
**THE EFFECTIVENESS OF MINIMUM WAGE POLICY
AS A POLICY TOOL IN POVERTY REDUCTION**

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ABSTRACT

The debate on the effectiveness of minimum wage policy between academics, economists, and legislators is going on in the world for several years, whereas in Pakistan very little work has been done on this issue. This study explores the effectiveness of minimum wage policy as a tool of poverty reduction. This study attempts to examine rich household survey data of industrial sector workers of Hyderabad through self-administered SEQOL questionnaire plus data collected from legal documentations, articles and research on the topic in Pakistan. It is descriptive analytical research analyzed data through descriptive statistics, tabulation, charts, figures, and used qualitative techniques for reporting reviews. The evidence shows that majority of the people are getting less than set minimum wage. Minimum wage is a useful policy in poverty reduction but not the only one tool to curtail poverty. It should be the top priority of minimum wage policy to protect living standard of the workers concerned with it.

Keywords: Minimum Wages, Poverty Reduction, Labour, Low Wage.

INTRODUCTION

The working poverty reduction and social protection of vulnerable employees is the part of International Labour Organization (ILO) decent work agenda and for that purpose minimum wage policy is adopted by all member countries. Minimum wage gives a wage floor to wage structure, which safeguards workers at lower level of wage distribution (ILO, 2008-09). Pakistan has a quite broad system of direct and indirect social protection mechanism in which minimum wages is included as part of indirect provisions (ILO, 2012-13). In Pakistan Federal Minimum Wage exist, besides it provincial government also fixes minimum wage and have a propensity to increase income families below the poverty line. Existing studies on minimum wage effects on poverty focus substantially on developed countries and such findings may not be generalized to developing countries due to large variations in labour market structures. This study filled this gap by examining the link between the minimum wage policy in Pakistan and the poverty status of its intended beneficiaries since 2010, using a rich household survey data of industrial sector workers of Hyderabad Sindh.

This research is a part of thesis investigation to provide information about minimum wages policy and laws in Pakistan and their effectiveness to reduce poverty. The research work is based on both primary and secondary data analysis. This study comprise of five sections: (i) Introduction has been given, (2) Section of the research is based on literature review comprise of studies found positive effect of minimum wage on poverty, (iii) Section deals with method used for research purpose, and (iv) Results are given and at conclusion is presented.

LITERATURE REVIEW

Minimum wages progressively put on magnitude over the past several decades generally, due to the failure of unions to put a stop to very low wages compare to the national average wages, in labour markets (Herr *et.al.*, 2009). More than 90 percent of the countries have legislation on minimum wages and collective bargaining (Williams; Walter, 2009) (ILO, 2014). Low wage (wage below two-thirds of median wage) increases risk of poverty (Global Wage Report, 2010-11). Among low pay workers female and members of disadvantageous groups are more likely poor. Approximately 330 million low paid employees have the challenges to deal with (ILO, 2010-11). Overall a minimum wage policy have to focus on the main objective of the minimum wage, which is to shelter the income of the lowest-paid workers and those who are least able to make their interests in a collective medium (Eyraud; Saget, 2005).

According to Boushey (2014), the best way to cut poverty is to make sure people are protected with decent wages works with the intention of place them above the poverty line. Increasing the minimum wage at a sensible level over time in the course of indexing it to the cost of living will found a powerful first stair on the ladder to economic guard. A boost in minimum wage will have positive economic effects and does not result in a rise in unemployment, improve productivity, and deal with the increasing problem of rising wage disparity. It should be a part of the poverty reduction efforts.

Alaniz, Gindling, Terrell (2011), found the impact of minimum wages on wages, work and poverty through individual level panel data in Nicaragua. This study analyzed minimum wages change on transition into and out of poverty along with, wages and employment, switches of workforce across occupations. The results acquaint with impact of minimum wage boost is on the bottom of wage distribution and found it directly proportional with wages and inversely with employment in private formal sector of minute firms. The conclusion of the study found poor workers family may get rid from poverty in the result of increase in minimum wages and head of the household having probability to move out from poor to non

poor (head of the household having less chances to come in unemployment trap due to minimum wages or they can find another job or may become self employed).

