the employment drop, but the pattern of lay-offs suggests that the minimum wage increases were a significant cause. Employment decreases were concentrated among low-wage employees, among workers classified as unskilled, in the public services among local government employees, and in private industry among employees in the towns affected by the minimum wages.

(3) If minimum wages are raised again in 1964, the effects are likely to be broadly similar to those described in the previous two paragraphs. Whether these effects are on balance desirable from the standpoint of social policy is a key question which the Board should consider. On the one hand, it can be argued that any action which tends to decrease urban employment increases social tensions among the employed, the unemployed, and the rural underemployed population; and that these tensions are already rising as the flow of primary school leavers unable to find urban jobs mounts. On the other hand, it can be argued that a rise in the share of total wage earnings for low-wage employees is still highly desirable on the ground of social equity, even if their numbers decline somewhat; and that their larger income share may be diffused among the low-income population generally.

(4) Higher minimum wages can also be expected to have economic effects on employment practices in producing enterprises, but available empirical information is insufficient to assess the strength of these effects. On the one hand, higher minimum wages may be one influence (among others) leading employers to substitute machinery and skilled labour for unskilled labour; this influence by itself would be undesirable, because it would waste unskilled labour and increase the strain on scarce capital and skills. On the other hand, higher minimum wages may be one influence (among others) leading employers to rationalise use of their labour forces and to expand on-the-job training; this influence by itself would be desirable because it would reduce wasteful practices and expand investment in the creation of industrial skills. Perhaps the Board may be able to obtain information from employers which will enable it to assess these possible effects on employment practices.

(5) From the standpoint of development strategy, decisions about minimum wages ought to be made as part of a general incomes policy. If Uganda is to make the transition from a low-investment, low-growth economy to a high-investment, high-growth economy, it is essential that savings -- whether through government taxes, retained profits of business enterprises, or saving by individuals -- be a rising share of total national income.

This will require restraint on increases in the total wage bill and on consumption out of profit incomes, at the same time as the government may wish to narrow the range of differences in individual incomes. Decisions about minimum wages should therefore be considered along with decisions about incomes of other groups in the community.

(6) Similarly, the minimum wages issue ought to direct attention to other spheres of public policy affecting the welfare of low-wage employees. One important related objective should be training for greater productive skills on the job and outside the formal educational system. Another should be to expand urban employment opportunities at least as fast as the growth of the labour force, rather than letting them shrink, as over the last decade. A successful transition to a high-investment, high-growth economy would make the most fundamental contribution to this objective, but policy measures specifically aimed at expanding employment are probably also needed.

II. EFFECTS OF 1962 MINIMUM WAGE LEGISLATION (A. Baryaruha)

Table I summarizes certain aggregate variables reflecting trends in the economy from 1961 to 1963. They show the following pattern:

(a) 1963 was a good year, following the bad year of 1962, largely because of the rise in volume of cotton and coffee exports and the up-swing in coffee prices. Gross domestic product rose about £20 million over the two-year period, i.e. an average of about 6% per year, and a further rise of about 10% is expected in 1964.

(b) The employment picture, on the other hand, remained gloomy. Total employment, which has been declining since 1960, fell even more sharply -- by 9100 people -- in 1963. This was a fall of about 6% in the public sector and 2½% in the private sector.

(c) Total wage earnings for all races at all wage-levels grew very slowly, rom £29.5 million in 1961 to £31.5 in 1963. The earnings of those who remained in employment increased, however -- in 1963 by about 13% for Africans, 7% for Europeans, and 3% for Asians.

(d) Cost of living and retail price indices showed a nearly stable situation. In particular, the Kampala retail price index for low-wage employees fell sharply in 1962, rose a little in 1963, but was still 10% below 1961.

Tables II through V present a fairly detailed analysis of labour market changes between 1961 and 1963. They are derived from tables in the Enumeration of Employees showing the percentage distribution of African adult male employees among earnings groups in the various towns and districts. The analysis compares changes in the seven towns and districts most directly affected by the minimum wages with changes in other geographical areas, and distinguishes between employees earning below the minimum wage in the seven towns (0-99 shillings per month), employees earning about the minimum wage (100-149), and two higher earnings groups (150-299 and 300-up). Employees in public services and private industry are examined separately.

