A minimum wage solution to halving world poverty by 2015: A stakeholder approach

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KEYWORDS
Poverty; Development; Microfinance; Aid; Wage; Employment

Abstract The UNDP has set Millennium Goals which include the halving of world poverty by 2015. This was translated into reducing by half the number of people living in abject poverty. We examine some existing poverty reduction solutions which are being experimented with, including aid (with central planning with participatory development), property rights, education, microfinance, bottom of the pyramid inclusion, and public sector employment, and find that these have been inadequate to the task, even conjointly. We add a minimum wage based solution.

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Introduction

At an African microfinance conference in Ouagadougou, Burkina Faso (July 2009), Konan Banny (former Prime Minster of Ivory Coast) said: "The UNDP’s millennium goal is to halve world poverty by 2015. We realise now that this will not be achieved, at least for our part of the world." Similar statements are common indicating that Africa many not meet any of the Millennium Development Goals (MDGs) (Easterly, 2009). However, there is hope, and this paper provides a simple solution to a part of the first MDG: that of eradicating extreme hunger and poverty, or at least reducing by half the proportion of people living in extreme poverty in 1990 by 2015. The three targets and nine indicators of performance of MDG 1 are provided in Appendix 1. More specifically, two of the indicators of the first MDG are related to this paper: 1.2 proportion of population below $1 (ppp3) per day; 1.6 proportion of employed people living below $1 (ppp) per day.

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1 My thanks to Vitalie Bumacov, Hayyan Alia and anonymous reviewers: all errors are my own.
Peer-review under responsibility of Indian Institute of Management Bangalore

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http://dx.doi.org/10.1016/j.iimb.2012.11.001
During my first visit to Africa, I interviewed 17 micro-entrepreneurs using formal, mostly open-ended structured questions, each taking half an hour to fill. The respondents were almost all poor artisans/entrepreneurs trying to make a living. The one multiple-choice question asked was about their self-perceived success rate. Nobody ticked totally successful. But some did tick totally failed. The others were in between. Clearly, something needs to be done for millions of people who can see, thanks to televisions and telephones, that they are certainly not having what is considered success.

Table 1 presents some data on the poverty in terms of earnings.

Column 3 of Table 1 shows that World GNI per capita is $26 a day. This is influenced by a daily GNI of almost $100 per day for OECD (Organisation for Economic Co-operation and Development) countries. However, regions such as the Sub-Saharan Africa earn a daily average of only $3.5 a day. The 23 poorest countries selected for this display, overwhelmingly from Africa, are all earning less than $2 per day. These 23 countries account for a population of 450 million out of the world population of about 7 billion in 2011.

To appreciate this paper, it would be useful to remember that the World Bank defined the poorest of the poor as those earning less than $1 a day and the poor as those earning less than $2 a day. The purchasing power parity of much of Africa is a little over $2 for a $1 in American dollars in the US. A pp of a dollar a day means $365 pp a year. All countries with a GNI per capita of less than $365 pp are living on the average in extreme poverty. Even these reported averages are skewed up by a few rich people. Thus, the GNI per capita figures represent more than 50% of the population living below that figure. Similarly, $2 pp a day, works out to $730 pp a year for more than 50% of the population. Whether you look at GNI or at pp, it is clear that many African countries are at least poor, if not extremely poor. This is despite fast growing microfinance in this region, but admittedly growing slower in the poorest countries (Cote d’Ivoire is an exception of a rather rich country performing poorly in microfinance for other reasons (Ashta & Fall, 2012)).

Moreover, if GDP growth is not eaten up by inflation, it certainly will be eaten up by population growth. Thus, many countries are at best standing still and any reduction in poverty is an illusion which is lost when, in 2008, the World Bank revised its poverty numbers up by 25% to $1.25 pp and showed that any gain in the fight against poverty has indeed been little. A more recent World Bank press release (2012) indicates that there is some progress, but little for Africa, and the progress is minimal if we take the $2 per day poverty line.

What then can be done? Many solutions have been grasped and tried but at best, they have given inadequate results. The next section provides a literature review of some of the different solutions suggested. In the third section, pursuing the need to add something new to what is known (Calderisi, 2006; Easterly, 2006), we propose a minimum wage solution. While the solution is not new, the fixing of specific targets is original.

In the world of economics and management theory that we shape for the future, the paper will orient towards the question of whether existing economic and management solutions, such as the one proposed here, are sufficient to fulfill the larger goal of human upliftment and more specifically, whether any new viable theory helps to understand policy measures in this area. An open question is whether financial inclusion benefits the poor or benefits the rich or both and how these gains are traded off. In such a global economy, new political trade-offs can also be expected: is a global minimum wage more sustainable than a local minimum wage pressurised by threats by capital to go elsewhere? Any proposed solution needs to anticipate possible critiques. This is done in the fourth section. The fifth section concludes.

A review of suggested solutions and their inadequacy

The problem contextualised in a globalised economy with high speed information

Business cycles and financial crisis are the natural state of capitalism and perhaps orchestrated as part of the profit motivation central to the assumptions of economics (Veblen, 1904). In a simplistic political game model, one person in a group has all the power. He can create economic policies to ensure that he gets all and others get nothing (a corner solution in a one period game). In a multi-period game, the others have the power to exclude him to the point of not purchasing from him or robbing him outright. Profit maximisation therefore requires some amount of redistribution by sharing the surplus with the rest of the community (customers/workers) through higher than necessary wage rates or lower than necessary prices (Hill & Cassill, 2004). Minimum wage legislation can be viewed in this light. The political model favoured by classical models is a free market capitalist model with rationality attributed to purely economic motives such as profit or utility maximisation and the attendant monetary system in allocating value and some simplifying assumptions. Once the capitalist model or the economic motive has been undermined or the assumptions proved to be materially unrealistic, there is need for alternative theories such as behavioural finance and institutional theories, to help make economics an evolutionary science, though we may continue to go back and forth on whether economics could integrate these alternative views.

It is often difficult to separate trends which are a continuation of evolutions from a pre-crisis stage to trends in a post-crisis stage, notably trends which come from globalisation and Information and Communication Technology (ICT) changes to trends which are more reactive to the crisis (new laws). Probably, we can simplify and indicate that technologies have just increased the velocity of transactions and globalisation has increased the scale of transactions. In such a simple, perhaps simplistic, version,
we would only need to add international institutions and create economic policy at a global level.

