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**Minimum Wages and Employment : Literature Review
and Background on Minimum wages in Botswana**

**By Magdeline Sesinyi
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**BIDPA Working Paper No.16
March 1998**

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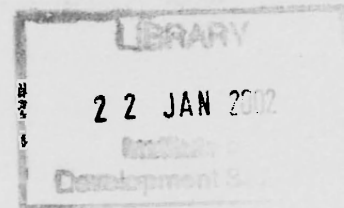
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Abstract

This paper gives a brief literature review on minimum wages and their possible effects on employment, with particular focus on the likely effects of minimum wage introduction in the two excluded sectors, namely the Domestic and Agricultural sectors. It briefly outlines research results on minimum wages from past studies, highlighting their main recommendations. The paper concludes that minimum wage increases result in a trade-off, and no matter how well intended come with a price in the form of lost jobs for some and increased benefits for others.

Keywords

- Minimum Wage
- Employment
- Botswana
- Domestic Workers
- Agricultural Workers
- Wage Determination
- Wage Policy



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MINIMUM WAGES AND EMPLOYMENT

(Literature Review and background on minimum wages in Botswana)

1. Introduction

1. The term minimum wage refers to various legal restrictions on the lowest wage rate payable by employers to workers. In the United States and Britain, minimum wages initially focused on women and children and were later extended to the general work force after the great depression. Botswana adopts industry specific minimum wages.
2. Policy makers are seeking ways of addressing the issue of low-income earners to enable them to earn an income that can sustain their lives and that of their families. They recognise the need to impose minimum wage laws to ensure that workers are not exploited and unfairly compensated for their productivity. Minimum wage legislation not only increases the purchasing power of minimum wage earners but also reduces the gap in wage inequality. Central among the aims of enacting a minimum wage policy is to increase the standard of living of low wage earners.
3. In industrialised countries such as the United States, one of the important justifications of increasing the minimum wage is the impact it has on welfare recipients. A rise in work pay may act as a monetary incentive that will attract welfare recipients to the labour market. With low minimum wages many people find welfare more attractive than working for a poverty level wage and having all their medical and other benefits taken away. This however, does not apply in most developing countries such as Botswana which do not provide welfare payments to the unemployed.
4. Botswana has an old age pension of P100 a month payable to all those aged 65 years and above which is not affected by whether the recipients are working or not. In addition, there is a Destitute Policy established in 1980. The policy is aimed at providing assistance to persons who are physically and mentally incapable of working, due to physical and mental handicap and/or lack of assets, and who have no relatives on whom

they can depend for support. The policy, besides other benefits such as medical care and shelter provides an allowance to the destitutes of P82.60 per month in urban areas and P61.59 per month in rural areas. Note that the destitute policy is different from welfare policies in industrialised countries in the sense that it focuses on people who by its standards are genuinely destitute rather than simply unemployed. This implies that the number of those receiving destitute allowance will not be affected by an increase in minimum wages.

2. *Economic Effects of Minimum Wages*

5. The main problem that needs to be taken into account in setting the minimum wage is the predicament of unemployment. Some workers inevitably become unemployed following a minimum wage rise. If an employer were to keep all workers after a minimum wage hike, his total costs would rise, and the cost of some workers would rise above their marginal revenue product. That is, the cost of workers paid higher than the minimum wage would be above their marginal contribution to sales revenue, so that hiring them would reduce profits, and firing them would increase profits. The rise in the cost given constant revenue means that economic profit, which is the difference between total revenue and total cost will therefore decline. This means that over time, resources will shift to other less employment intensive sectors and that investment will become less profitable in all sectors and below what it otherwise would have been. In particular, a country which increases minimum wages becomes less attractive to foreign investors. To recover, the employer will then have to cut costs, and one way of achieving this is by laying off workers or reducing the hours of those employees retained.
6. The main cause of this reduction in employment, is the increase in the cost of a worker above that worker's marginal revenue product, so that any wage increase will result in some workers costing more than their contribution to revenue and result in them being fired. This is particularly the case for small businesses which are less able to afford to retain workers whose wage is higher than their marginal revenue product.

7. High increases in unemployment following a minimum wage hike occur in markets where demand and supply are very price elastic, while where demand and supply are not very responsive to price changes, increases in minimum wages will cause little unemployment. The impact on unemployment however, is smaller the lower the minimum wage and therefore, the higher the proportion of workers already paid above it. When some sectors are not covered, a further implication of minimum wage legislation is that, because employment in the covered sectors will fall following an increase in the minimum wage, wage rates in the uncovered sector will decrease, as the uncovered sector ends up absorbing workers who are displaced from the covered sector. Extending minimum wage legislation to a sector not previously covered will have a similar effect. For instance, imposing minimum wage legislation on domestic workers, who have not been previously covered, will reduce employment in that sector and force those who would have otherwise found a domestic job into the informal sector. Such a move will have an effect in the form of reduced income for people such as those washing cars in car parks, and hawkers selling on city pavements, as there is an increased number of people competing for these sources of income.
8. Economists world wide acknowledge that minimum wage increases result in a trade-off, and no matter how well intended, always come with a price, in the form of lost jobs for some, and increased benefits for others, especially those who are better off because they have jobs. Economic research has indicated that following a minimum wage hike, the poor and less skilled are often forced out of the work force. This was supported by a study, from the University of Chicago on the characteristics of low-wage earners in America, which revealed a strong relationship between unskilled workers and low-wage rates. The study indicated that these workers stand a high chance of being priced out of the job market whenever a higher minimum wage rate is set (Neal, 1996).
9. Much has been written on the effects of minimum wages on the employment level. Studies have revealed that raising the minimum wage in an attempt to help the poor is not an effective economic policy. They have further shown that the bulk of any increase in minimum wages does not impact significantly on the incomes of the working poor. Instead, increased minimum wages have been seen to dissolve work opportunities for the