Cunningham (2007) assumes minimum wages as a part of social policy and presents innovative research useful to policy makers in minimum wage design and the corresponding larger social policy. The minimum wage is a striking strategy for poverty diminution and social justice. Primary direct government expenditures are not required, are an easy and noticeable way for the government to prove its commitment to social justice and sustain those at the bottom of the income distribution, and are effortlessly targeted to the poorest workers. It is a good policy tool due to its self targeting, lower monitoring, low leakage, 'right' worker incentive and labor market-focusing. The relatively high minimum wage in Colombia shows minimum wages as set high enough not a beneficiary for poor labour and in the moderate minimum wage economy of Brazil, a small decline in incomes of the poor on average occurrence. In the Mexican minimum wage is relatively low and no unemployment effects seen, the minimum wage boost the earnings of the poorest, but not sufficient to raise them away of poverty. The conclusion is those minimum wages positively affect wages but put a negative effect on employment in LAC. On the whole, in LAC's social policy portfolio the minimum wage is a social justice tool. The challenge is to set the minimum wage to take full advantage of social justice objectives while decrease the violent effects of the minimum wage.

Minimum wage policy consign sound effects on some poverty aspects and research has been done in different countries on different aspects of minimum wages to check its effectiveness as vehemence or heal, Despite the fact calls for of the minimum wage research not negotiate with on hand conflicting observed results. An expansion in research is much needed in the persistently changing and demanding economic surroundings of the world (Giotis, Chletsos, 2015). Less attention in economic theory is devoted to the direct impact of minimum wage on poverty (Kapelyuk, 2014). Until recently, there have been few empirical studies on the effects of minimum wage on poverty. Especially in Pakistan there are some studies which have partially discussed minimum wages but not wholly concerned with the minimum wage effect on low wage industrial sectors workers. This study is from Pakistan on minimum wages is to fill the gap through a case study plus available secondary data sources.

RESEARCH METHODOLOGY

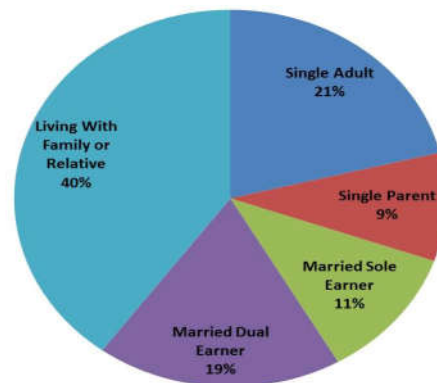
The objective of the study is to check minimum wages policy effectiveness in reduction of poverty. Poverty is determined by poverty threshold and government prescribed minimum wage impact on income and

living standard. The research work is comprised of primary and secondary data. Primary data from industrial sector of Hyderabad has been taken to represent a case study from Pakistan on the matter of minimum wages. Legal documentation worked as secondary sources of the study with reports, articles and reviews. The study devise is Cross-sectional comparative study using the self made SEQOL questionnaire. The data is analyzed through analytical tools such as Descriptive Statistics, tabulation, figures and qualitative Techniques for Reporting Reviews.

RESULTS AND DISCUSSION

A primary focus for proponents of setting the minimum wage is reducing hardship for families in poverty. However, study found little associated reduction in poverty. The increases were not well-targeted to families in poverty. Let's compare the real figures. The pie chart shown below indicates that majority of the minimum wage workers live in combine family system.