One possibility of saving the system from crisis is to redistribute. That redistribution takes place but inequalities do not decrease is the perpetual paradox of capitalist economics, which can be understood in our game as a perpetual tradeoff of the powerful player between his short term profit maximisation and long term threat of exclusion. A key assumption is that such redistribution would give purchasing power to those who would purchase and bring profit back to the same person. Initially, the role of the State was considered the single most important factor in making this redistribution. In a global economy, it becomes the role of public international institutions. Global economic capitalism requires global redistribution to permit creation (of economic opportunities) as well as stabilisation.

What complicates such simplistic international/global application of the one-country model is that different countries have different political systems and therefore the key assumptions which may work in a one-country model have difficulties surviving in models with alternative non-capitalist systems in different stages of economic development, with varying amounts of informal economy, with different political systems and different human geographical needs. The extent of financial inclusion into the global economy also creates its own problems to the global profit maximiser as the informal economy shields it from the volatility required by financial optimisers, as reflected in the varying country betas. A school of fiscal federalism would suggest that people vote with their feet and all move to the rich country with elaborate social security, leading to desertification of other areas. However, to limit immigration and social security costs, including employment threats to local voting population, the richer jurisdictions may have laws such as special diplomas for specific fields. A second complication comes from the increased information and higher education level owing to the ICTs which permit people to understand the changes in behaviour of

Table 1 Gross National Income (GNI) and population in poorest countries and selected regions.

<table>
<thead>
<tr>
<th>Country name</th>
<th>2011 For the year</th>
<th>2011 Per day</th>
<th>Population (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GNI per capita,</td>
<td>GNI per capita, PPP</td>
<td>GNI per capita,</td>
</tr>
<tr>
<td></td>
<td>Atlas method</td>
<td>(current US$)</td>
<td>Atlas method</td>
</tr>
<tr>
<td></td>
<td>(current US$)</td>
<td>(current</td>
<td>(current</td>
</tr>
<tr>
<td></td>
<td></td>
<td>international $)</td>
<td></td>
</tr>
<tr>
<td>Congo, Dem. Rep.</td>
<td>190</td>
<td>350</td>
<td>0.52</td>
</tr>
<tr>
<td>Liberia</td>
<td>240</td>
<td>520</td>
<td>0.66</td>
</tr>
<tr>
<td>Burundi</td>
<td>250</td>
<td>610</td>
<td>0.68</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>340</td>
<td>850</td>
<td>0.93</td>
</tr>
<tr>
<td>Malawi</td>
<td>340</td>
<td>870</td>
<td>0.93</td>
</tr>
<tr>
<td>Niger</td>
<td>360</td>
<td>720</td>
<td>0.99</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>400</td>
<td>1110</td>
<td>1.10</td>
</tr>
<tr>
<td>Eritrea</td>
<td>430</td>
<td>580</td>
<td>1.18</td>
</tr>
<tr>
<td>Madagascar</td>
<td>430</td>
<td>950</td>
<td>1.18</td>
</tr>
<tr>
<td>Guinea</td>
<td>440</td>
<td>1050</td>
<td>1.21</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>470</td>
<td>810</td>
<td>1.29</td>
</tr>
<tr>
<td>Mozambique</td>
<td>470</td>
<td>980</td>
<td>1.29</td>
</tr>
<tr>
<td>Uganda</td>
<td>510</td>
<td>1320</td>
<td>1.40</td>
</tr>
<tr>
<td>Nepal</td>
<td>540</td>
<td>1260</td>
<td>1.48</td>
</tr>
<tr>
<td>Tanzania</td>
<td>540</td>
<td>1510</td>
<td>1.48</td>
</tr>
<tr>
<td>Togo</td>
<td>560</td>
<td>1030</td>
<td>1.53</td>
</tr>
<tr>
<td>Rwanda</td>
<td>570</td>
<td>1240</td>
<td>1.56</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>570</td>
<td>1310</td>
<td>1.56</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>600</td>
<td>1250</td>
<td>1.56</td>
</tr>
<tr>
<td>Mali</td>
<td>610</td>
<td>1050</td>
<td>1.67</td>
</tr>
<tr>
<td>Gambia</td>
<td>610</td>
<td>2060</td>
<td>1.67</td>
</tr>
<tr>
<td>Chad</td>
<td>690</td>
<td>1370</td>
<td>1.89</td>
</tr>
<tr>
<td>Haiti</td>
<td>700</td>
<td>1190</td>
<td>1.92</td>
</tr>
<tr>
<td>23 reporting less than $2 a day</td>
<td>435</td>
<td>1018</td>
<td>1.19</td>
</tr>
<tr>
<td>World</td>
<td>9491</td>
<td>11,574</td>
<td>26.00</td>
</tr>
<tr>
<td>OECD members</td>
<td>35,986</td>
<td>35,094</td>
<td>98.59</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1266</td>
<td>2251</td>
<td>3.47</td>
</tr>
</tbody>
</table>

Source: Based on World Bank Quick query data downloaded on Sept 21, 2012.

6 In Costa Rica, inequalities reduced from the mid 1970s to mid 1980s and then troughed out and then increased from 1992 to 1997 (Gindling & Trejos, 2005).
firms and their own Heads of State and to penalise them based on some notions of ethical fairplay. These ethics therefore require an understanding of society. Failure of firms to conform to social expectations can have economic repercussions (Kahneman, Knetjes, & Thaler, 1986a, 1986b) and the failure of Heads of States to conform to social expectations can have political repercussions, as recent political revolutions in North Africa and the Middle East have shown (February 2011). Add this to the first complication of globalisation, and firms need to factor in diverse social expectations of their behaviour and maximise profit based on expected penalties of not conforming to divergent social expectations of multiple stakeholders. Thus an evolved version of the stakeholder theory (Freeman & Liedtka, 1991), such as Value Based Networks (Wheeler, Colbert, & Freeman, 2003) or Inter-Systems Model of Business (Stormer, 2003), would require maximising value for all stakeholders replacing profit maximisation subject to stakeholder constraints. This is even more so, in a world of increased number of small firm collaborations (Means & Schneider, 2000) where the predominant issues of trust (staying with the network) and abandonment (leapfrogging to a better one) come out strongly (Ashta, 2009).