poor and least skilled, while directing small amounts of money towards less poor families (Macphersan, 1996). Furthermore, an increase in minimum wages results in an increase in the price of goods. As these prices increase, the real value of the wage in turn goes down and hence the situation of the worker who earns minimum wages is eroded.

10. Minimum wage legislation as an anti-poverty policy instrument has deficiencies, as it has been seen to lead to effects contrary to the objectives of policy makers. For instance, following a minimum wage rise, employment has been seen to fall more than in proportion to the wage increase, resulting in a reduction in earnings (Stigler, 1946). In this sense minimum wages have been found as an inappropriately targeted instrument for helping the poor and a tool for income redistribution. This is particularly true where the bulk of the poor are unemployed with no member of the household at work (The Economist, April 5 1997).
11. Studies by Michigan State University have revealed that a rise in minimum wages results in the displacement of less skilled younger members of the labour force from the job market, while the older and more highly skilled ones are hired at the higher wages. This displacement of the less skilled ones is disguised by their replacement in the work force by the more skilled workers (Neumark, 1995).
12. Many claims have been made to the effect that rising unemployment is the only logical consequence of an increase in the minimum wage. However, studies show that the increase may not significantly affect the supply of jobs. Although minimum wages are commonly associated with job losses and worsening of unemployment, it is possible to have low unemployment despite having a minimum wage, in instances of a low minimum wage, as is the case in America, which now has a minimum wage of \$5.15 per hour, which in American context is low even though it would be considered high in any African context. Research has shown that in some circumstances the increase can actually boost employment, as there is increased spending by minimum wage earners (Business week, June 9 1997). Conflicts of this nature in economic theory can mostly be explained by the elasticity of the labour market.

13. It has been argued that in a general equilibrium model with two factors (labour and capital), the well-being of uncovered sector workers could actually increase. Minimum wages introduced in a relatively capital intensive sector with a high demand elasticity, may result in a contraction that would release capital that may actually be of benefit to the lives of the uncovered sector workers. As the capital intensive covered sector contracts, there will be greater abundance of capital in that sector which will then be available to the uncovered sector probably at lower prices. This may lead to a tendency to improve the well-being of these workers, capital intensive methods reducing the amount of physically hard and monotonous work (Johnson, 1968)¹.
14. In light of the above research results, minimum wage legislation may have both negative results in the economy in the form of job losses etc. and positive results in the form of a rise in the wages, and thus, living standards, of the worst paid members of a population. The Macro Economic Research Group (MERG) in South Africa, argued in favour of minimum wage legislation, stating that minimum wages would redistribute income from employers to workers, and stimulate demand for goods and services in the economy, which would boost the economy as a whole. The group suggested that by shifting income from the rich to the poor, a minimum wage would strengthen demand and with it economic growth. Most theoretical work seems to put more weight on the negative employment and distribution effects of a statutory minimum wage, particularly a high minimum wage. This is particularly in view of the fact that minimum wages in many instances have unwanted side effects.

3. *Statutory Minimum Wages in Botswana*

15. Botswana has had differentiated statutory minimum wages since 1974, when minimum wages were first established, until the present time. While the government was aware that both the employed and the unemployed had the right to be protected, to ensure that

¹ This was written as far back as 1969. However, I did not come across any subsequent research that supported this theoretical possibility.

minimum wages were not set at a level that would result in the significant slowing down in the creation of employment for any category of workers, the government believed that differential statutory minimum wages should apply as a general principle. Differentiated minimum wages are more likely to take into account employers' varying ability to pay across sectors.

16. Initially there were two minimum wage rates in Botswana, which covered five sectors in the economy: construction, manufacturing, road transport, trade and hotels. Later, coverage of minimum wages was extended in 1980 to include night watchmen. In 1985, there were five separate minimum wage rates for the various categories of unskilled labour, ranging from 56t per hour in construction and other sectors to 37t per hour for night watchmen in the wholesale and retail trades. Since 1985 the trend was again towards harmonization, with only three separate rates in 1990. Currently there are four separate minimum wage rates, ranging from 145t per hour in the construction and other sectors to 123t per hour for night watchmen. Below is a table showing minimum wage rates for the present situation. Despite the extension of minimum wages to cover previously excluded sectors government persistently excluded the domestic service sector and the agricultural workers.