The data used here have certain weaknesses for the purpose of this analysis. The seven towns and the other areas do not correspond exactly to the areas where minimum wages apply and areas where they don't. In analysing employment changes, it is impossible to separate out employees previously receiving less than 149 shillings who now receive more than 150.. And of course other factors besides the minimum wages affected both wages and employment. Despite these difficulties, the results seem clear enougn to be meaningful.

(a) Tables II and IV show that there has been a distinct closing-up in the wage structure. Both in public services and in private industry, large percentages of the labour force in the seven towns moved up from the 0-99 earnings bracket to the 100-149 bracket, while only small percentages moved into the 300-up bracket.

(b) In Tables III-A and III-B, referring to public services, the point which stands out clearly is that the decline in employment was concentrated in the low-wage brackets of the labour force (0-149 shillings). The decline was actually greater in areas outside the seven towns, but further investigation shows that the decline was mainly in local governments, which were affected by higher government wages even though located outside the seven towns.

(c) In Tables V-A and V-B, referring to private industry, the decline in employment was again concentrated in the low-wage brackets. Moreover, the decline was much more pronounced in the seven towns most directly affected by minimum wages than in the rest of the country. Looking at the industrial pattern in the country as a whole, the declines were largest in agriculture (not affected by minimum wages) and construction (which was affected).

(d) A further point not reproduced in the tables is that the decline in African employees classified as unskilled was even greater than the overall decline in African employment. This reinforces the observation that employment reductions were concentrated among employees most affected by minimum wages.

N.B. There is no page 6 and 7.

TABLE I.

AGGREGATE PICTURE OF MAJOR VARIABLES

	GDP	Change GDP	Employment	Change Employment	Earnings	Cost of Living	Change C.O.L.	Retail Prices	Change Prices
		(£ million)		(Numbers)	(£ million)	(K'la,1951 = 100)		(K'la,1957 = 100)	
1961	156.4	+ 4.3	236100	- 5400	89.5	142	+ 4	111	+ 17
1962	156.7	+ .3	230800	- 5300	30.7	149	+ 7	94	- 17
1963	176.1	+19.4	221700	- 9100	31.5	154	+ 5	99	+ 5
1964 Est.	194.4	+18.3							

Source: Background to the Budget 1964-65.

TABLE II.

PUBLIC SERVICES

AFRICAN ADULT MALE EMPLOYEES ANALYSED BY WAGE GROUPS (IN SHILLINGS PER MONTH) WITHIN TOWNS AFFECTED BY MINIMUM WAGE

	0 - 99			100 - 149			150 - 299			300 +			NUMBER OF EMPLOYEES		
	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963
	%	%	%	%	%	%	%	%	%	%	%	%			
Kampala	43	5	1	14	47	46	26	29	32	17	18	21	11,001	10,615	11,001
Entebbe	42	0	0	16	52	48	23	22	25	19	25	27	3,009	3,036	3,002
Mengo	56	27	27	11	39	41	23	22	23	11	11	10	12,514	12,599	12,421
Masaka	57	21	7	8	46	52	22	19	22	15	13	18	1,945	2,096	1,437
Jinja	53	6	0	13	60	63	23	22	23	12	12	15	4,291	4,184	4,763
Mbale	59	4	0	11	60	60	22	27	26	8	9	14	2,389	2,577	2,339
Tororo	44	6	7	20	48	53	23	30	24	13	15	17	1,412	1,306	1,595

Source: Enumeration of Employees.

TABLE III A. Public Services.

AFRICAN ADULT MALE EMPLOYEES ANALYSED BY WAGE GROUPS WITHIN TOWNS AFFECTED BY MINIMUM WAGE

	0 - 99			100 - 149			150 - 299			300 +			NUMBER OF EMPLOYEES		
	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963
Kampala	4730	531	110	1540	4988	5060	2860	3078	3520	1870	1911	2310	11,001	10,615	11,001
Entebbe	1264	-	-	481	1579	1441	692	668	750	572	759	811	3,009	3,036	3,002
Mengo	7008	3402	3354	1377	9914	5093	2878	2772	2857	1377	1386	1242	12,514	12,599	12,421
Masaka	1109	440	101	156	964	747	428	398	316	292	272	259	1,945	2,096	1,437
Jinja	2274	251	-	558	2510	3001	987	920	1095	515	502	714	4,291	4,184	4,763
Mbale	1410	103	-	263	1546	1403	526	696	608	191	232	327	2,389	2,577	2,339
Tororo	621	78	112	282	627	845	325	392	383	184	196	271	1,412	1,306	1,595
7 Towns	18410	4805	3677	4657	17128	17590	8696	8924	9529	5001	5258	5954	[illegible],561	36,413	36,458
Other areas	36483	22608	15426	7439	15591	18124	8053	8762	7913	5234	3585	4033	56,488	52,016	46,599
Uganda	54899	27413	19103	12096	32719	35714	16749	17686	17442	10235	8843	9967	93,049	88,429	83,057

TABLE III B. Summary.