Third, the firm with its agents and principals is not necessarily conforming to the simple profit maximisation model and elaborate theories account for rent seeking of managers and transaction costs of owners to provide some coherence to this system. However, when the goal of actors is no longer profit maximisation, but the maximisation of their overall image based on a double or triple bottom line, economics fails to predict/explain their actions. An example of such behaviour is the rise of private international aid institutions, which indicates that the profit motive in business is being supplemented not with a consumption or saving alternative in private spheres, but with the motive of creating a mark in society (egoistic altruism?) which means that money (income, wealth) is no longer serving the purpose of indicating/measuring contribution to society once myopia based on expected life is factored in. In such a limited time horizon, managers (with expected retirement age) and owners (with life expectancy) find that their overall image maximisation (in a one incarnation expectation) requires redistribution in a short time frame and perhaps increased financial volatility required to bring back benefits faster.

In a nutshell, in a global connected world, economics (profit/risk) and social standing is a function of economic returns as well as perceived social impact of different actions of the manager/owners, both of which are increasingly visible to other stakeholders who can punish non-conforming behaviour. To reduce financial crisis globally, the redistribution of income is required globally. However, monetary redistribution is not sufficient: social impact needs to be estimated and proved for the different agents to have their total image maximisation. Without the perceived social impact, dissipating their funds will not provide them image gains (and indirectly monetary gains) which they may be seeking from their egoist altruism. As opposed to all this, to gain more from global volatility, increased formal economy integration is required.

The question for this paper is to what extent existing economic tools which can be used in a one-country setting, with minimal need for corporate social responsibility (Friedman, 1970), can be applied to (1) a global setting (2) where discretionary benevolence adds to the total prestige beyond that accorded by profits, and (3) which may also require sharing profits with multiple stakeholders. Much of the debate in development economics and different forms of international redistribution, in the public and private intervention spheres, can be understood by looking at this tendency of trying to use simple existing tools, such as the one on minimum wages proposed here, to the need for ushering in global growth along with the redistribution necessary for stability, as opposed to actions required to promote visibility of institutions granting aid.

A discussion of existing solutions in isolation

One evident solution would be to reduce population which eats up growth. The high fertility rates (5.8 children per woman in the West African Economic and Monetary Union, see Table 1 of Ashta and Fall (2012)) may be partly due to the low life expectancy of 55 years (compared to about 80 years in much of the developed world). The problem is that fertility rates depend on customs and beliefs which themselves follow economic conditions by a generation, as suggested by the theory of demographic transition. Therefore, unless living conditions improve, people will have a lot of children, hoping some will help them in their old age. Education and ICTs may have helped increase awareness of the problem but religious and social sanctions may be difficult to overcome if economic conditions do not first improve.

A second solution is that aid is required (Sachs, 2005, p. 398). Some studies show that aid is effective in increasing Gross Domestic Income (GDI) and reducing poverty (Dalgaard & Erickson, 2009). However, even aid specialists are critical of much of the grand scheme of distributing aid (Easterly, 2006). Generations of aid are now being criticised for making Africans dependent (Moyo, 2009) and corrupt (Calderisi, 2006). It is neither clear, therefore, that aid is having an impact nor is it clear how much aid is required to help Africa meet its MDG of reducing by half the percentage of people living in abject poverty, and in any case all this would be subject to the assumptions used in the model (Dalgaard & Erickson, 2009). One possible modification could be that aid should be converted to social security entitlements at the grass-roots rather than discretionary one-time boosts. The entitlements would then free the poor of worry and they could perhaps take actions which are more conducive to their overall welfare than searching for multiple activities to make ends meet.

A third solution termed bottom of the pyramid or base of the pyramid sees the poor as the solution rather than the problem (Prahalad, 2006). It requires inclusion of poor people in the market-place as a source of profit for multnationals, and at the same time as a way out of poverty. At Ouagadougou, I saw row after row of shops offering similar products, with no customers, and with the more active salesmen pestering tourists. Any positive response by tourists, weary of harassment, would give wrong market information to produce more undesired goods and more harassment! The only stakeholder who made a one-time gain was the firm who was supplying all the unwanted (in terms of effective demand) goods to all the retailers,
a problem often seen in “pyramid” sales structures. Thus, globalisation may have facilitated supply of goods and ICTs may have increased the perceived need for goods, but without providing purchasing power to the poor and a variety of goods and services offered, merely including the poor in the distribution process is insufficient, by itself, to create sales.

A fourth solution has been microfinance (Yunus, 2003). This is also termed inclusive finance. The movement has been growing at 30% per year. It is hailed as a messiah by some, and a failure in impact by others (Roodman & Morduch, 2009). It suffices to say that in the sample of 17 artisans mentioned earlier, small as it may be, most people had never taken any loans. Those who had taken loans took them from family or friends. Only one had a savings account. None had taken a loan from the formal or semi-formal microfinance organisation. Future research is required to corroborate official or volunteered figures on who is taking these loans. Another significant factor is that Bangladesh, the country with the leading microfinance, is amongst the top twenty in the list of Failed States Index 2009. At the same time, efforts by the microfinance institutions have clearly led to some welfare for poor women. The tradeoff of whether microfinance is good and helps entrepreneurs earn money or whether it is merely consumer lending leading to over-indebtedness requires a case by case analysis. However, we can see, especially by a study of the failure of the microfinance sector in India and the furore created by talk of suicides (Ashta, Khan, & Otto, 2011), that unless all stakeholders, the poor, the firms, and the governments interact to create sound ethical rules, a sector cannot survive. What is good ethics is also being influenced by globalisation and education.

A fifth solution has been the necessity to create property rights (Soto, 2000, p. 276). To get economies of scale, the sample of eight West African countries studied by Ashta and Fall (2012) have got together in a monetary and economic union. They are creating not only laws which are common, but even model decrees of application to be passed by each country so that no public manpower needs to be wasted in reinventing appropriate decrees. However, the countries do not have the resources to enforce the laws and all the legislation is of little use if nobody knows about them. So, the creation of property rights, without appropriate information and enforcement, is far away from reducing poverty.