Table 1: Minimum hourly wage rates, 1996 (thebe/hour)

Private and Parastatal	1996
Building, construction, exploration and quarrying	145
Manufacturing, service and repair trades	145
Wholesale distributive trades	139
Retail distributive trades	131
Hotel, catering and entertainment trades	145
Garage, motor trades and road transport	145
Retail and wholesale nightwatchmen	123
Nightwatchmen (excl. retail and wholesale trades)	123

Source: Central Statistics Office

17. The issue of whether to have a single national minimum rate or a series of sectoral/regional minimum rates is a crucial one that requires careful consideration. A national minimum wage has the advantage of providing equal protection for all workers and is also much more easily monitored and enforced than sectoral rates. However, it

cannot easily take into account the fact that employers' ability to pay varies across sectors. To avoid causing high unemployment in those sectors which cannot afford to pay the minimum wage, a national minimum wage would have to remain low by the standards of the organised labour in the cities (Makgetla et al, 1994)

18. In Botswana, average rural wages were initially used as the reference point of minimum wage determination. Because of certain weaknesses, such as the lack of an accurate measure, this criterion was abandoned and replaced by the poverty datum line.
19. The table below shows the trend in real minimum² wages at 1993 prices, between 1974 and 1994. The sectors covered are the manufacturing, construction and road transport, the trade sector and finally government. The trade sector has been paying the least over the years, but has enjoyed the biggest increase of 106% and has therefore caught up on other sectors. Government has been paying the highest minimum wage rate but has experienced the lowest increase. Chart 1 portrays the movement of real minimum wages between 1974 and 1994. Minimum wage rates in these sectors were somewhat constant between 1981 and 1991 and from there experienced a sharp rise between 1992 and 1993.

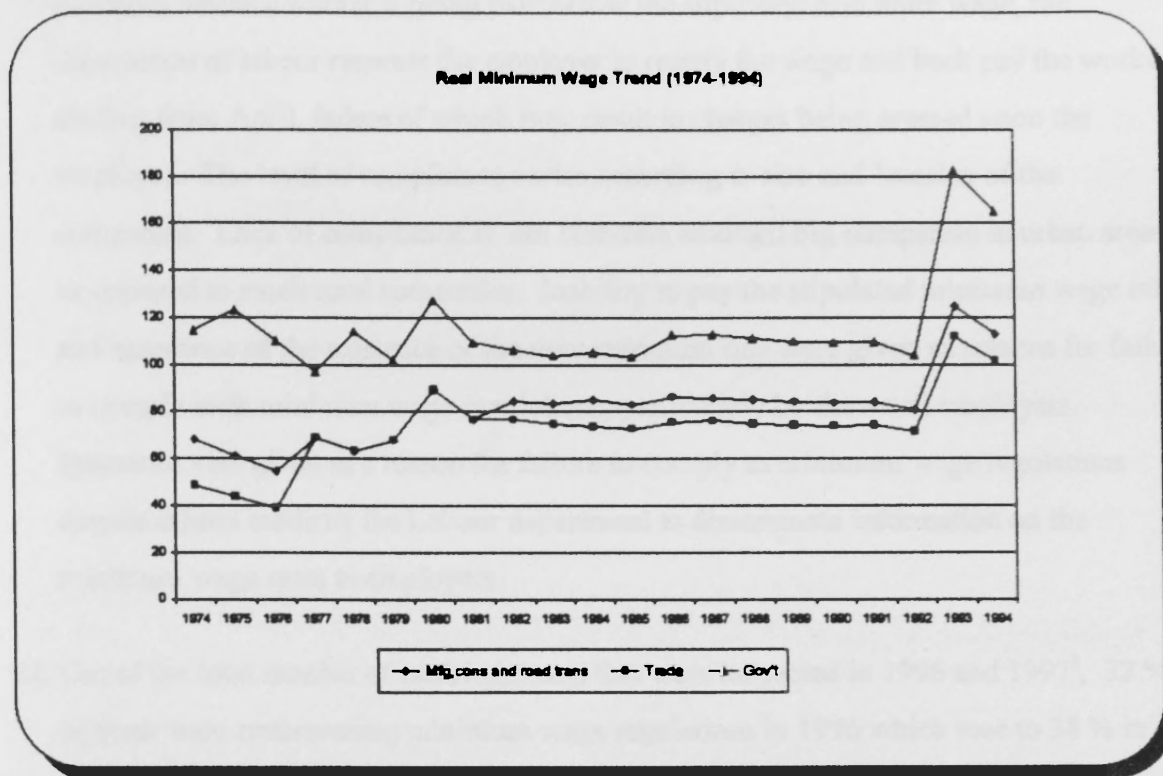
Table 2: Trends in Minimum Wage, 1974-1994 (Thebe per Hour)

	1974	1984	1994	74/94 (% change)
Trade	49	74	101	106 %
Mfg, Const & Road	68	85	113	66 %
Government (A3)	115	105	165	43 %

Source: Southern African Team for Employment Promotion, 1982 and Labour Statistics (1987/93/95).

² Calculated using Consumer Price Index, (1993=100).

