

*Assessing Impact of Minimum Wages Policy on The Industrial Sector Worker's Well-being: A Case Study of Hyderabad Industrial Sector*

# Assessing Impact of Minimum Wages Policy on The Industrial Sector Worker's Well-being: A Case Study of Hyderabad Industrial Sector

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## **Abstract**

The reduction of working force poverty with social protection of susceptible workers is the part of ILO'S Decent Work Agenda. The Pakistan's government pays the responsibility to maintain a price floor for industrial sector's workers, and increase minimum wages almost annually. The Labor and Human Resource Department (Labour Directorate) Hyderabad office provided a list of workers and factories in Hyderabad industrial sector through which household survey data of workers of Hyderabad industrial sector collected. The Cross-sectional comparative approach is used to check indicators of consumption, income, living standards and poverty of the unskilled workers in factories. During data collection, a large number of unregistered workers in every establishment were also found which revealed the deep rooted corruption in industrial sector. The standard of living of low wage workers is no doubt directly linked with their monthly income. People spent money according to their earnings or wealth they possess. Consequently if they get higher income, they spent more on the necessities and luxuries of life which will result as the improved live style and standard. The policy of minimum wage is the ground which can give them strength in improving their living standard.

**Keywords:** Minimum Wages Policy, Industrial Sector Worker, Hyderabad Industrial Sector

## **1. Introduction**

Setting a minimum wage is no doubt a significant mechanism for proving a decent wage surety as it is figure out in developing countries many wage and salary earning workers, in reality, living in poverty with their families. The data from thirty two (32) developing countries shows that approximately from 209 million wage earners, about 23 million wage earners earned below US\$1.25 a day and 64 million earned less than US\$2 per day (ILO, 2012). In developing countries a large contribution of working poor consists of low waged and salaries workers. In Pakistan in 2005, it is anticipated that for all ten poor self-employed and voluntary family workers there were eight wage earners breathing in severe poverty due

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to very low level of wages (ILO, 2012). ILO suggests that authorities should set minimum wages after consultation with social partners with socially and economically a balanced approach (ILO, 2012). ILO Convention No.131, reckon minimum wage systems compulsory to save workers from unjustifiably low wages. Wage level should be set after consideration of social and economic factors such as the general level of wage, workers and their family's needs, the living cost, social security benefits, others living standards in the society, the requirements of economic progress, levels of productivity and maintenance of a high level of employment. The intensity on which these factors are impartial can be almost a little irregular indicators for instance the minimum wage level comparative to the median or mean wage or the fraction of workers whom earnings are exaggerated by the legislative minimum (ILO, 2010).

In Pakistan minimum wage set for industrial sector workers, aimed as a policy to provide relief to low wage workers of industrial sector. The study purpose is to look at what extent minimum wage effects positive in the way of improving living standard of workers and point out the limitations of minimum wages effect for workers. For study district Hyderabad has been selected purposely as it is one of the industrial hubs of the country and more so due to convenience of collecting the data as the researcher is the resident of Hyderabad city. Furthermore strong industrial base of Hyderabad makes it attractive for industrial workers study and legislation study which was the main concerned of the research. From the beginning it is a famous local market for different goods such as for grains, for the things made up of materials like gold, jewelry, and glass made items, leather made products, ornamented works done by the material of silks, silver & gold, and things to wear made up by the use of lacquer, ammunition, earthen, iron, cloth, tanned leather, and dairy products. The Hyderabad has achieved fame due to its skilled workers, who possess a history due to their expertise and hard work and they got prizes many times in Europe when Industrial exhibitions organized. Hyderabad industrial sector is a good example of overall labour class of the country engaged in industrial sector works. This work basically is the blend of desk and case study research. The case study method presents and examines worthy fellows, individually of the research parameters, for the research purpose regarding minimum wage effects on income consumption and well-being low wage earners.