A sixth mantra has been education. While we need to provide education to the millions of poor people, it is perhaps worthwhile questioning what we consider education here. A paper on microfinance in the North African region (Allaire, Ashta, Attuel-Mendes, & Krishnaswamy, 2009), shows that Algeria was the most integrated of the French colonies (Tunisia and Morocco were protectorates). As a result, the Algerian education system from the 1920s to 1960 reflected the French education system with very high literacy rates especially for women. Surprisingly, today, Algerian women have not emerged as leaders of microfinance nor of entrepreneurship and have, instead, been relegated to the background. Such an isolated example cannot indicate that education is of no use, but it could warn that mere literacy and importing developed country models of education and values are insufficient conditions to development. In any case, something more than education is necessary: perhaps a distinction needs to be made to encourage livelihood education. It may also be interesting to note that education may be good for the average person. But some people have more innate abilities to use education than others. Thus, instead of reducing poverty of those who lack these abilities, education can also increase the inequalities in productive capacity, and lead to an increase in poverty for those who have some, but inadequate, amounts of education. Partly, this problem is limited in a single-country framework, because each country is specialising in different industries and is educating its people in different ways. But in a globalised framework, with universal access to education, the most educated/skilled workers could be found in, say, India and this would impact firms situated in America. Either the firm moves to India, creating problems for the unskilled workers in the US who then lose their jobs, or the skilled Indians are allowed to immigrate to the US, creating other sociological questions (many unresearched). Either way, multiple stakeholders are impacted and economics alone is inadequate to the task. A secondary question I’m posing is that if total global material wants can be satisfied by only a part of the world’s population working, why should the rest of the world be educated in the conventional sense to keep a reserve army of employable persons for those stakeholders who would like to limit wage increases? This question requires a return to the debate of the 35 hour week in France: should people share work or should some work and provide a dole to others (Ashta 2000)?

A seventh solution proposed is that of holistic local level solutions allowing people to provide livelihood and creating local participatory institutions for the excluded, as is done by BRAC in Bangladesh (Mair & Marti, 2009). This solution recognises that existing institutions serve the needs of the elite stakeholders who would not like to be destabilised. Therefore, the excluded have to be provided with new

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9 In a recent visit (January 2010) to a microfinance group repayment meeting in a village near Hapur (65 km from New Delhi), the women were happy that they could now contribute money and finance to their family businesses and, moreover, had learnt to sign their names. In a visit to a suburban point of sale outlet near Gurgaon (India), we could see the power of mobile telephone operated accounts and remittances.

10 Two of my respondents in Ouagadougou indicated that they would like information on how they can get funding for their associations. While I could provide information on online websites, they would not possibly be able to read English or understand the technical jargon of the global financial industry. Most of my respondents were illiterate and I had to fill up the questionnaire myself. They were proud of the fact that they spoke French without any schooling. However, from speaking French to reading online financial and technical French is a big step.

11 None of the people I interviewed in Ouagadougou in 2009 had heard of microfinance. A recent Gallup Poll indicates that in nearby Ivory Coast only 18% of the poor are aware of microfinance (Marlar, 2010, p. 2).
institutions and to permit these to prevail, collaboration with existing institutions is required. An easy to understand concrete example is the caste based problems in villages in India where lower caste people are not allowed to come up if the existing caste based social and political institutions are not de facto modified. The solution would require economic or social incentives to village based upper castes to help lower caste people in their own villages.

Yet another solution which is proposed is public sector employment (Karnani, 2007), which disagrees with the Bottom of the Pyramid approach and reflects more the reality that there is nothing at the bottom of the pyramid except possibly empty shops such as those seen in Ouagadougou. Karnani encourages public expenditure on the development of infrastructure through the employment of all the poor. It leaves unanswered the question on what the poor are going to do with the infrastructure which is not required by business. But spending on infrastructure itself will improve welfare of those who do manage to use it: so in terms of consumption welfare it would help more than spending on arms, for example.12

Evidently, nobody is indicating that any of the above solutions works in isolation. Everybody is suggesting that his solution be added on to the basket of solutions, to eradic-ate poverty. It is worthwhile to note that the OECD countries as well as the developing countries are trying to implement all of these. So are rich donors, social investors, socially responsible investors, and even commercial investors.

It is, at the same time, necessary to remember, that for Africa at least, it has not worked. So, are we going to let Africa drop for 2015, as suggested by the participant in the Ouagadougou conference, and instead leave them to later generations? Also, the use of averages may confuse issues. It is possible that there are more poor in India than in Africa (Chen & Ravallion, 2008) and the rural poor in India may be poorer than the poor in Africa.

We recommend adding a minimum wage rate based policy to all the others discussed previously. The solution is an existing institution, but requires reinforcement and upscaling. For it to work, a buy-in from different stakeholders is required to obtain immediate financing. This kind of collaboration with existing institutions is at a national and global level rather than at a local level studied by Mair and Marti (2009).

The recommended increased minimum wage rate solution

Before we present the proposal on increasing the minimum wage, it is better to justify it through a literature review of its impact.

However, at the outset, two major limitations of our proposal are recognised:

12 In a recent private exchange of correspondence with the president of a socially responsible investment fund dedicated to microfinance and affiliated areas, the president indicated that she cannot consider investing in Africa since Africans seem unable to use any investment or aid.

Yet the proposal is being offered recognising that

- The working poor are an important part of society and are receiving attention from researchers (Bernabe & Kolev, 2005). There is even a suggestion that the working poor need more support than the unemployed (Berner, Ozer, & Paynter, 2008).
- The work with the most deeply affected in Africa will not suffice to place them above the poverty line by 2015, and we must at least do what we can for those who can benefit now.
- Reaching the goal for the working poor will show some progress and this may reinforce the motivation of the leaders to do more for other segments of the population.
- When the working poor move up, it would provide incentives to others to follow their examples.
- There will be linkage and multiplier impacts when the working poor spend their money to purchase informal services.

This paper only seeks to propose marginal changes to help meet two indicators of performance, promised by the MDGs. These indicators do not by themselves guarantee better standards of living. Linkage effects to the rest of the economy of these measures will also take time and are not treated here.

Minimum wages now exist universally outside the Middle East (ILO, 2009). The case for minimum wages has been recently reviewed (Devereux, 2005; Todorovic & Ma, 2008) and we will provide only a general overview.

In the traditional classical economics view, a minimum wage rate, if above the equilibrium rate, creates a distortion in the economy, increasing supply of labour and reducing demand for labour, thus creating unemployment. The welfare increase of those getting more wages is offset by the disemployment of those who lose their jobs. Moreover, the better paid workers will raise the costs for those industries which will then become internationally uncompetitive and laid off workers will depress wages in the informal economy. There is a problem of enforcing compliance to minimum wages in the informal sectors (Devereux, 2005).