Chart: 1 Real Minimum Wage Trends, 1974-1994



Source: Southern African Team for Employment Promotion, 1982 and Labour Statistics (1987/93/95).

20. The purpose of establishing legal minimum wage legislation in an economy like Botswana was to protect workers against exploitative employers who might take advantage of urban unemployment to push wages to excessively low levels. Minimum wage legislation was meant to provide a safety net for workers at the bottom of the wage ladder. Furthermore, given the weakness of trade unions in Botswana, there was a need for protecting the interests of workers.

21. Before we can clearly establish the effect of minimum wage laws in Botswana, we must look at the level of compliance in the country. How is it ensured that all relevant employers actually comply to the minimum wage regulations? The Department of Labour and Social Security is responsible for monitoring this through inspections. The department takes into account payment-in-kind when assessing compliance with minimum wage legislation, but employees have the right to demand payment in cash. The inspections are ideally supposed to be conducted twice a year, but in practice due to manpower shortages in the department, are conducted once a year or not at all. They entail a distribution of inspection forms to both the management and the staff, followed by individual discussions between the department of labour officials and the workers. In

instances where a worker is being paid below the stipulated minimum wage, the department of labour requests the employer to rectify the wage and back pay the worker starting from April, failure of which may result in charges being pressed upon the employer. The level of compliance varies according to size and location of the companies. Lack of compliance is not common amongst big companies in urban areas as opposed to small rural companies. Inability to pay the stipulated minimum wage rate and ignorance of the existence of the new minimum rate were given as reasons for failure to comply with minimum wage regulations, particularly by the small employers. Ignorance was given as a reason for failure to comply to minimum wage regulations despite efforts made by the Labour department to disseminate information on the minimum wage rates to employers.

22. Out of the total number of establishments that were inspected in 1996 and 1997³, 32 % of them were contravening minimum wage regulations in 1996 which rose to 38 % in 1997. The figures become low when looked at in terms of the number of affected workers, for instance 12% of the total work force in the industries inspected were paid below the stipulated minimum rate in 1996 and 10 % in 1997. In 1996, establishments in the retail distributive trade appeared to be the most affected by this problem, which could be explained by the fact that the industry comprises mainly workers who are typically in the category of low wage earners, such as cleaners. However, in 1997 minimum wage underpayments were highest in the garage, motor trade, hotel and catering and exploration and quarrying industries, where 52% of the establishments inspected were found to be paying their employees below the stipulated rates⁴ (and 22% of the workers were underpaid).
23. Table 3 briefly shows the total number of establishments inspected in the two years and the percentage of those that contravened the minimum wage regulations together with the percentage of affected workers.

³ From January to October.

⁴ These figures however show part of the picture, a more complete picture would require an analysis of a representative sample.

Table 3 : Minimum Wage Inspection

	No. of inspected est.	contravening est. (%)	Affected workers (%)
1996	2158	32 %	12 %
1997	1441	38 %	10 %

Source: Department of Labour and Social Security (inspection results, 1996/97)

24. When comparing the minimum wage rates in different industries to the average monthly earnings in those industries it is revealed that in most industries average wages are roughly twice the minimum wages, except for the mining and quarrying industry where average monthly wages are roughly four times the monthly minimum wages. Table 4 below compares minimum and average monthly wages in different industries in 1995.

Table 4: Minimum and Average monthly wages by Industry, 1995

Industries	Minimum wages (P/month)	Average earnings (P/month)
Manufacturing	237.6	570
Building and Construction	237.6	595
Wholesale	227.0	565
Retail	213.0	565
Mining and Quarrying	237.6	1,170
Hotel and Catering	237.6	565

Source: Bank of Botswana Annual Report, 1996

25. An introduction of minimum wages can be expected to have three adverse effects in the economy, namely: a decline in the number of jobs available; an increase in the number of people seeking work and not finding it, and an increase in the unit wage costs and possibly the total wage bill. The extent to which all these will be realised will depend on the elasticity of supply and demand for labour and the level at which the minimum wage rate is set. It should be noted that the effects of minimum wages are negative in terms of the number of jobs and wage costs. Minimum wages can have some significant beneficial effects such as; raising the standard of living to a certain extent of those who are covered (some argue against this) and improving the willingness of workers to increase productivity. Another possible benefit is a reduction in labour turnover when the lowest wages are increased. This almost certainly results in an improvement in productivity, and should mean that employers are more willing to train the workers involved, resulting in further productivity improvements.

26. Minimum wage legislation can have adverse effects on the survival of both small and large businesses. Until Botswana local firms can both pay high wages and still compete successfully with imports and sell successfully in export markets, some sectors of the economy will be unable to pay a minimum wage that meets the fixed target of the PDL. Minimum wage restrictions that are large relative to the market determined wages appear to have very large economic effects (Colberg, 1960).
27. The effects of a high minimum wage on employment are among the most important factors to be considered when changing the wage rates, particularly in an economy like that of Botswana with unemployment of 21% and a rapidly growing labour force. Unrealistically high minimum wages have the potential of causing companies to switch to capital intensive techniques of production, thus causing a decline in the growth of employment. Bearing in mind Botswana's need to retain a competitive economic position in relation to it's neighbours and the fact that labour costs and productivity are a crucial aspect of this problem, it is necessary for labour to be relatively inexpensive compared to other factors of production, as it's cost could determine whether labour intensive companies expand in Botswana or elsewhere in Southern Africa.
28. In general, labour costs appear to be relatively high in Botswana and may not be internationally competitive. Wages may appear to be low for those earning minimum wages (partly because of the relatively high cost of living in the country), but are higher than those paid for equivalent work in other countries. For instance, the hourly wage rates for workers in the textiles and clothing industry in a number of countries clearly show that Botswana wages are not low. See table below.

