

IMPACT OF MINIMUM WAGE POLICIES ON POVERTY ALLEVIATION IN PAKISTAN

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***ABSTRACT-** This paper analyzes the minimum wage policies in Punjab province of Pakistan and its impact on poverty alleviation. For this purpose, we developed a questionnaire and collected from 315 workers of different industries operation in Punjab. The questionnaire contains 35 open and closed ended questions. The respondents were selected randomly. The dependent variable was poverty while education, skill, experience, income from industry, family size, number of dependents, monthly income of family and employment were independent variables. Multiple regression analysis was used to draw the results. We found that minimum wages have no significant impact on poverty alleviation whereas education, skill and experience have negative and significant association with poverty level. Thus, we suggest that the policy makers should not only focus on minimum wage but take policy initiative to enhance education level, skill and experience of industrial workers.*

Key words: Minimum wage policies, skill, education, poverty.

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1. INTRODUCTION

1.1 What is Minimum Wage

It is general practice in Pakistan and unskilled workers are not paid the wage which enable them to meet their basic needs. The workers are paid very low amount of monthly salary and they are forced to work more than eight hours without paying any extra financial benefits. The employers exploit the workers through low wage due to high unemployment rate and lack of job opportunities.

The minimum wages are fixed by government to save the workers from the exploitation of employers. The employer is made bound to pay above the fixed minimum wage. For example, in the United States, minimum wage is \$4 per hour and all workers are assumed to received more than four dollars per hour. In case of high demand of labour the workers can get higher wages but in case of recession they will get at least fixed minimum wage. Similarly, in Pakistan, minimum monthly wage is fixed by the Federal and Provincial Governments on the occasion of the announced of budgets. In 2017-18 budge, the Federal Government fixed Rs. 15,000/- for unskilled industrial workers keeping in view the inflation rate. So far the following enactment made to fix minimum wages: -

1. The Minimum Wages Ordinance, 1961 (applicable in ICT and Balochistan)
2. Pakistan Minimum Wages for Unskilled Workers Ordinance, 1969 (no longer in use after the 18th Amendment)
3. The Minimum Wages Ordinance, 1961 (adapted in Punjab by 2012 Amendment Act)
4. The Khyber Pakhtunkhwa Minimum Wages Act, 2013
5. Sindh Minimum Wages Act, 2015.

Thus, minimum wages are fixed by the Government after consultation with all stakeholders and after its fixation it is illegal to pay the workers below fixed amount

of wage. International Labour Organization clause 131 suggests that when minimum wage is going to fix the policy makers should consider both social components (needs of workers and their families, average cost for basic items/ inflation, government disability benefits) and financial variables (making of work, efficiency, intensity and so on.). The lowest pay permitted by law has not to be set at such an abnormal state, to the point that drives firms out of rivalry or smothers measures for employment creation.

1.2 Objectives of The Study

The objectives of the study are outlined as under: -

1. To investigate the role of Minimum Wages in Pakistan in poverty alleviation.
2. To analyze other factors' role other than minimum wage in poverty alleviation.
3. To study the policy implication of minimum wage fixation.

1.3 Scope of the Study

The scope of study is wide because the study is very useful for the policy makers as well as employers of private business firms to frame their policies in the light of the results and recommendations of this study.

2. LITERATURE REVIEW

A brief sketch of our reviewed relevant literature is given below: -

Ali and Nishat (2010) have noted the impact of remote coming in on failure through direction, wellbeing and other human correction markers. They used ARDL form to deal with mix on time organization data for the time of 1972 to 2008 if there should set in an appearance of Pakistan. They explored positive relationship between neediness, baby kid mortality, women's enrollment.

Awan et. al. (2018) examined the factors responsible for poverty in Pakistan. They used household survey method for collection of data. The study was spread over the period 1972-2007 and time series data was used which was collected from Economic Survey of Pakistan. They concluded that poverty is the result of differences in level of education, income, family size, skill and inheritance of assets.