## **2. Literature Review**

Khairani, Cantiga.K, Gettari. T.R.,(2023), International and national laws minimum wages bound to the labour for consideration of wages payments and low wage payment than the governments prescribed wages rate is prohibited and considered crime. The basic aim of minimum wages is to provide a decent life for the workers and their families in the result of their work which will encourage productivity of labour in result. Minimum wage is a debated topic for many decades on research platform for its pros and cons and different aspects of minimum wages effect on wages, employment and poverty has been studies so far in different economies. Dube found actual aim of minimum wage is to reduce poverty and in equality by shielding low pay of wages. The study found a good and increasing effect of minimum wages on the payment of wages of low paid works Dube (2019). Lemos (2007) and Sotomayor (2021) found minimum wages legislation reduced poverty and inequality in Brazil. Kashif Mansoor, O'Neill (2021) also found a positive effect on wages, without a resultant upshot on

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unemployment. The increase of minimum wage enhances household consumption. On the other hand, the valuable positive effect to wages and consumption is considerably condensed wherever non-compliance of the minimum wages law exists.

A greater number of research work by “Economists” has been presented on various features of minimum wages till now (Neumark and Wascher, 2008). These studies are on for instance minimum wage impacts on average wage, distribution of wage, employment effect, unemployment perspectives, working hours, formal/informal distribution effect, particular class or type of wage earners effects such as tipped workers, impact on social welfare, decisions of firms locations and also the minimum wages behavioral effect (Alaniz; Gindling and Terrell, 2011) (Amine and Lages Dos Santos, 2011) (Azar, 2012) (Boeri, 2012) (Mejean and Patureau, 2010) (Wang, 2012).

Neumark et al. (2014), chain of studies found some job losses due to the minimum wage laws regulations in the economies but these results obtained from developed economies empirical research, on the other hand, in developing economies it might be misleading conclusion as in developing economies minimum wages laws are not regulated fully or satisfactorily. Gudibande and Jacob (2020) study on domestic workers of india found positive effect on wages and no effect on employment levels. According to the study of (Rani and Besler, 2013), for some developing and emerging countries noncompliance rates are nearly 50 percent high and in most economies this rate is 20 percent. The analysis on minimum wages effects becomes more complicated due to theses high rates of non-compliance in developing countries (Neumark and Wascher, 2007). This research is going to present the example to examine minimum wage effects on living standard of low wage workers from developing countries to increase the literature on the issue.

Neumark; J.Asquith and Bass (2018) found positive long run effect on poverty but on welfare it affect adversely as opportunities to work curtail in long run due to minimum wages. They put their results as thought regard this scenario for policy makers and government.

Romich and D.Hill (2018) of minimum wages on poverty found it is a myth that minimum wage effect on poverty is rare. In actual some factors are there which create hurdles for minimum wages poverty effect. One reason is the imperfect targeting which reduce the positive effects of minimum wages on poverty. On the other hand heterogeneous nature of labour is another issue. Income support programs are critical for poverty reduction.

The effectiveness of minimum wage can be checked by the low-wage response to minimum wage. Low wage work leads to poverty. This relation is not as simple, because low pay, concerned with individual's gross earnings, while poverty relates with net disposable income of a household. This relationship can be weakening by the collective bargaining and minimum wage policies (ILO, 2010).

### **3. Methodology**

Minimum wage set a wage floor for the low wage workers through which surety is given for their basic necessities hypothetically; however in a low wage country where wages are even blow the minimum wage, a minimum wage level income can help to improve their living financial supplies. If an income equal to the minimum wage level can improve their living standard than the government should religiously make sure the implementation of

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prescribed minimum wages. This article based on the hypothesis, 'Minimum wage policy improves living standard of low wage workers'. The research is based on primary data collected through the self-administered SEQOL questionnaire from Hyderabad industrial sector. The data is analysed through the descriptive-comparative approach. The questionnaire comprises of sections related to minimum wages and labour laws implementation, living standard, income and consumption monthly / yearly and some basic information of workers households.

The industrial area of Hyderabad is consists of geographical clusters which are:

1. Sindh Small Industries Estate Corporation (SSIEC), situated around Tando Muhammad Khan Road and spread over 50-100 acres. (SMEDA) with its further extension.
2. Sindh Industrial and Trading Estate Site (SITE), Near Tando Muhammad Khan Road comprise of 1264 acres. (SMEDA) with its further expansion.
3. Small-Medium Scale Manufacturing Clusters, within city in small plots. (SMEDA)

Labor and Human Resource Department (Labour Directorate) Hyderabad office provided a list of workers and factories in Hyderabad which has been used as sampling frame for this research.

The list shows total 219 factories from which 10 has been change into (abolish) and remaining consist of total number of 16632 workers. Total number of 16632 populations of elements give us sample size of 376 subjects with 95 percent confidence level z score is 19.6 and  $p =$  percentage picking a choice, is .5, confidence interval is  $\pm 5$ .