Table: 5 Comparative wage rates in textiles/clothing, 1992 (US cents/hour)

<i>Country</i>	<i>Wage rate</i>	<i>Country</i>	<i>Wage rate</i>
Thailand	92	Vietnam	15
Philippines	67	RSA (urban))	125
Malaysia	86	RSA (homelands)	60
Indonesia	25	Malawi	30
China (north)	30	Zimbabwe	30
China (south)	60	Botswana	60

Source: Barclays Botswana Economic Review, Vol 1., No. 4

29. A wage rise changes the optimal price output relationship in the direction of higher prices and lower output. Since employment is a function of output, it may be expected to decline. A wage rise inevitably raises the cost of labour relative to other factors which are substitutable for labour and encourages the greater employment of such substitutes, such as capital. The effects of a wage increase on costs and prices can be offset wholly or partially by an increase in labour productivity. Lipton, in his 1978 report recommended that there should be no future rise in minimum wages except in response to productivity or as part of productivity bargains. One of the techniques with which firms seek to reduce the cost impacts of minimum wages is through improved worker productivity (Scoville and Nyamadzabo, 1988).
30. Several studies have been done on various aspects of the Minimum Wage Policy in Botswana. Results of the 1977 review of the minimum wage legislation indicated that although overall employment showed some growth, employment in the sectors which experienced the largest increases in the minimum wages were adversely affected relative to other sectors.
31. Some of the existing studies on different aspects of minimum wages in Botswana (Boyd and Mugabe, 1989; Gyekye and Mazonde, 1989, Scoville and Nyamadzabo, 1988, Colclough and Olsen, 1983; ILO/SATEP, 1982; and Lipton, 1978) have produced qualitative conclusions with respect to the various effects of minimum wages in Botswana. The reports by (Colclough/Olsen) and (Scoville/Nyamadzabo) concluded that the levels of minimum wages at the time of their study was about right since it had little effect on output and employment in the sectors to which they applied. Minimum wages at that time did not result in the substitution of capital for labour. Scoville and Nyamadzabo further expressed their view that the enforcement of the same minimum wage for smaller enterprises in the rural areas would result in significant disemployment. In their survey, some of the reasons why minimum wages had no effect on the level of employment as given by the employers were that, some firms had a proportion of highly skilled labour so high that all wages were above the minimum and many larger manufacturing firms were receiving FAP payments which largely offset wage costs.

32. Reports by Boyd/Mugabe(1989) and Gyekye/Mazonde(1989) used estimates of elasticities of labour demand and supply based on the information provided by their survey, to establish the responsiveness of labour to changes in wages in the Domestic Service and Agricultural sectors. The estimation was carried out using ordinary least squares (OLS) technique. The coefficients derived from the method were read directly as the elasticity of the hours of labour either supplied or demanded as a result of a change in the associated variable. According to the estimates, out of a sample of 703 households (725 employees and 696 employers), an introduction of a minimum wage in the domestic service sector will produce no additional labour supplied but will reduce the amount of labour demanded by a small but significant amount. For instance, their estimates showed that a 10% increase in money wages due to minimum wages would result in a 1% decline in employment (due to the decreased demand).
33. In the agricultural sector, the responsiveness of labour supply and demand to earnings was found to differ significantly between the traditional and commercial farm sectors. In the traditional sector, from a sample of 400 farm holdings (296 workers and 265 employers), an increase in the money wage through the introduction of a minimum wage, will produce a small but significant additional labour supply into the sector but no effect on the amount of labour demanded. The reverse is true for the commercial sector, which comprised 50 sampled farms.

4. *Informal sector: Agricultural and Domestic sectors*

34. Botswana's informal sector comprised 129 104⁵ people in 1994 compared to the formal sector employment that stood at 230 600 in the same year. Informal sector workers are the economically active members of the population who are not covered by any formal labour codes. Most informal sector employees are unpaid workers in the lands and cattle posts, and they made up 52.5% of the total number of employees engaged in informal sector activities in 1994.⁶ This category of unpaid workers in the lands and cattle posts

⁵ These figures do not capture all informal sector employees, for instance in the traditional agriculture sector only the unpaid family labour has been included leaving out the hired labour.

⁶ The source of the above figures on informal sector employment and activities is the Annual Economic Report, 1997.

fell slightly by 0.4% between 1991 and 1994. The table below shows the total number of unpaid family workers as a proportion of total informal sector workers, for the two years.