Chaudhry et. al. (2010) analyzed the education role in poverty alleviation. Their level of study deals with primary and secondary education. Their results show that these levels of education are positively related to poverty while education at graduate level is negatively related to poverty due to prevailing unemployment among educated persons.

Awan (2012) states that the policy of advanced countries is also cause poverty in under-developed countries. He contended that advanced countries have restricted imports from developing countries by imposing quotas and high import tariffs due to which the former could not utilized their export potential.

Besley and Burgess (2003) stated that poverty is a global issue. They emphasized that although all countries and including world bank are making efforts to reduce poverty in different regions yet it is still existing due to high population rate, lack of job opportunities and unavailability of financial services. They urged to increase per capita income as it has positive relation with poverty alleviation.

Bénabou (2003) analyzed relationship between technological progress, income disparity, redistribution policies of government also played an important role in poverty alleviation and wage difference. He stressed that unavailability of financial support to poor students is main hurdle in human capital development. He suggested that educational assistance for the poor students can facilitated in lessening wage disparity.

Awan (2015) measured the impact of family size on level of poverty. He pleaded that small family size and education had positive impact on living standard, well-being and economic prosperity of households. He said that big family had negative relation with per capita income and level of poverty while small and educated family has positive and significant impact on the welfare of households.

Awan (2016) examined the role of small medium enterprises in poverty alleviation. They collected data from SMEs operating in Multan through a

questionnaire. They found that SMEs are an important sources of employment generation and poverty alleviation. They suggested that the Government through its policy initiative and financial institutions through financing must encourage small medium enterprises.

3. RESEARCH METHODOLOGY

3.1 Area of study

Punjab province of Pakistan has selected as area of research. It has nine divisions with thirty-six districts. In which some districts have industrial states and some have specific industry like sports products in Sialkot, garments and textile in Faisalabad Cutlery in Wazir Abad etc. Due to all this reason, industry on the upper part of the Punjab selected as the area of study. From some district, number of industries selected based on their population size so that represent the true picture of the study. After that labor from these industries selected randomly again this selection based on the relative size of the employed persons on specific enterprise.

3.2 Socio-Economic Indicators

Socio-Economic indicators are given below to observe the overall significances of the Punjab for the analysis of poverty.

Table 1: Socio-Economic indicators of Pakistan and Punjab Province, 2014.

Economic indicators	Pakistan	Punjab
Total population	180.5 million	100 million
Population growth rate	2.03%	1.87%
Population density (per sq. km)	236 persons	460 persons
Urban population	67 million	24 million
Gender	69% male, 46% female	69% male, 50% female
Primary net enrolment	60% boys, 53% girls	62% boys, 59% girls
Secondary Enrolment	34% boys, 29% girls	37% boys, 36% girls
Per Capita income	\$ 1257	
Infant mortality ratio	74 per 1000 live births	88 per 1000 live births
Women mortality ratio	276 per 100,000	227 per 100,000
Birth control Ratio	35.4%	40.7%

2.3 Research Design

A structured questionnaire was developed to collect the data from the sampling industries to measure the effect of minimum wage on poverty and unemployment. The survey method was used to collect the data. The questionnaire was consisted of 35 closed and open-ended questions. Random sampling technique was used in selection of sample of industries and labour class. The number of industries included into the sample was 155 and number of industrial workers were 315. We used description analysis for explanation of characteristics of sampling population and Logistic Regression model was applied to investigate the relationship between minimum wage and poverty alleviation. Total nine variables were included into the model. Poverty was taken as dependent variable while education, skill, experience of the workers, income from industry, monthly income of family, size of family, number of dependents and employment level in industry were taken as independent variables. The econometric model is shown in the following equation: -

$$\text{POVL} = \beta_0 + \beta_1 \text{EDULb} + \beta_2 \text{SKLL} + \beta_3 \text{INInd} + \beta_4 \text{EXPR} + \beta_5 \text{EMPLV} + \beta_6 \text{FYIN} + \beta_7 \text{LnFYSZ} + \beta_8 \text{NODT}$$