Sampling method used in this research is multistage sampling. In the first stage, sample has been divided into three strata, small medium and large. Small units are defined as 'with up to 20 workers and 7.5 million capitals', as well as medium units defined as '21-250 workers and 7.5-40 million capital', and large units defined as more than '250 workers and more than 40 million capital' (SBP, 2013). We emphasized on worker numbers but not on the basis of paid up capital in this sample. In the given list there are 18 large working units with total no of 9769 workers, which is 58.73 percent of total workers in the sample. As well as 93 medium size working units with 5359 workers, which is total of 32.23 percentage point of total labour, however 150 workers are working in 98 small establishments that is only 9.04 percentage point of total number of workers. In the second stage of sample clusters are selected from population establishments. There were 98 small size factories, 93 medium size and 18 large size factories. Random selection was made of 6 from large establishments and 12 each establishment from medium and small size factories. When we proportionally distributed sample size, it became 222 samples (37 from each unit) from large size establishments, 120 (10 from each unit) from medium size establishments and 36 (3 from each unit) small size establishments, so the sample size become  $376+2 = 378$  subjects (for the opportune distribution of subjects).

The data collected through questionnaire analyses through SPSS software and results are presented in the form of graphs and tabulation with descriptive comparative approach.

#### **4. Study Results**

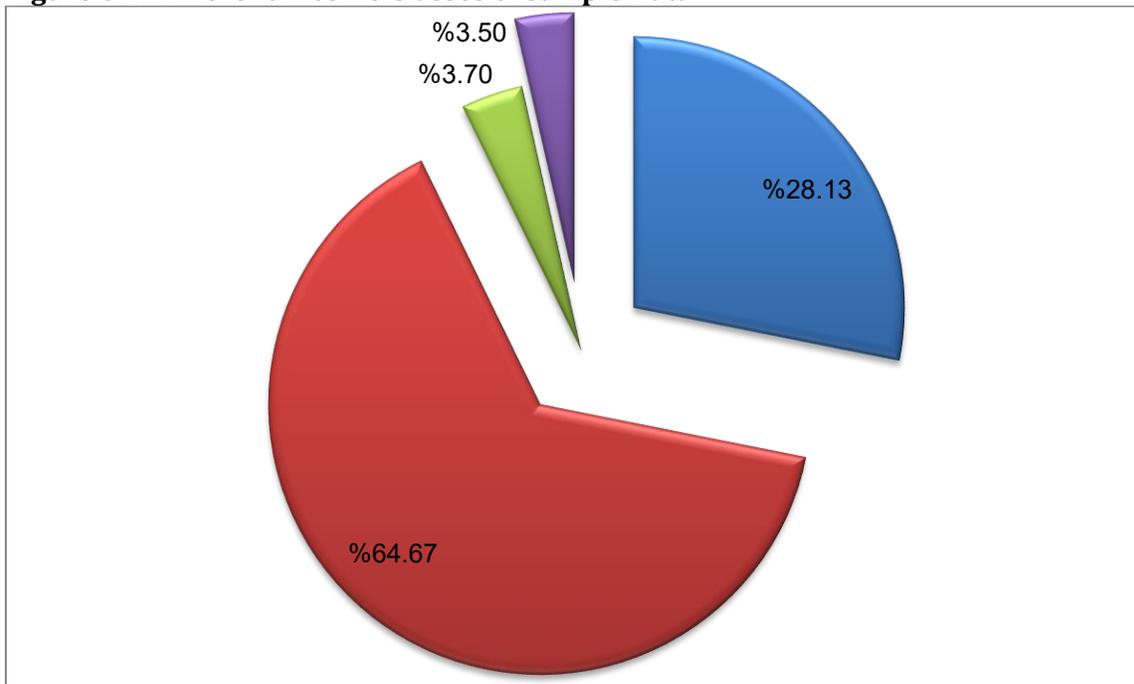
Minimum wages effects are checked by tracking the workers who were earning less than government prescribed federal minimum wages to equal to the government prescribed minimum wages. The most opposite effect of minimum wages claimed that it cause

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unemployment. Specifically low wages earners would be most likely to be priced out of work due to minimum wage hike. The male workers who were between the ages of 25 years to 30 years lost the probability of doing formal sector job to informal sector after one percent increase in minimum wage by 4.6 percent (Survey Data 2023).