Table 6 : Unpaid family workers as proportion of total informal sector workers

	1991	1994
Total number of unpaid family workers	67,612	67,351
Total informal sector workers	104,016	129,104
% unpaid family workers	65%	52%

Source: Annual Economic Report, 1997

35. Overall, 36% of the total labour force⁷ in 1994 were not protected by minimum wages and 64% were. With regard to their earnings, as compared to the industrial minimum wage, the 1995 average monthly earnings of agricultural workers was P273, with the government minimum wage at P347 per month⁸ and the statutory minimum wage in the private sector construction industry at P237 per month. In comparison to the Poverty Datum Line, the 1994 figures reveal that the PDL for a household size of four⁹ individuals was P426 in towns (excluding Gaborone) and P347 in Area B¹⁰. The monthly earnings of agricultural workers are clearly below both the government minimum and the PDL but slightly above the private sector construction industry minimum.

36. The main two groups of low wage earners presently not covered by the minimum wage legislation despite several recommendations to do so are the agricultural and domestic service workers. The domestic service sector, is the single most important source of non-agricultural employment for women in Botswana accounting for 26% of the female labour force (Boyd and Mugabe, 1989). According to the 1991 national census, out of the 114,098 women in Botswana engaged in waged labour, those in "domestic service" accounted for the largest occupational group, 27,943. In other countries where minimum wages were extended to cover such workers, the assessment that was made to determine whether such groups needed protection was based on the economic position of such a group as well as their vulnerability in the job market. For instance, if this group

⁷ Total labour force is derived from the sum of total informal sector employment and total formal sector employment in 1994.

⁸ Used 22 days to compute the monthly salary.

⁹ Consisting of Male (20-54), Female (20-54), Boy (6) and Girl (2)

¹⁰ Rural North East (North East and Central Districts)

comprises a major part of the work force their exclusion would seriously weaken the achievements of the minimum wage objectives and increase inequality between those covered and uncovered. It is against this background that most countries including African countries have extended their minimum wages to cover the excluded groups (SATEP report, 1982).

37. Lipton's 1978 report on "Employment and Labour Use in Botswana", recommended that, given the 1978 rise in minimum wages and their damaging effect on employment creation, minimum wages should not be implemented in other sectors until there is no major unemployment problem in Botswana and most workers are in the formal sector. The current situation in Botswana is one where there is persistent unemployment that can be explained by a high rate of growth of population combined with slow economic growth in recent years amongst the more labour absorbing sectors. Unemployment seems to be more of a problem amongst females, the uneducated and the youth. The youth (15-29) comprise 44% of the labour force but 70%¹¹ of the unemployed. Given this, youth unemployment has been a major problem such that suggestions have been made to introduce a special youth rate which might address this problem (Presidential Commission on the Review of Incomes Policy, 1990). A number of studies (SATEP report, Boyd/Mugabe and Gyekye/Mazonde and others) were conducted following 1978 which had a different view from Lipton in the sense that they recommended the extension of minimum wages to cover the two excluded sectors, below are highlights of some of them.

38. In Botswana several studies (Boyd/Mugabe and Gyekye/Mazonde, 1989) have shown the vulnerability of these workers in the labour market and the need for them to be protected. Surveys carried out in the two excluded sectors reveal that a high proportion of the wage earners in those sectors receive an income well below the minimum wage in those sectors covered by the act. In 1989, monthly cash income of an unskilled worker earning the lowest of the statutory minimum wage rates was P132.00, whereas, the average monthly cash and in-kind income of a sample of 455 agricultural employees was P90.86. Over 30% of the sample of agricultural workers were shown to receive a monthly cash income less than P30.00 (Presidential Commission on Review of Incomes Policy, 1990). With

¹¹ NEMIC paper No. 3 (1997)

regard to the valuation of income-in-kind, which is an important component of the remuneration package in the agricultural sector, the household income and expenditure surveys provide monetary values of the various items that make up payment in-kind.

39. According to the report by Boyd and Mugabe (1989), the total income for domestic workers was P122 per month (cash and payment in-kind), with urban income exceeding rural income. Money wages contributed only part (on average 51%) of the total remuneration of domestic workers with the other part being in-kind payment. The table below shows money wage and income in-kind for domestic workers, by settlement type.

Table: 7 Money Wage and Income in-kind for Domestic workers, by settlement type, 1989

	Money wage per month	Food income per month	Housing income per month	Total
Urban	68.60	48.55	20.89	138.04
Rural	55.77	39.04	10.31	105.12
National	62.19	43.80	15.60	122

Source: A Minimum Wage Possibility in the Domestic Sector, Boyd and Mugabe, 1989

40. Domestic workers were found to work an average of 240 hours a month, which was considered long compared to the 180¹² hours per month for "normal" full-time workers in other sectors. The hours of work were longer in the urban areas than in the rural areas.

41. On average, total monthly income for agricultural workers in the traditional sub-sector was P90.85 and P112.33 in the commercial sub-sector, or P101.60 for the entire agricultural sector. Money income was the largest contributor to the total income in this sector. The table below shows money wage and income in-kind for agricultural workers by subsector.