Where: -

POVL = Proportion of the income below poverty line

EDULB = Education of the labor

SkL = Skilled or unskilled labor

EXPR = Experience of the worker

INInd = income from industry

FYIN = Monthly income of family

FySZ = Size of respondent's family

NODT = Number of dependent in respondent's family

EmPLV = Employment level in industrial sector

3. DATA ANALYSIS

The results of our analysis are shown in Table 2

Table 2 Empirical results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.247984	1.061930	6.825295	0.0000
EDULb	-0.052779	0.268187	-0.196801	0.0441
SKLL	-0.410219	0.075305	-0.945737	0.0051
EMPLv	0.008033	0.197458	0.220509	0.0004
INInd	-1.19E-05	1.90E-05	-0.624257	0.0330
EXPR	-0.047976	0.206897	-0.231882	0.1168
FYIN	-1.37E-06	1.06E-05	-0.129475	0.0081
LNFY SZ	0.267322	0.310251	0.861633	0.3897
NODT	0.031737	0.050717	0.625773	0.0320
R-squared	0.480240	Mean dependent var	7.903333	
Adjusted R-squared	0.422274	F-statistic	8.284875	
Log likelihood	-380.1912	Prob(F-statistic)	0.000000	

3.1 Findings and Results

The data in the table 1 reveals that education and poverty has negative relationship because with the increase in the level of education the level of poverty will decrease. Our results show that one unit change in the level of education will decrease 52 percent in poverty level. It means that education is must for reducing poverty level. Similarly, skill also has negative relation with poverty level. The results indicate that one unit change in skill of the workers will bring 41 percent change in poverty level. It means that education and skill have positive impact on minimum

wages because employers offer high wage to educated and skilled workers. The data show that there is positive relationship between employment and poverty alleviation as one unit change in employment will reduce poverty level about eight percent. The income from industry and experience of workers have negative relationship with poverty because as income from industry and experience of workers are increased the poverty level would decrease increasing income pull the families of out of poverty trap. However, the size of family has positive relationship with poverty level because one unit change in family size will enhance poverty level around 27 percent. The number of dependent has also affected poverty level because the increase in number of dependent will increase poverty. If there is one unit change in number of dependent, it will increase about 31 percent in poverty level. Thus, our analysis reveals the fact that minimum wages are not the single factor of poverty. There are many other factors such as family size, number of dependent, employment opportunities, education, skill and experience are another factors which affect the level of poverty. Our results are consistent with the results of Ramirez et.al (2015) and Kapeluyk (2003).

4. CONCLUSIONS

From the above results, we conclude that education, skill and experience are three dominating factors for poverty alleviation while minimum wages alone cannot be used as policy tool to reduce the poverty from the country. Thus, the government of Pakistan should focus on the education and skill development of industrial workers to decrease the poverty level from the society. As educated and skill workers will fetch higher wages he automatically will come out of poverty trap. If the worker is less education and low skill, he would be offered low wages and he can hardly come of poverty trap.

5. POLICY RECOMMENDATIONS:

On the basis of the above conclusion we would like to make the following recommendations: -

1. The policy makers should not use minimum wages as a tool to reduce poverty level in Pakistan.
2. The policy makers should focus on the enhancement of literacy rate to improve the level of education among industrial workers.
3. The government through vocational training must launch skill development programs for industrial workers.
4. Policy initiative should be taken to make financial services available to unemployed persons so that he may be able to start his own business.
5. The Government should encourage small medium enterprises for employment generation.
6. Private sector must be made bound to implement labour policies of the government in spirit and letter to ensure the payment of minimum wage to unskilled industrial workers.

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CONTRIBUTION OF AUTHORS AND CONFLICT OF INTEREST

This research work was carried out in collaboration between two authors.

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Both authors read the manuscript carefully and declared no conflict of interest with any person or institution.