On the other hand, Devereux (2005) also shows that a number of studies have looked at empirics and found that the evidence does not support the traditional view. In fact, minimum wages increase the welfare of the poorest. Moreover, by providing purchasing power to the classes which have a high marginal propensity to consume, it creates a multiplier effect which leads to the growth of the economy towards full employment and, if there is already full employment, to inflation. However, in poor countries which are far from full employment, this inflation threat is not valid except for structural rigidities (which of course exist). The noneconomic welfare aspects of a minimum wage include protection from the tyranny of employers,
especially in the non-unionised sector. Moreover, better paid workers consume better and are healthier, thus increasing their productivity. To the extent that monopsonist buyers of labour were paying them below their marginal productivity, a rise of the minimum wage rate would reduce the exploitation but would not lead to a reduction in employment. In addition, an increase in minimum wages in the formal sector may increase the wages in the informal sector either because of increased demand for goods and services or because of a benchmark effect: the wages in the informal sector are indexed by employers based on the formal sector’s minimum wage rate (Devereux, 2005). Finally, minimum wages may be reinvested for increased education, more productive operating practices, and the emphasis on skill development and high value activities (Todorovic & Ma, 2008).

As a result, many economists are advocating the utilisation of minimum wages for development. In many countries, minimum wage rates are introduced only to avoid the worst exploitation of employers. As a result, they are fixed at a level much lower than the average wage rates of the economy. A recent report by ILO indicates that the most frequent scenario is that countries set their minimum wages at around 40% of average wages (ILO, 2009), but the graph presented in the report indicates that at least a few countries set their minimum wages in the 6%–20% range of average wages and therefore the impact is minimal. Only a few outliers sent their minimum wages at more than 70% of average wages.

A review of minimum wages in Sub-Saharan Africa indicates that it is set below the $2 a day poverty line but higher than the $1 a day poverty line, but that the real minimum wage is falling over time (Devereux, 2005). However, more recent data (2001–2007) by the ILO indicates that this trend has been corrected and minimum wages have been increasing at 6.5% per annum in developing countries in real terms. The effect of the economic crisis, though, shows that in 2008 half the countries have increased real minimum wages, while the other half have allowed inflation to erode their real value (ILO, 2009). The minimum wage has increased from 37% in 2000–02 to 39% of average wages in 2004–07 (ILO, 2008).

Moreover, in countries where minimum wage exists, it may either be universal as in Brazil (Lemos, 2007) or applied selectively to some sectors. There is mixed evidence on its impact: it increases unemployment and depresses wages in some countries and has a benevolent impact elsewhere (Devereux, 2005), for example in Brazil (Lemos, 2007). Devereux (2005) astutely remarks that to reach the MDGs it would be advisable to increase the wages of the better-off people (near the poverty line) than to bother about the poorest of the poor, even though a Rawlsian welfare optimisation would suggest trying to increase the benefits of the poorest. In fact, the evidence in Brazil shows that the private sector impact of the minimum wage is not on the poorest wage earners but on the higher income groups because non-compliance is high (Lemos, 2007).

The use of an efficiency wage, i.e., a wage higher than the market clearing wage, may lead to positive impacts that an exogenously fixed minimum wages would not, by reducing shirking and increasing productivity (Basu, 2004). However, this requires employers to understand these concepts, which may not be the case in much of Sub-Saharan Africa, except for multi-national corporations and a few visionary local entrepreneurs.

The method of setting minimum wage rates could be trade union bargaining or government ordinances, both set on a benchmark of either marginal productivity or consumption basket standards. However, it is often below the subsistence level. Lemos (2007) explains that the Brazilian constitution of 1988 redefined subsistence level for the family, but it was unaffordable at the minimum wage rate.

In this paper, we ask that, to meet the MDG of 2015, the level of the minimum wage be higher than the poverty line of $1 a day in terms of ppp, but that it takes into account that a family in Africa has about six children. We argue that the beneficiaries of such minimum wages would, in turn, help to increase the wages of the poorest and therefore Rawlsian criteria would eventually be satisfied. An example of such a possible global minimum wage rate is discussed in Appendix 2.

A stakeholder based justification of the solution: why it needs to be global

We examine here a few major stakeholders in rich countries and in poor countries. Let us assume for sake of simplicity, following Buchanan and Tullock (1965), that laws are expensive and need to be bought by interested people, and extend this even to the modification of decrees. The ability to change laws and decrees therefore lies with the rich. These include the rich in rich countries, the rich in poor countries and, perhaps, some influence of the workers in rich countries. All three stakeholders have to acquiesce in the provision of benefits to the fourth stakeholder: the poor in poor countries by a unilateral increase in their minimum wages. Since we have assumed, implicitly, that the politicians are mere tools obeying the command of money, we could exclude them from our analysis, for simplicity. However, a politician who tries to use this solution without a buy-in of the relevant stakeholders risks losing his job, as recent events in Honduras show: a president who increased the minimum wage to $290 a month was ousted by his army troops. Therefore, although we want to increase the minimum wage to only $60 ($120 in ppp) as a first step, we need to work hard to get approval of local rich stakeholders who may feel that their immediate profits would reduce from

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13 Rawlsian ethics admits measures which profit the rich as long as these create incentives to improve the lot of the poorest.
existing businesses and we need to include the local political institution in the developing country as a fifth stakeholder.

**Businesses in developed countries**

Businesses in developed countries clearly have an advantage in having a workforce which is poor and acquiescing to low wage rates in their own country. A threat to relocate to a low wage country can induce a freeze in minimum wages in developed countries to the level of inflation. This threat is credible if the wages in poor countries are lower. Thus, businesses in developed countries may be opposed to increases in minimum wages in developing countries in order to keep wages rising in their home country. However, for this threat to be credible, it is not necessary that the difference in minimum wages between rich and poor countries is as huge as it is today. Even an increase of minimum wages in Least Developed Countries (LDCs) to $120 ppp a month would allow a sufficient difference in wages to halt the ever-increasing demand by unions and syndicates of labour in rich countries to understand that further wage increases are difficult to sustain in the wake of globalisation and development of ICTs.

A second objection to increased minimum wages in developing countries for businesses in developed countries, is globalisation and the increasingly global supply and value chains. As a result, for their overall competitiveness, transnational corporations are searching for lower wages in poor countries. They would, as a result, be less inclined to favour higher minimum wages.

However, often less highlighted, the firms of the developed world need aggregate demand to keep growing. The current financial crisis, often blamed on the financial sector’s lack of prudence, is essentially resulting from a real sector crisis where developed country workers no longer perceive needs for bigger and more cars, for example. The aggregate demand, therefore, needs to come from elsewhere. If wage levels double in the poor countries, this could be a source of increase in aggregate demand for quality goods produced in the rich countries, if even a part of the increase in wages is directed to them.