The survey conducted in Hyderabad industrial sector found wage earners with different income classes of workers engaged in different works and had status of formal and informal employees during survey.

**Figure 6.1: Different Income Classes of Sample Data**

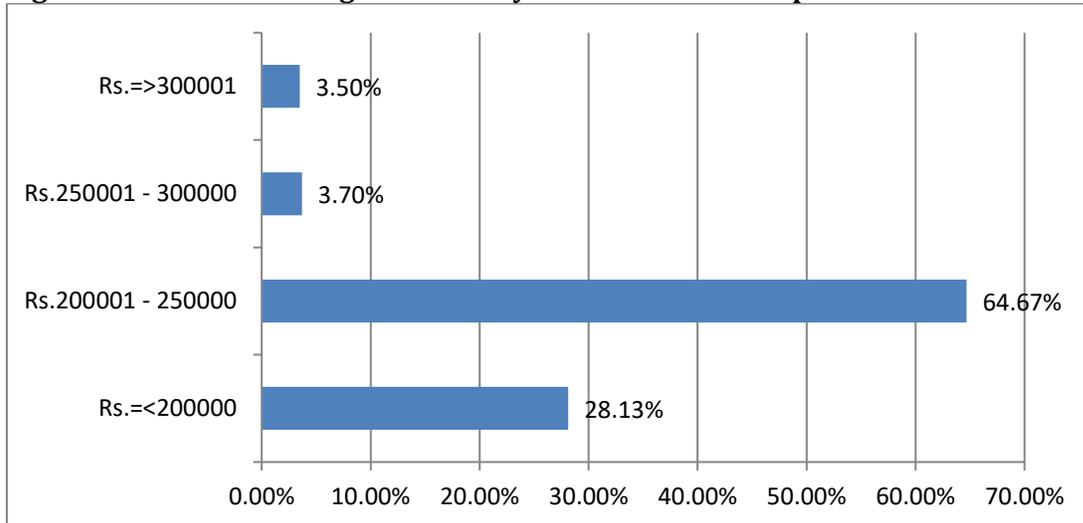


Source: Survey Data, 2023

Most of the minimum wage earners also engaged in some other part time jobs for increasing their earnings. In this survey data collection all cash income are included such as social security, unemployment benefits and child support payments however, non-cash incomes are not included.

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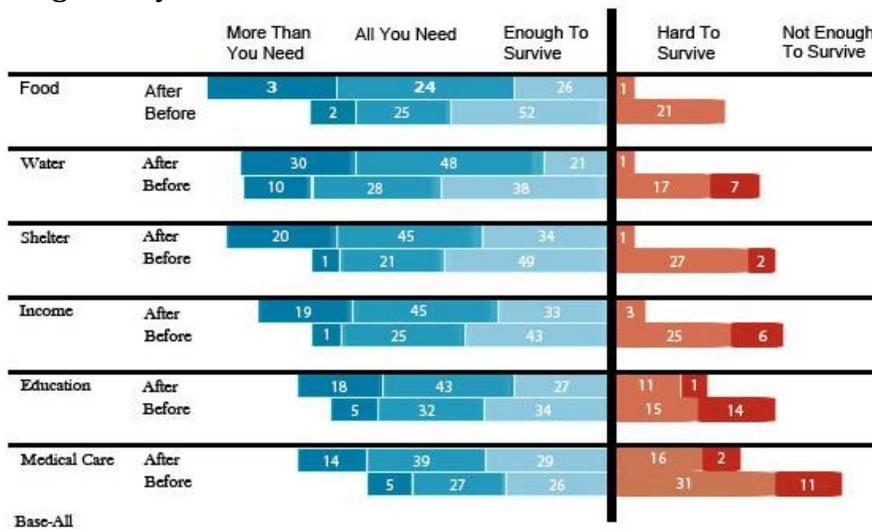
**Figure 6.2: Minimum-Wage workers by Household Income per anum**



Source: Survey Data, 2023

As compared to different Indicators of Households' standards of living with and without minimum wages, found below results:

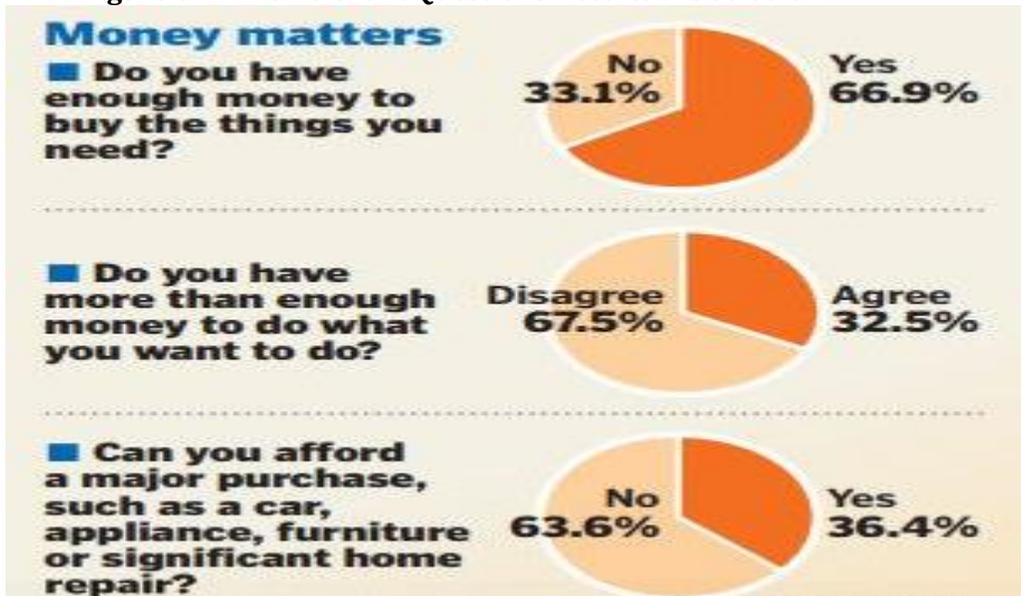
**Figure 6.3: Estimated Households Standards of living before and after Setting Minimum Wage Policy**



Source: Survey Data, 2023

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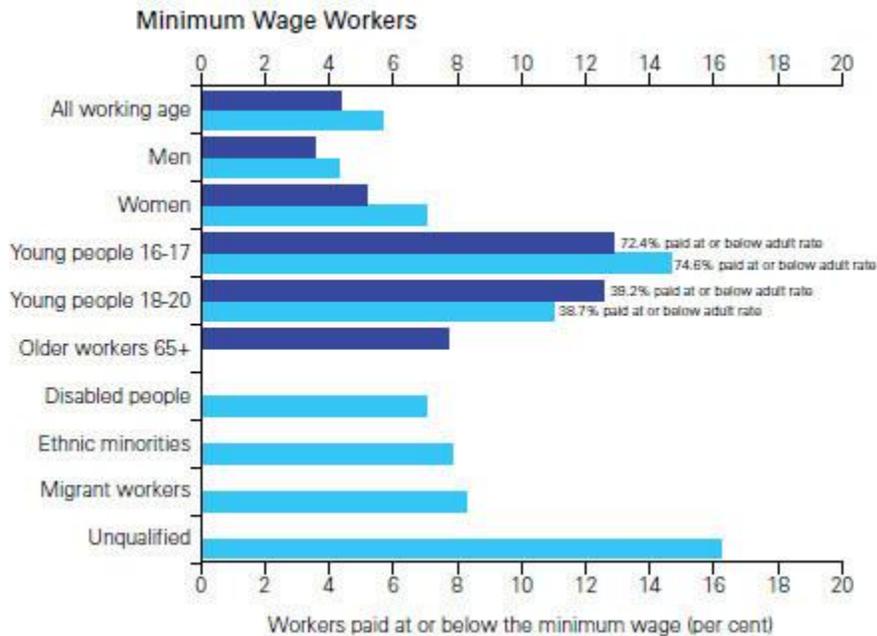
**Figure 6.4: The Relevant Questions Results are as below**



Source: Survey Data, 2023

The 66.9 percent of the people who has enough money to buy the things they need, have greater or equal monthly incomes than prevailed minimum wages.

**Figure 6.5: Workers Paid at or below the Minimum Wage**



Source: Survey Data, 2023

This implies that majority of the people are getting less than set minimum wage.