	0 - 149			150 +			All wage groups
	1961	1963	1963/1961	1961	1963	1963/1961	1963/1961
7 Towns	23073	21267	-1806	13697	15463	++1766	- 40
Other areas	43922	33550	-10372	13287	11946	-1341	-11,713
Uganda	66995	54817	-12178	26984	27409	+ 425	-11,753

Note: The above figures are calculated from percentages and therefore contain rounding errors.

TABLE IV

PRIVATE INDUSTRY

AFRICAN ADULT MALE EMPLOYEES BY WAGE GROUPS (in Shillings per month)

Towns	0- 99			100- 149			150 - 299			300+			Number of Employees		
	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963	1961	1962	1963
	%	%	%	%	%	%	%	%	%	%	%	%			
Kampala	43	42	7	24	25	47	21	22	29	11	13	18	15691	16517	16622
Entebbe	55	47	0	23	30	62	17	16	28	6	6	10	511	618	615
Mengo	80	77	48	7	11	38	8	7	10	5	4	4	37400	37037	33892
Masaka	61	58	3	18	17	63	15	18	24	7	6	11	1053	1172	1062
Jinja	54	44	7	19	24	54	21	22	27	5	9	11	4496	4414	4295
Mbale	62	60	20	11	17	48	18	17	23	7	6	8	2668	2707	2259
Tororo	57	71	5	17	12	70	16	12	15	8	7	8	468	545	500

Source: Enumeration of Employees 1961 - 1963.

TABLE VA.

PRIVATE INDUSTRY

AFRICAN ADULT MALE EMPLOYEES BY WAGE GROUPS

Town	00- 99		100- 149		150- 299		300 +		NUMBER OF EMPLOYEES		
	1961	1963	1961	1963	1961	1963	1961	1963	1961	1962	1963
Kampala	6747	1664	3766	7812	3295	4820	1726	2992	15691	16517	16622
Entebbe	281	-	118	381	87	172	31	62	511	618	615
Mengo	29920	16268	2618	12790	2992	3389	1870	1356	37400	37037	33892
Masaka	642	32	190	668	158	255	74	117	1053	1172	1062
Jinja	2428	301	854	2319	944	1160	225	472	4496	4414	4295
Mbale	1654	452	293	1084	480	520	187	181	2668	2707	2259
Tororo	267	25	80	350	75	75	37	40	468	545	500
Totals											
7 Towns	41939	18742	7919	25404	8031	10391	4150	5220	62287	63010	59245
Other areas	39883	30089	6311	16451	8570	8211	1779	4081	56295	56204	57020
Uganda	81822	48831	14230	41855	16601	18602	5929	9301	118582	119214	116265

TABLE VB.

SUMMARY TABLE

	0- 149			150+			All Wage Groups
	1961	1963	1963/1961	1961	1963	1963/1961	1963/1961
7 Towns	49858	44146	-5712	12181	15611	+ 3430	-2282
Other areas	46194	46540	+ 346	10349	12292	+ 1943	+2289
Uganda	96052	90686	-5366	22530	27903	+ 5373	+ 7

Note: The figures are calculated from percentages and therefore contain rounding errors.

III. The General Case Against Raising Minimum Wages (E.R. Rado)

The national wage-policy which Uganda follows has a direct effect on the development strategy she can pursue and on the degree of success with which she can expect to implement it. We are assuming in this paper that the following two aims are fundamental to the development strategy Uganda is trying to pursue:

(i) To increase the proportion of national output which is devoted to investment (and, by implication, to increase the proportion of national income which is saved);

(ii) To raise the level of productive employment (and especially wage- and salary-employment) as fast as possible. It is not sufficient to raise production; the benefits of increased production should be spread as widely as possible.

To these we may add a third aim:

(iii) Standards of living in the urban areas should be raised not at the expense of the rural population, but as a result of genuine increases in productivity in the economy as a whole.

The following major points should be made about a wage-policy suited to these aims.