Thus globalisation needs transnational corporations to look at this balancing of interest by seeing what percentage of their demand is from middle class or lower class unskilled workers and whether the increase in aggregate demand from this section through higher minimum wages would compensate the increase in costs on a part of the value chain.

One possible solution is to look for corporate leaders who will use this opportunity to do good and build on the corporate social responsibility image, and this would lead to a social imitation effect on other businesses located in the region. Each large company could be given responsibility to start the process in one country to get an imitation effect by other local actors.

**Workers in developed countries**

The workers in rich countries would gain in terms of stability of employment as well as a reduction in unemployment, as businesses in their countries benefit from the increase in effective demand from workers in less developed countries.

Secondly, if wages go up in poor countries, without corresponding productivity increases, the need for capital to leave developed countries would be less and workers in developed countries would again gain from stability of employment.

**Businesses in developing countries**

If there were to be a party sustaining a loss in this situation, it is likely to be businesses in developing countries which would need to pay their workers more and also pay extra taxes to pay the public sector workers more.

As against this, they would gain by the increase in effective demand. To the extent that local dollars would be spent more locally than on imports, local businesses would make huge gains. The Keynesian multiplier is likely to be very beneficial to the local businessman because low income people have a high marginal propensity to consume.

As the private sector or much of it in poor countries is micro-enterprise in nature and is self-employed (with no other employees), it would not be affected by the increase in wages. Therefore, they would only gain by the increase in effective demand till they reached the point that they would like to employ someone.

The effect on small, medium, and large businesses would be mixed, depending, as indicated above, on positive demand side effects and negative cost side effects. These cost side effects may also reduce exports and reduce the international competitiveness of these countries. An example would be the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in India. By ensuring public employment to rural workers at a minimum wage, it raises the wage levels in farm labour (Thadathil & Mohandas, 2012). This in turn adversely affects the profits of farmers.

To the extent, perhaps large, that most of these businesses are exporting primary products facing inelastic demand, the impact would again be mitigated, especially if the increase in minimum wages is synchronised to take effect all over the world, so that competition between poor exporting nations is not impacted in the model.

However, businesses in this part of the world may not have the education required to understand the positive medium term impact of increase in wages nor the infrastructural support to compete this with the higher immediate tax burdens.

**Workers in poor countries**

The workers in poor countries would gain immediately owing to the increase in their salaries. On the one hand, there may be some short term disemployment owing the increase in their salaries. On the other hand, they

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16 Suggested by Benoit Lecat, Marketing Professor at the Burgundy School of Business.
will gain in employment as the economy expands with the Keynesian multiplier. In Brazil, it was found that except for the poorest workers in the private sector, everybody else gained (Lemos, 2007). The visible gains may be limited to workers in the formal sector, as shown in a study in Nicaragua (Gindling & Terrell, 2010) but there may be a trickle-down effect to workers in the informal sector.

Governments in poor countries

In the view of critiques of aid (Calderisi, 2006; Easterly, 2006; Moyo, 2009), the politicians of poor countries are corrupt because of aid. In fact, they use violence and corruption to access and maintain their positions, as it allows them to get the aid money and to distribute this largesse, thus enhancing their economic and image motives.

This stakeholder, therefore, would find it difficult to increase minimum wages because it would further eat up into his budget financed by aid and limit the amount of discretionary funds. Even if governments can simply increase taxes to finance public sector wage increases (Lemos, 2007), this is not easy in a poor country with a small formal sector. Therefore, the governments may hesitate to increase minimum wages because the public sector itself cannot afford it.

Moreover, as we saw in Honduras and in Somalia, if the politician is dependent on the rich to keep him in power, then he would align his interest with the local rich stakeholder. Their interest may lie in increasing wages or not, depending on their education level and their ability to perceive the impact on demand for their goods as a result of the increased wages, and their comparison of this with the extra tax burden to finance the increased wages.

What about inflation and distortions?

An increase in salaries would lead to spiralling inflation if we were anywhere near full employment, either in the developed world or in the developing countries. To the extent there is significant unemployment and excess capacity in both worlds, inflation is not a credible threat. However, if supply cannot meet the increase in demand immediately, owing to structural rigidities, it is possible that there could be interim periods of inflation.

This inflation could be used by some businessmen as an opportunity for intermediate gains (see Veblen, 1904). However, to the extent that businessmen are informed about this proposed change in law and are prepared to meet it, the transition can be fairly smooth.

A more comprehensive analysis of inflation and the impact of any global minimum wage on this, and of both together on poverty, is left for future research. An analysis of the nature of supply side bottlenecks, including licensing and other forms of limiting competition would have to be part of any such study.

The financing of the solution

It has been my tenet in this paper that in any economy, the purpose of redistribution is to keep the money going around so that powerful stakeholders can continue to win again and again. In as much as a minimum wage is a source of redistribution, it needs to be financed by those who are going to gain by the increased productivity as well as by the increase in aggregate demand. Perhaps some amount of unemployment in the private sector could result. But this could be compensated by higher import agencies revenues as well as higher tourism based revenues as their countries develop and open up to the world. If aggregate demand increases, employment and growth should come in.

Thus, identification of stakeholders who gain from increases in minimum wages in specific countries and industries is required so that appropriate taxation can be introduced on those profiting from all the benefits of minimum wages including improved security in the country. The gains from trade as a result of the increase in effective demand are also going to developed countries. Therefore, there is a case to tax imports, or to avoid distortions, to provide increased official public aid based on taxation of firms and labour in the developed world.