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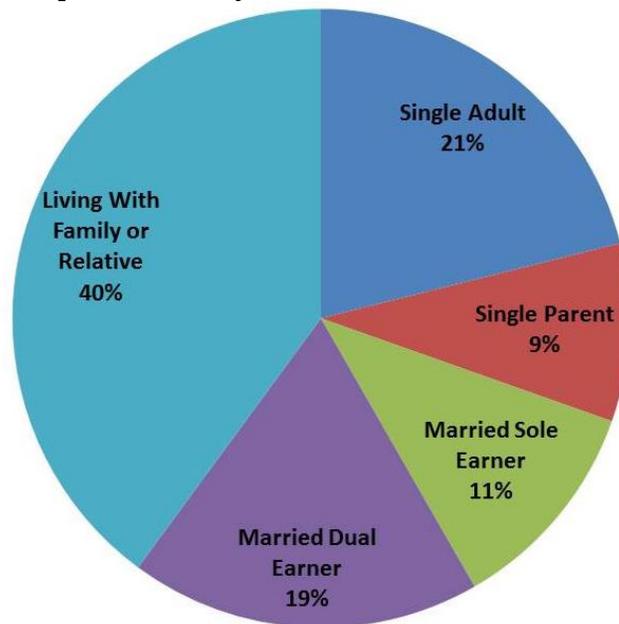
**Table 6.1: Summary of Annual Income and Consumption of a Minimum Wage of Paid Worker**

| Money Earned in a Year | Less than Rs.100,000 | From Rs.100,000 to Rs.1,50,000 | Greater than Rs.150,000 |
|------------------------|----------------------|--------------------------------|-------------------------|
| <b>Education</b>       | <5,000               | 15,000                         | 50,000                  |
| <b>Transportation</b>  | 15,000               | >10,000                        | >10,000                 |
| <b>Accommodation</b>   | 30,000               | 40,000                         | 40,000                  |
| <b>Food</b>            | 40,000               | 60,000                         | 75,000                  |
| <b>Miscellaneous</b>   | 10,000               | 25,000                         | 40,000                  |

Source: Survey Data, 2023

According to supporter's minimum wages plays the role of a helpful instrument in reducing poverty of families but this study reached on the conclusion that minimum wage not as much linked with poverty reduction. 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 6.6: Family Composition, in Hyderabad and Side Areas<sup>1</sup>**



Source: Survey Data, 2023

These calculations show that standard of living is directly proportional to the monthly income. So if they get higher income their standard of living will be improved.

$$Living\ Standards \propto Income$$

The result of the study is yes. Minimum wage policy improves living standard of low wage workers.

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**4.1 Minimum Wage Policy plays a Significant Role in Increasing Household Income**

Household income is pooled income of all habitants leaving in a household combined at residents or dwelling. It is normally a combination of all types of remunerations in the form of wages, salaries, pensions, food stamps, and investment gains.

The average household income is the measure of the monetary wellbeing of the people of a state or nation. Mandatory payments and taxes have secondary value. Since they include disposable earnings and make out individual's allotment for housing benefit from sharing their living expenditures.

The outcomes shows that total three forth of the total minimum wage earners are those who are teen agers or youngsters dependent on parents plus those who have higher-earning wives/husbands.

Another method to find out and reached on the same result is consideration of family income. A part time working student in any local restaurant, and his income is equal to the federal minimum but may be possible his/her parents earned a handsome amount of profit or income in any enterprise. The thing to be considered is that family income can be described that how many minimum-wage earners are youngsters, working after school and how many are adults, responsible to fuel a family.

**5. Conclusion & Discussion**

The standard of living of low wage workers is no doubt directly linked with their monthly income. People spent money according to their earnings or wealth they possess. Consequently if they get higher income, they spent more on the necessities and luxuries of life which will result as the improved live style and standard. It can be exhibited as far as study is concerned that:

$$\text{Living Standards} \propto \text{Income}$$

It is fair enough to conclude, after the case study of Hyderabad industrial sector workers that minimum wage is the ground which can give them strength in improving their living standard.

The level of minimum wage prescribed by the government of Pakistan is quite enough to protect a worker's basic necessities. After minimum wages at least registered workers are now able to get minimum wages. Although the implementation is poor and most of the formal informal sectors employees are exploited by the employers in the various forms of payment cases but no doubt minimum wage has given a little boost to the incomes of many low wage workers. The single worker, with two kids earning minimum wage have to work at least 2,634 hours annually which is approximately more than fifty hours a week for keeping out from the poverty to their families. The results of the study of industrial sector workers suggested that minimum wage policy plays a significant role in increasing household income.

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