FIGURE-1
FAMILY COMPOSITION, IN HYDERABAD AND SIDE AREAS



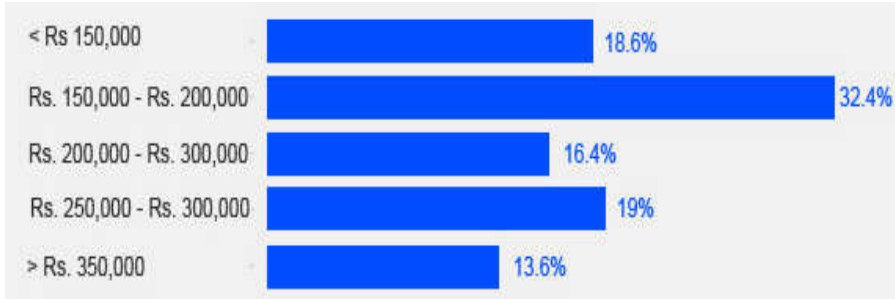
Source: Survey Data, 2015.

Question is how many people are supporting them on the minimum wage? After taking out teenagers, young people living with their parents, and people with higher-earning spouses, the answer's about three fourth of all minimum-wage workers.

Someone working full time for the federal minimum wage earns about Rs.156,000 a year. Only about a fifth of all minimum-wage earners made less than that in 2015, according to data from the Survey taken. But about half of minimum-wage workers had family incomes of less than Rs.250, 000, and nearly 70 percent had incomes below Rs.350, 000, which is roughly the national median.

Most minimum-wage workers, in other words, have other sources of income. Still, most are solidly in the bottom half of the income spectrum. (The data includes all cash income, including Social Security, child support payments and unemployment benefits, but not noncash income such as food stamps).

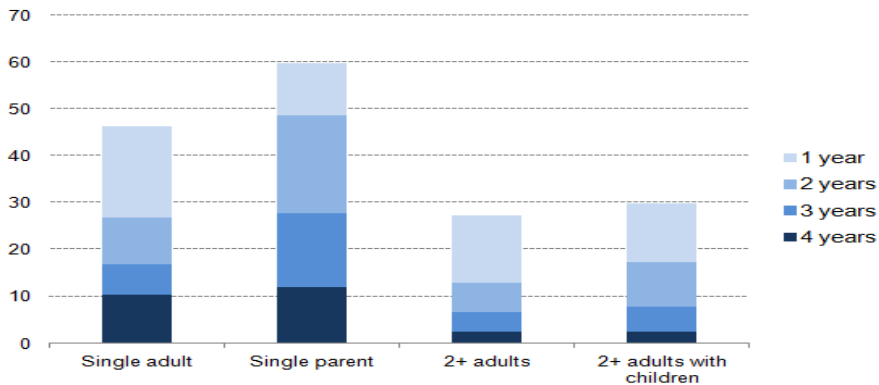
FIGURE-2
MINIMUM-WAGE WORKERS BY HOUSEHOLD INCOME



Source: Survey Data, 2015

How minimum wage keeping a worker out of poverty is dependent on the family size and total number of workers in a household. A minimum wage earner who works full time and lives alone will earn above poverty threshold. For single parents who work on minimum wage, still, staying above poverty can be on the whole challenging, yet with full-time work. Figure below shows that single parent takes more time to skip from poverty as compare to two working adults with children.

FIGURE-3
YEARS IN POVERTY IN FOUR YEARS, PERCENTAGE INDIVIDUALS



Source: Survey Data, 2015

Poverty is checked by the poverty thresholds. These thresholds, annually updated and find out how much income a household have need of to meet basic necessities, for instance food and shelter. In a family of two adults, solitary full-time worker at minimum wage will be paid only 95 percent of their poverty threshold of Rs.150,000. A distinct parent with one child will earn 92 percent of their poverty threshold.

TABLE-1
POVERTY THRESHOLD FOR 2015 BY FAMILY SIZE
AND NUMBER OF RELATED CHILDREN UNDER 18

Poverty Threshold for 2015 by Family Size and Number of Related Children under 18									
Size of family unit	Related Children Under 18 years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
One Person	88,152								
Two People	99,584	102,550							
Three People	112,250	118,450	127,860						
Four People	128,980	135,620	142,600	149,550					
Five People	144,850	148,320	159,560	165,870	173,600				
Six People	160,150	163,580	169,910	176,150	183,950	190,535			
Seven People	174,660	180,930	185,350	190,660	196,550	201,660	207,545		
Eight People	188,835	194,645	201,570	207,450	212,980	218,690	225,410	230,550	
Nine people or more	200,880	206,120	211,680	217,550	223,450	229,660	234,410	239,560	245,690