Some small businesses could restructure themselves as partnerships with their (former) employees to escape the

<table>
<thead>
<tr>
<th>Poverty line in USD ppp</th>
<th>Per day</th>
<th>Per month</th>
<th>Per year</th>
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</thead>
<tbody>
<tr>
<td>Poorest</td>
<td>$1.00</td>
<td>$30.00</td>
<td>$365.00</td>
</tr>
<tr>
<td>Poor</td>
<td>$2.00</td>
<td>$60.00</td>
<td>$730.00</td>
</tr>
<tr>
<td>Single person</td>
<td>$1.00</td>
<td>$30.00</td>
<td>$365.00</td>
</tr>
<tr>
<td>Couple*</td>
<td>$2.00</td>
<td>$60.00</td>
<td>$730.00</td>
</tr>
<tr>
<td>Single parent with 3 children</td>
<td>$4.00</td>
<td>$120.00</td>
<td>$1460.00</td>
</tr>
<tr>
<td>Couple with 6 children</td>
<td>$8.00</td>
<td>$240.00</td>
<td>$2920.00</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Poverty line in countries with ppp of 0.5</th>
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<tbody>
<tr>
<td>Poorest</td>
</tr>
<tr>
<td>Poor</td>
</tr>
<tr>
<td>Single person</td>
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<tr>
<td>Couple with 6 children</td>
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</tbody>
</table>

* The multiple factors taken are for quick back of the envelop calculations for the reader to follow. In a more exact formulation, more precise multiples can be factored in. For example, French INSEE calculation uses 1 unit per single adult + 0.5 units per other adults + 0.3 per child.
A market-based solution to global poverty may require taking and grounded in political realities. Developed “capitalist” countries because they are useful such market-restricting policies are followed even in compelling?) promise. It is not a market-based solution, but a face-saving proposal to honour a (foolish, daring? This is a draft of a simple proposal to meet the Millennium Conclusion

- **Table 3 Minimum income levels required to escape poverty lines of $1.25 per day and $2.50 per day.**

<table>
<thead>
<tr>
<th>Poverty line in USD</th>
<th>Per day</th>
<th>Per month</th>
<th>Per year</th>
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</thead>
<tbody>
<tr>
<td><strong>Poorest</strong></td>
<td>$1.25</td>
<td>$37.50</td>
<td>$456.25</td>
</tr>
<tr>
<td><strong>Poor</strong></td>
<td>$2.50</td>
<td>$75.00</td>
<td>$912.50</td>
</tr>
<tr>
<td><strong>Couple with 6 children</strong></td>
<td>$10.00</td>
<td>$300.00</td>
<td>$3650.00</td>
</tr>
<tr>
<td><strong>Single parent with 3 children</strong></td>
<td>$5.00</td>
<td>$150.00</td>
<td>$1825.00</td>
</tr>
<tr>
<td><strong>Couple</strong></td>
<td>$2.50</td>
<td>$75.00</td>
<td>$912.50</td>
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<th>Poverty line in US ppp of 0.5</th>
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<td><strong>Couple with 6 children</strong></td>
</tr>
</tbody>
</table>

harshness of doubling of labour costs. As a result, they pass on the risks as well as their profits to their workers. However, to some extent, they would still prefer to retain their high marginal productivity workers for resource based profitability in the sense that they need to have emergency solutions when more than one customer walks into a shop. This public aid could be regressive: reducing each year by, say 10%, to reflect the increased ability of the poor country to meet its needs thanks to growth ushered in by the initial increase in effective demand. Finally, international private foundations may want to link their names with financing of the minimum wage in poor countries in order to get the image boost they crave. Similarly corporations who gain from such redistribution in any case may find it worthwhile to indicate their support as part of their corporate social responsibility image building.

**Conclusion**

This is a draft of a simple proposal to meet the Millennium Goals of 2015 or reducing poverty by half. We admit it is a face-saving proposal to honour a (foolish, daring? compelling?) promise. It is not a market-based solution, but such market-restricting policies are followed even in developed “capitalist” countries because they are useful and grounded in political realities. Two major limitations of this proposal are that most of those in poverty are those who are not formally employed and that the minimum wages in most developing countries apply only to formal employment. However, it has been suggested that the working poor are a part of the problem and we cannot ignore them and raising their standard of living to $1 ppp a day per person would be an easier task in the African context than attaining this income level for those who are not working, in the next five years. Moreover, improving the lot of the working poor in the formal sector would create other motivation, linkage and multiplier effects over time.

The solution proposes setting a global minimum wage rate at $120 a month in terms of ppp or real $60 a month in the countries under consideration where ppp was about 0.5. Individual countries may choose to have higher minimum wage rates. The solution corresponds to a purchasing power parity of $4 a day, enough for a single parent family of four to survive on or for a working couple with six children. If we work at $1.25 per day, we are talking about a minimum global wage rate of real $75 a month or a ppp $150 a month.

The reason that it needs to be global is that with a single country increasing its wages, there will be a loss of relative competitiveness, but if all countries with similar productivity levels increase their minimum wages, the relative impact will be less. Perhaps this logic was best captured by Marx and Engels (1848, Ch. 4): "Workers of the world unite". They had probably never considered that anything can be achieved by workers in any one country alone.

The thrust of our paper is on the difficulties of implementation, and suggests that the solution requires a lot of horse trading to obtain that aid be redirected towards financing the cost of the wage increase, and admitting that the solution is being directly applied only to those who already have some employment so that at least their lot will be improved and in the hope that their increased demand will rub off on those not having any, thus paving the way for the next "progressive" goals to be adopted in 2015. Overcoming resistance to changes requires new institutions (Marti, 2009). Overcoming global resistance to global changes may require new or reinforced global institutions.

A large part of capturing benefits for those with nothing would be to find ways to stop people from working in the informal economy once they already have public sector jobs. To some extent, a backward sloping supply curve of labour, where leisure becomes important after one earns some minimum, may help, but it is unlikely that this happens at $1 a day.

More important would be some way of enforcing these rules either through education or through policing. But both

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17 A market-based solution to global poverty may require taking minimum wages all over the world, thus reducing incentives to migrate, reducing over-incentives to education in the developed world, reducing unemployment in the developed world and creating need for excess capital to flow to less developed countries for fructification. However, the global lowering of wages may transfer (in)security issues from the developing world to the developed world.
of these are expensive solutions. It is possible that as public sector workers reach the limit of their capacity to earn, they would hire servants and other help at domicile, thus adding to informal employment and reducing poverty to some extent. Therefore, there may be hope for even the poorest of the poor.

The consumer finance based microfinance sector would particularly welcome this solution. With rising wages, they could lend more to the poor. A concern should be to orient this consumer spending to productive or social uses such as education, health, and transport, rather than conspicuous consumption on marriages and luxury goods. However, money being fungible, this may not be easy. At best we could try to reduce the interest burden by offering lower interest rates than the moneylender.

It would be sufficient, as suggested by Basu (2004) that all the employers get together and introduce efficiency wages at $4 per day ppp, voluntarily, to stimulate productivity and reduce shirking, but this may be more difficult to obtain in the short run till 2015, because it means changing culture which takes time. Therefore, we stick to this exogenous minimum wage proposal.