(a) As virtually the whole of wage are spent on private consumption, an increase in wages out of any given national income is likely to lead to a fall rather than to a rise in public and private savings (and investment), and therefore conflicts with the first aim of raising the proportion of national income which is saved and invested. As a rough guide one can suggest that wages per man should rise no faster than output per man in the economy as a whole. Over the past decade, increases in output per man have been of the order of 1% per annum; increases in earnings per wage- or salary-earner (excluding Europeans and Asians) have been about 10% per annum.

(b) Employment, far from increasing, has been falling in recent years, and today it is less than it was 10 years ago. Only about one adult Ugandan in 18 had a job in 1963, compared to about one in 13 ten years ago. Much of this decline is due to a fall in construction activity in recent years, but even in those lines of production which have increased their output, employment has grown at less than one-fourth of the rate of growth of production. Employers and economists alike are agreed that rapidly rising wages have been an important factor in bringing about this unsatisfactory state of affairs.

(c) Employers have three principal means of saving on labour (i.e. reducing labour requirements per unit of output):

(i) by better organisation of the labour-force;

(ii) by substituting capital for labour (i.e. increased mechanisation);

(iii) by employing better trained labour.

Wage-increases provide employers with a compelling motive to do all three of these, if they are to remain in business. For this reason rapidly rising wages are only appropriate in economies where labour is scarce, jobs are plentiful, and output per man is rising fast. (An increase in wage-rates might result in such a large decline in employment that the total wage-bill falls and the share of non-wage incomes rises as a proportion of national income. The resultant increase in the funds available for investment would be more apparent than real, however. It would be largely used up by the introduction of more capital - intensive methods of production - i.e. more capital per man employed and per unit of output produced - without necessarily increasing the level of output above what it would otherwise have been.)

(d) A distinction must be made here between increasing wage-rates and increasing earnings per man. Earnings can rise without wage-rates rising, if a man gains promotion through the acquisition of greater skill. With a proper wage-structure such increases in earnings should violate neither the "maximum investment" nor the "maximum employment" criteria we outlined earlier. The vast majority of Uganda's present labour-force today is unskilled or semi-skilled, and the scope for increasing its levels of skill (and hence its earnings) must be tremendous. This is a task in which Government, the employers, and the Unions can co-operate, to the benefit of all workers.

(e) Having seen that, when wages increase faster than productivity per man, the cost is either borne by other people whose standard of living falls, or results in reduced saving and investment, we feel that the most constructive policy would be one which results in rising earnings without rising wage-rates. To this end, we put forward the following proposals:-

(i) the National Literacy Campaign should lay great stress on the education of the urban, wage-earning population, approaching them at their places of work, in factories, offices, shops and government departments.

(ii) In this work, the principal emphasis should be placed on the teaching of English (both spoken and written), as poor English prevents workers from benefiting from opportunities for vocational education.

(iii) Uganda graduates and undergraduates should be persuaded to regard assistance with such a project as part of the repayment of their debt to society for the free education they have received.

(iv) The Federation of Uganda Employers, the Chambers of Commerce, the Government, and the Trade Unions should, in the meantime, make energetic preparations for nation-wide courses of vocational education, to follow up the National Literacy Campaign. These courses should be aimed at the employed population, and should (if possible) be conducted on an employment-unit basis, with senior management personnel as instructors. They should have the specific aim of improving and accelerating the promotion-prospects of labour now employed to better-paid jobs.

Such a programme is an alternative (and we hope a constructive and feasible alternative) to a policy of raising wages. This programme, if successful, should raise earnings and output simultaneously, without providing employers with an incentive to reduce employment.

It should be emphasised that the arguments against increasing wages and salaries now apply to all wage- and salary-earners and not only to those who now receive the minimum wage.* A "wage-freeze" which affected the lowest income-groups only would be both iniquitous and ineffective. What we are advocating is an income policy that applies to all. It is further accepted that there may be a strong case for narrowing the wide differential between the incomes of the lowest and the highest-paid within the wage- and salary earning group. This could be done more effectively by increasing the taxation of the more prosperous groups, and by planning Government expenditure to benefit principally the low-income groups, than by raising the lowest wages. The latter measure would have undesirable effects on employment - harming some of those it is meant to benefit - and its costs would not necessarily be borne by the higher income-groups at all.

* Increases in minimum wages, however, are likely to lead to greater falls in employment than increases in the upper reaches of the salary-scale, and this effect will be magnified if increased minimum wages are followed by corresponding increases in the wages of those immediately above the minimum scale.