Table: 8 Money wage and income in-kind for Agricultural Workers by Subsector (Pula), 1989

	Money wage per month	Food income per month	Housing income per month	Clothing income per month	Total monthly income
Traditional	56.67	26.81	4.81	2.56	90.85
Commercial	85.83	19.27	4.10	3.13	112.33
National	70.11	24.17	4.56	2.76	101.6

Source: Study on Minimum Wage Possibility in the Agricultural Sector, Gyekye and Mazonde (1989)

¹² Calculated at 8 hours for 5 days a week.

42. Agricultural employees were found to work on average 265 hours a month, whereas most government workers work 180 hours a month. Below is a summary table showing the total income (including in-kind payment) of agricultural and domestic workers, compared with the government minimum rate (A3) of 1989. From the table it is clear that the government minimum rate is substantially higher than both the average monthly total income in the agricultural and the domestic sector. The agricultural sector income of P101.6 represents just over half (53.4%) of the government rate and the domestic sector, 64.1% of the government rate.

Table: 9 Average monthly total income¹³ of agricultural and domestic workers and government minimum rate, 1989

Agricultural Sector		Domestic Sector	Government Minimum (A3)
Traditional Sector	Commercial Sector		
P 90.85	P112.33	P122	P 190.3*

* Calculated at 22 days in a month. Source: Review of Labour Based Public Works, Poverty Study

43. The report on "Implications of Minimum Wage Fixing on Employment and Distribution" by the Southern African Team for Employment Promotion (1982), recommended the extension of minimum wages to cover agricultural workers, this was made in view of the international criteria for extending minimum wage coverage and the vulnerability of the agricultural workers in the labour market. It further added that such a minimum wage should be fixed taking into account the existing wage levels in agriculture, the difference between part time and full time and the extensive reliance on payment in kind.

44. In the report on "Minimum wage possibility in the Agricultural and Domestic sectors" (1989), both employers and employees agreed on the necessity of introducing a minimum wage in these sectors. Employers in the agricultural sectors, were of the opinion that minimum wages should only apply to the qualified workers, and even then it's determination should consider workers' output as well as the employers ability to afford the wage. Employees on the other hand, felt minimum wages should apply to all

¹³ Average total monthly income includes the contribution from both money income and payment in kind.

workers. In the domestic sector the survey revealed that from those interviewed, 97% of the workers and 66% of the employers were in favour of introducing a minimum wage.

45. The Presidential Commission on the Review of the Incomes Policy (1990) specifically recommended that government should extend minimum wage protection to the agricultural and domestic workers, with the same rate prevailing in both the traditional and commercial agricultural sectors. Payment in kind, which is a major part of the remuneration package in these two sectors should continue to be included as an integral part of the minimum wages. In this case, the valuation of the payment in kind should be agreed upon by the two concerned parties with the department of labour intervening only in instances where there is a disagreement.
46. A report on Labour Law in Botswana recognised that the domestic sector which is predominantly the domain of young and poorly educated unmarried women with children to support, is not covered by the minimum wages and this reflects a form of " statutory inequality" created by the 1982 Employment act (Takirambudde and Molokomme, 1994)
47. When the idea of extending minimum wages to cover the other excluded groups is brought up, the common response apart from that of the disemployment possibility, is the concern that employers of these groups would not be able to pay the minimum wages. This is brought about by the assumption that the newly covered workers would be entitled to the same amount of minimum wages as the previously covered ones. This need not be the case. For instance, certain developing countries that have extended their minimum wages to cover the agricultural workers have set them low to reduce the risk of job losses (SATEP Report, 1982). Determining the precise amount of job losses following a minimum wage rise is not easy, it can only be estimated through the use of estimates of labour demand and supply elasticities. It has however been determined that setting the formal sector minimum wage well above the earnings of those working in the rest of the economy would most likely result in job losses and a widening of the gap between rural and urban incomes, resulting in an acceleration of rural-urban migration.

5. Conclusions:

48. There has been extensive discussion but little actual research involving the collection of recent statistics on minimum wages in Botswana. The latest extensive studies on minimum wages were done in 1989. A lot has happened since then including the 1990's recession, which means some of the findings based on past economic conditions may no longer apply.
49. The domestic service sector plays a major role as a source of income for women in Botswana. Agriculture on the other hand forms the main source of employment in the rural areas for both men and women. These two groups economic position and vulnerability in the job market have been the bases of assessing whether such groups needed protection in other countries. The question of extending minimum wages to these groups is an important one that requires careful consideration.
50. In considering the question of whether or not there should be a statutory minimum wage for these two sectors, both long term and short term goals and their implications must be considered. There may be strong short term arguments for introducing minimum wages in these sectors but the question should be whether in the long term these sectors will be considered socially desirable to be protected. For instance, the domestic sector may in the long run diminish as it is replaced by labour saving devices and commercial agencies as society develops. The issue of illegal migrants and the impact they are likely to have on employment as a result of minimum wages should also be looked into. Botswana shares borders with countries like Zimbabwe where the level of poverty in that country causes an influx of illegal migrants into Botswana in pursuit of employment and a better life. Most of these illegal migrants are found in the agricultural and domestic sectors. The possible effect of introducing a minimum wage in these sectors, is that employers who do not want to pay such a wage will opt to hire these illegal workers and pay them a low wage than to hire a Botswana and be obliged to pay the minimum wage. This will then mean a lot of Botswana will lose the opportunity to get even an informal sector job as they are taken by illegal immigrants. This is not to say however, that minimum wages need not be introduced in these sectors at present. Government should look into all the

possible repercussions that may result from introducing minimum wages in these sectors and address them.