If it works, we would have shown that Africans can have success even if the goals were set unfairly to Africa as suggested by Easterly (2009), and even if the success on these two indicators does not guarantee that people would have sufficient food on their tables.

This would then give us courage to revise these minimum wages upwards to obtain a ppp of $2.50 per person or $2 per family of four ($300 per month) over the next 15 years till 2030. Raising the standards of living for the working class will mean more motivation to get education, better health and sanitation leading to higher productivity, and more stable cash flow microfinance borrowers for consumer lenders. This solution is therefore a part of the total solution creating linkages with the others.

Appendix 1

MDG Goal 1

Goal 1: Eradicate extreme poverty and hunger
Target 1a: Reduce by half the proportion of people living on less than a dollar a day
1.1 Proportion of population below $1 (ppp) per day
1.2 Poverty gap ratio
1.3 Share of poorest quintile in national consumption
Target 1b: Achieve full and productive employment and decent work for all, including women and young people
1.4 Growth rate of GDP per person employed
1.5 Employment-to-population ratio
1.6 Proportion of employed people living below $1 (ppp) per day
1.7 Proportion of own-account and contributing family workers in total employment
Target 1c: Reduce by half the proportion of people who suffer from hunger
1.8 Prevalence of underweight children under five years of age
1.9 Proportion of population below minimum level of dietary energy consumption


Appendix 2

An application

This part details our alternative simple solution, the appreciation of which requires understanding some simplified numbers.

At the Ouagadougou conference, I learnt from a human resource consultant that the minimum wage rate was about $55 a month (later confirmed by another person),\(^\text{18}\) that a fresh business school graduate would be lucky to earn $200 a month and high level managers earn about $600 a month (Ashta & Fall, 2012). What this means is that most people who need to earn $1 a day to be considered "not poor", could easily get out of poverty through minimum wage jobs in the public sector, as suggested by Karnani (Karnani, 2007). However, this is true only if they are single. If they are the sole-earner in a couple, they now need $60 per month to escape poverty ($2 \times 30$), as shown in Table 2. If the couple has an average of six children, they need $240 per month to escape poverty ($2 \times 8 \times 30$). What this means is that only the high level managers escape poverty, unless both parents work. Thus a woman, with six children, may also need to work and provide, say $60 and the man could provide the remaining $180, or vice versa. Clearly, except for highly educated graduates with considerable experience, this solution is inadequate.

Of course, the example is a bit of an exaggeration. First, owing to high mortality rates, only some survive and the average family may have only three or four surviving children. But it is more probable that the parents die first and the average family may be single parent at best. So, with one parent and three children, we come back to the same figures as earlier. The single parent now needs to earn $120 per month (earlier the couple needed to earn $240).

The second exaggeration is having taken ppp dollar rates and not real dollars. The minimum wage approximation of $55 corresponds to a minimum wage of approximately CFA 22,000 in West Africa. If we use purchasing power parities of 0.5 to keep it simple, this is perhaps accurate to say that this money reflects a ppp of $110 per month. Thus to get out of poverty, a single parent with three children who needed $120 in ppp terms, needs only $60 in real dollar terms. However, even most people with low education in the public sector are rarely earning even $60.\(^\text{19}\)

\(^\text{18}\) The ILO database for Wages and Income also broadly confirms the figures for Burkina Faso if we take 25 working days per month: SMAG (agricultural workers) 152.46 francs CFA per hour ($\text{US 0.26} - 2003$) (SPPP 0.89 – 2003) 1219.68 francs CFA per day ($\text{US 2.10} - 2003$) (SPPP 7.15 – 2003) (8 h per day). SMIG (non-agricultural workers) 166.03 francs CFA per hour ($\text{US 0.29} - 2003$) (SPPP 0.97 – 2003). Note ppp is now 0.43 in 2009 in Burkina Faso as opposed to 0.36 in 2003 (World Bank).

\(^\text{19}\) A software engineer I met was earning 150,000 CFA per month. His family included his wife and one child. So, per head they were earning 50,000 CFA per month. This is a little over $100 a month per person. Since he needed to work in a different city and maintain separate residences, I explained to him that by my calculations of taking out the expenses of the second residence, he was poor, though perhaps not among the poorest. He explained that everybody had some unofficial income from the informal economy to survive.
Most workers are therefore working at some monthly salary between $55 and $60 ($110 ppp—$120 ppp) if they have a full time job. In short, they are working to remain poor. At these levels, getting out of poverty is not possible, even if we follow the solution of employing everyone at the minimum wage for public sector employment as suggested by Karnani (Karnani, 2007), and ignoring the inflationary minimum wage for public sector employment as suggested poor. At these levels, getting out of poverty is not possible, have a full time job. In short, they are working to remain salary between $55 and $60 ($110 ppp)

To work, it must be simple enough to be understood. To be applied, it must allow all stakeholders to benefit. The proposed solution is to increase minimum wages to $120 per month in terms of ppp all over the world, or at least in Africa. The global application replies to globalisation. This would allow all the working poor families to escape abject poverty since the average income of this single earner family of four becomes $30 (ppp) a month of $1 pp a day, the MDG target. The solution must be applied to public sector workers and to private sector workers. If 50% of the country’s adults are employed in salaried jobs below the poverty line, this will allow 50% of the country to get out of poverty. The closer a country’s minimal wage is to this level, the less the effort it must make to make people cross the bar. The immediate Millennium Goals for 2015 will be achieved and our promises will be met, even to Africans. We can then pause before making more promises to the other half!

The solution does not need new laws as minimum wage laws exist in almost all countries. It needs just a change in the application decree for the amount of what constitutes the minimum wage. So, the application time is short. It suffices to do this in 2014 because it will probably take four years for all the stakeholders to agree to do this. The figure of $1 ppp per day per person or $120 ppp for a family of four translates into $15 per month per person or $60 per month for a family of four. Just the minimum additional distortion has been introduced in the market to achieve the Millennium Goals. If we want $1.25 per day, to conform to the revised World Bank rates, an intermediate wage rate of $150 a month in ppp ($75 in real USD) would suffice, as shown in Table 3. The exact number can be discussed as a second step after a buy-in to the basic solution proposed here.

Of course, we have limited our discussion to eradicating extreme poverty among the working poor by 2015. If we want to go further for the next millennium development goals, we can try to reduce poverty for the working classes and take them to $2 or $2.50 per day.

The solution needs to be global to avoid distortions and cheating by some countries attempting to gain at the comparative cost of others.

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