Source: Survey Data, 2015

For instance in order to earn above poverty threshold a solitary minimum wage earner with a one child would have to earn at least Rs.13,000 per month (full-time work). At the current federal minimum wage of Rs.13,000 this worker would have to work at least 2,254 hours during the year, or almost 43.3 hours each week. The bigger the family size the additional hours of work are necessary to stay above poverty with a solo minimum-wage income.

Pakistan has made incredible improvement in dropping overall poverty. Fifty million less people lived in poverty in 2011 than in 1991 and the share of the poor living on less than \$1.25 a day dived from 66.5% in 1987 to 12.7% in 2011.

FIGURE-4
NUMBER OF POOR PEOPLE IN PAKISTAN, 1987 – 2011

Number of poor people in Pakistan, 1987 – 2011



Source: Survey Data, 2015.

Economists have individually estimated poverty lines, and the latest, most reliable estimate is Rs.1,825.46 for 2010-11. Considering the fact that Pakistan currently has a family size of 6.8 and 1.5 earning members per family, this translates into a monthly income of Rs.18,000 (Rs.2,647 per person per month). Comparing the poverty line with the newly announced federal minimum wage, it seems as if the cure for poverty has already been discovered.

In the face of the reality that the 2001 Minima lesser than the level needed to maintain a living standard which was Rs.1,500 minimum wage set in 1992, but it still had power to influence the customary wage levels. boost in average wages of elementary occupations was 12.8%, weigh against with 18% for all wage earners during 2001-2002 to 2003-2004, telling that the wage legislation unsuccessful to lift the average wage of unskilled workers comparative to the boost seen by the left over categories of workers, it was the failure of implementation machinery.

TABLE-2
PERCENTAGE OF WAGE EARNERS EARNING BELOW THE
MINIMUM WAGE OF 2001 RS.2,500 PER MONTH

Years	Regular Workers	Non-regular Workers	All Workers
1997/98	11.6	32.7	18.0
2001/02	14.7	43.0	29.4
2003/04	14.1	39.2	25.8

Source: Irfan, 2009.

The wage distribution was worse since 1997-1998 to 2001-2003 as reported by labour force surveys, in 2001-02 29.4 percent workers paid less than prescribed minimum wage however in 2003-04 14 percent of regular workers were earning less than the set minimum wage. In 2003 prescribed minimum wage was Rs.3000 and Rs.4000 in 2004 but labour force data 2005-06 shows 49 % of the workers getting less than Rs.4000. In 2008-09, minimum wage rose to Rs.6,000 and step by step now in 2016-17 it is Rs.15000 but in essence not much effective in protecting the living standards of the workers because the prescribed minimum upset by inflation. In addition poor implementation due to corruption and mis-governance is also the hurdle for the working of minimum wage policy. Furthermore minimum wages are prescribed for industrial sector and most of the poor workers are connected to agriculture and other informal sectors who cannot entertain by the benefits of government prescribed minimum wages.

CONCLUSION

Minimum wage policy is helpful tool in poverty reduction however its effects are not much strong as it is not covering a larger share of poor workers who are engaged in informal sector. Another reason of modest impact of minimum wage is its impact on all low income families is not equivalent. Some families get out from poverty and some get in, in poverty after minimum wage hike in the economy due to their relocation in 'formal' to 'informal sectors'. Nevertheless minimum wages can be a helpful poverty reduction policy but not the very imperative or only one policy to curtail poverty. A call for to have a fresh look at the labour and wage policy is the need of time which should be useful for poverty reduction and brining equity and sustenance in the economy. Policies should be designed in a manner which gives opportunities of decent work through training of workers and improving technologies which results in increased productivity and quality of product. It will results in opening of the new doors for trade and manufacturing and an extension of protection to living standards of the working poor will be seen.

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