IV The General Case for Raising Minimum Wages

(B. Van Arkadie)

It is probably true that the initial reactions of most economists to the question of minimum wage legislation in underdeveloped countries is one of scepticism, based on the belief that the best wage for unskilled labour is the lowest possible. It is the purpose of this note to evaluate that argument by attempting to establish a possible case for the minimum wage. Much of the argument is based upon a priori logic rather than appeal to the Uganda evidence.

The two powerful arguments against the minimum wage (or against raising it, in the cases where its existence must be accepted as politically unavoidable) are:

(1) A higher wage will cause a decline in employment. This will result in:

(a) a small group of more privileged people (the employed) benefiting at the expense of another group of less fortunate people (those unemployed who would have found employment at lower wage rates);

(b) a movement of factor prices away from levels which would represent opportunity costs. As a result, abundant labour will not be used as freely as it ought to be, while capital equipment, the crucial scarcity, will be used in place of labour.

(2) A higher wage will increase the share of wages in total incomes at the expense of profits; this is unfortunate because profits (and non-wage incomes in general) form the most important source of future savings. Higher minimum wages may therefore cause a decline in savings as a proportion of total product.

The first point to be recognised is that although these two arguments are each powerful they are not reinforcing. If the reduction in employment as a result of higher minimum wages is strong enough then the wage share could fall as a result of higher wages. If, on the other hand, the substitution effect is weak, then the case must rest on the second argument.

Although argument 1 (the employment effect) has some strength, it should be recognised that there are some ameliorative characteristics.

(a) The crucial social questions regarding income distribution do not arise between the group employed at the minimum wage level and the unemployed and poor peasants. Through family relationships these group have close ties. If the poor receive a higher income share at the expense of the wealthier, it may be expected that with the existing social structure there will be some diffusion of this income among the poor as a group, so that the relative standing of one poor group as against another is not so important an issue.

(b) Some of the "reduced employment" effect may be economically desirable. Insofar as increased minimum wages have increased simple training, reduced turnover and generally induced an improvement in the quality of the labour force, it may have been advantageous in creating the pre-conditions for a programme of successful industrial development. This point must be evaluated in the light of Elkan's earlier critique of the quality of semi-skilled labour in the Uganda industrial sector. In fact we do not know how far there has been substitution of capital for labour or other undesirable substitution effects.

(c) The poor growth of employment in recent years, which is typically offered as evidence against higher minimum wages, at least in part was induced by effects quite apart from this: the poor growth in overall demand, a shift away from labour-intensive industries (there is no evidence that this was cost induced), and, insofar as techniques have become more capital instensive, a response to factor prices in developed countries where machines are designed and produced. It is particularly necessary to recognise that the marginal employment effects and capital/labour ratios in such a low growth period as recently experienced cannot be used to make projections for high growth periods.

(d) Regarding argument 2, insofar as the increase in minimum wages causes a rise in the share of lower income groups in the total wage bill, it will have additional diffusion effects of a more directly economic character than those mentioned under (a). This is because of the high propensity of this group to purchase domestically produced foodstuffs, and possibly urban services which provide a source of income to many "unemployed" urban dwellers. This point is to be considered in the light of Galenson's analysis of the growth of tertiary employment as a major source of employment opportunities. For these reasons the incomes of the minimum wage group more immediately result in incomes for the non-employed population than other forms of spending.

(e) As a corollary to (d) the likelihood is that the propensity to consume imports is lower for this group than other income groups. Any shift in this direction is therefore likely to be desirable, from the point of view of the balance of payments constraint on development activity.

These points have been offered as possibly qualifying the case against a higher minimum wage. There are also some positive arguments in favour of the minimum wage and, according to judgment regarding the particular circumstances, for raising the existing wage.

(a) The first point is to recognise that there is a strong social case for closing the differentials between income groups within the urban sector. Whether or not raising the minimum wage will do this is an empirical question, but the possibility exists. If it does this, it might well be not entirely at the expense of profits but rather at the expense of other low-saving income groups; this is particularly possible if the effect on the general price level were inflationary. In a situation where sacrifices have to be made for development it seems unfortunate that a group singled out to carry the burden within the urban community should be the lowest-paid workers. This point loses its force if there is a well designed fiscal and incomes policy which combines restraint on the minimum wage with controls over other incomes.