51. There is indeed a dilemma concerning either introducing minimum wages and risking job losses amongst the already poor members of the population or continuing to exclude these sectors from minimum wage protection and further exposing them to the risk of being exploited. The level at which the minimum wage rate is set is also a dilemma. This is in the sense that high minimum wages are likely to have a greater disemployment effect as opposed to low wages, while low minimum wages (not enough to sustain the lives of the low wage earners) are morally and politically difficult to defend. Given this, most research results concede that statutory minimum wages should exist, only not at a level that would significantly affect the creation of jobs.
52. Botswana has a relatively liberal labour market outside the public sector, as seen by the numerous retrenchments that have taken place in the past, for instance many workers were laid off in the manufacturing sector in the early 90's. One form of government intervention in the labour market is through the use of minimum wages. Minimum wages should be kept at a level that protects the exploited workers but does not cause too much damage in the sense of lost jobs. The same principle should apply when determining minimum wage coverage for the excluded groups, namely domestic and agricultural workers. One way of minimising the amount of job losses in these sectors could be to allow some kind of flexibility in the enforcement. Minimum wages should exist as an instrument for workers to use when they feel they are being exploited but employers should not be obliged to pay it as long as there is mutual consent between the two parties.
53. In my opinion the introduction of minimum wages in these two excluded sectors would do more good than harm. Most people who have hired farm labour and domestic workers can in the event of a minimum wage introduction in these sectors afford to retain the workers and increase their pay, instead of laying them off.
54. Annex A provides a brief summary of findings and recommendations of existing studies on minimum wages in Botswana.

Annex: A Summary of the findings/recommendations on existing studies on minimum wages in Botswana

Study	Opinion/recommendation
Review of minimum wage legislation, 1977	Although there was growth in overall employment, employment in those sectors which experienced the largest increases in the minimum wages were adversely affected relative to other sectors.
"Employment and Land Use", M.Lipton, 1978	Recommended that given the damaging effects of the 1978 minimum wage rise on employment creation, minimum wages should not be extended to other sectors of the economy until there is no major unemployment problem and most workers are in the formal sector. He further emphasised that wages should be tied to productivity increases as a way of minimising their adverse effect on employment.
"Minimum Wage Fixing in Botswana" -implications on employment and income distribution, ILO/SATEP, 1982	Using international criteria, the study recommended that government extend minimum wages protection to agriculture and domestic workers. Such a minimum wage should be fixed taking into account the existing wage levels in agriculture, difference between part-time and full-time employment and the extensive reliance on payment-in-kind.
"Review of Incomes Policy", C.Colclough and P. Olsen, 1983	The level of minimum wages at the time of their study were about right since they had little effect on output and employment in the industries to which they applied and they did not appear to have led to the substitution of capital for labour. They also expressed concern that the enforcement of the same minimum wage for smaller enterprises in the rural areas would result in significant disemployment.
" Impact of Minimum wages in Botswana". G.Scoville and T.Nyamadzabo. 1988	Their results regarding the level of minimum wages and the effect of enforcing the same minimum rate for smaller enterprises were similar to those of the previous study. Some of the reasons given for the absence of an effect was that some firms have a high proportion of high skilled labour, so that all wages were above the minimum and many manufacturing firms were receiving FAP payments which largely offset wage costs.

<p>"Possibility of introducing a minimum wage in the domestic sector", Boyd and Mugabe, 1989</p>	<p>According to their estimates of labour demand and supply elasticities, introduction of a minimum wage in the domestic sector would produce no additional labour supplied but would reduce the amount of labour demanded by a small but significant amount. Both employers and workers agreed on the importance of having a minimum wage in the two excluded sectors.</p>
<p>"Possibility of introducing a minimum wage in the agricultural sector", Gyekye and Mazonde, 1989</p>	<p>The responsiveness of labour demand and supply to earnings were found to differ significantly between the traditional and commercial farm sectors. Estimates in the traditional sector indicated that an increase in money wages will produce a small but significant additional labour supply into the sector but no effect on the amount of labour demanded. The opposite was true for the commercial sector. Both employers and workers agreed on the importance of having a minimum wage in both the commercial and traditional sectors.</p>
<p>Presidential Commission on the Review of the Incomes Policy, 1990</p>	<p>The commission specifically recommended that government include the two excluded sectors into the minimum wage protection. They further suggested that in the agricultural sector, the same rate should prevail in the commercial and traditional farm sectors. Payment-in-kind should also continue to be an integral part of their remuneration package, and be allowed to contribute to the achievement of the minimum wage, with its valuation being an agreement between the employer and the worker.</p>

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