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Farmworkers Wages in Namibia: An Analysis of Wage Structure and Possibility of Minimum Wages

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TABLE OF CONTENTS

The economy is a miserable experimental design. (Robert E. Lucas, Jr.)

Chapter 1

INTRODUCTION

This paper looks at the Namibian Labour market. However, the analysis in the paper will particularly focus on the farm labour market in order to identify the existing structure and determine whether a minimum wage limit (lowest accepted and/or recommended wage) can be set on the monopsonistic power held by farmers. The latter possess stronger bargaining power than the suppliers of labour in the market. This monopsony exists only in the farm labour market but not in the cattle market in which farmers are involved. This is because in the cattle market, farmers are price takers and therefore don't have market power to manipulate selling price.

Broadly, the paper analyses labour discrimination, pointing out shortcomings in labour practice and the payment system. Before determining the amount of the minimum wage it would be necessary to look at costs faced by the farm workers and the farmers. Determining transfer of income from farmers to farm-workers is not easy and is appropriate to look at costs farmers face.

1.1. Minimum Wage in Namibia

1.1.1. Overview: Historical and 1990's Perspective

Wages in the Namibian economy have some historical influence in them. This is particularly so with the unskilled labourer's wages. Before independence, the productivity of workers was approximated by the race of a worker. Workers whose race were regarded as inferior were generally given lower wages even if they were to do a similar job with one of a 'superior race'. Inferiority greatly affected the worker's bargaining position. To some extent the colonial inferiority legacy still affects the psychology of unskilled workers when bargaining over wages. Accordingly, what the *Labour Act 1992* spells out does not necessarily help them in practise because the regulation stated is not applied .
Despite the fact that the *Labour Act 1992* is well implemented in some of the work places, it is important to analyse the wage level and structure in the economy. This provides information that could prove and lead analysts to trace shortcomings and make cross-sector comparisons in wages. Both the wage level and the structure gives an indication on what is happening in the market. Furthermore, understanding the structure of the market makes it easier to identify the type of operation and develop economic tools to target the market. Generally, wages in Namibia tend to differ depending on industry, occupation, size of the establishment and other characteristics (Ministry of Labour 1994 : 57). However, for the purpose of this paper the comparison of wages is limited to industry and occupation.

1.1.2. Income Categories

The table on `*broad industrial classification*' below indicates the average monthly wages for each industry and the class of occupation. The mining industry as shown by the survey is the best paymaster (*monthly average wage of N$3000)* while agriculture is the lowest in the group (*monthly average wage of N$586). Finance, electricity* and *gas* generation and *services sub-sectors* pay above the average of N$1761, the *manufacturing, construction, trade* and *transport sub-sectors* pay below the average wage level.

Furthermore, the table clearly indicates that generally all occupational categories get higher wages in the mining than in other industries. The comparison is sharper at the managerial level. For instance, this group on average earns N$ 10 728 per month which is roughly two to three times more than the managers in the other industries. The lowest average wage is indicated in the elementary occupation of agriculture, where farm workers can be included. Therefore they are more entitled to minimum wage compared to others (*see table 2).*

Income categories by occupation of farm-workers (driver, gardener, foreman, domestic servants, general labourer, other) from 1992 to 1995 pronounce existing payment structure in this sector (*see Table 1*). Since 1992 except in 1995, the highest percentage of farm workers were in the income category of N$51-N$100. Even in 1995, N$101-N$150 income category is only 0.4 percentage points higher in the number of workers compared with income category of N$51-N$100. The lowest percentage is in the highest income category. This type of payment framework is like in any other sector.

Table 1: Income Categories For Farm Workers (N$)

	<= 50		51-100		101-150		151-200		201-250		251-300		301-400			
	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
1992	18	11.9	53	35.1	30	19.9	22	14.6	14	9.3	9	6.0	5	3.3	0	0.0
1993	20	10.2	51	25.9	40	20.3	34	17.3	25	12.7	15	7.6	8	4.1	4	2.0
1994	29	10.8	56	20.8	50	18.6	48	17.8	33	12.3	22	8.2	21	7.8	10	3.7
1995	24	10.1	51	21.4	52	21.8	45	18.9	31	13.0	9	3.8	14	5.9	12	5.0

Source: Legal Assistance Centre

Therefore, based on the above, the urgent implementation of minimum wage only covers the agricultural elementary workers. However, there could still be a lack of competition in the labour market, particularly in the construction industry and the elementary occupation that exists in other industries. This is because there are units of labour that can be easily over-supplied in the labour market as potential employees are desperate to earn income. For example, around Windhoek job-seekers stay along roads waiting to be picked up for a casual-work for a day or so.

These people are prepared to accept whatever they can get for a living. Without the little income they can get each day, life could be too hard for them; making it easier for a *pick n` pay* practice. The system of *pick n` pay* give employers strong bargaining power on wages over workers not only on farms but also elsewhere in the labour market. Thus, in monetary terms wages received are not enough to cover the consumption costs workers face.

Table 2. Average Monthly Wages of Employees by Industry and Occupation

Industry	Senior Officials & managers	Professionals	Technicians & Associate Professionals	Clericals	Service & Sale worker	Skilled Agric. & Fishery worker	Craft & related worker	Plant & Machine Operator	Elementary Occupation	Total
Agric.	4401	5454	1383	2060	580	693	1055	2026	366	641 (586)
Mining	10728	6719	5660	3345	2158	1644	2825	2931	1094	2972 (3001)
Manu-facturing	4829	2070	3043	1749	1174	782	1263	1209	789	1265 (1201)
Elec/ gas/ water	5546	4178	4132	2607	1100	_	3019	2101	870	2208 (2138)
Construc-tion	4065	4313	2701	1323	425	_	1131	1270	621	986 (1043)
Trade, Hotels	3693	2983	1932	1119	944	*	1303	913	540	1178 (1166)
Transport	4892	3599	4079	1845	2126	*	1590	2120	904	1779 (1588)
Finance	5545	4534	3706	1930	1153	668	1191	1055	791	2538

R/ State										(2677)
Services	6099	3284	3039	2154	1359	1965	2004	1337	638	1860 (1956)
Total	5448	4178	3403	1813	1085	830	2211	1980	656	1772 (1761)

Source: A Report based on Establishment Survey 1992/93.
Ministry of Labour And Human Resources Development. 1994. page 58.
Note 1: Under the column Total, wages reported in parenthesis pertain to establishment level data for industry which were reported by 3026 Establishments for 77858 employees while data on occupation wages were reported for 62394 employees only.
2 *:Few observations hence wages not reported.

1.1.3. Theoretical Background

Asking an Economist to draw up an income policy regarding farm workers in Namibia is asking a complex question. This is because in Namibia the economy is characterised by `scattered' information regarding some institutions in the economy. Others are simply unrecorded and the entire economy is not properly recorded to enable a proper check on business cycle indicators. The goods, labour and money markets are not well established in Namibia to enable one an easy access to particular information.

For instance, in this regard, one doubts whether there is a central database that could indicate the trends of each of the following: (1) the utilisation of production capacity in manufacturing (2) labour costs per unit of physical volume of manufacturing production (3) ratio of output prices to unit labour costs in manufacturing (4) farm parity ratio, etc. Also it is common knowledge that a number of activities go on both in the rural and urban areas without a proper transaction records being met. The rural Namibians remain marginalised in society; technology has yet to infiltrate this sector. In fact a number of socio-economic and cultural phenomena impinges the upliftment of the country.

Bearing in mind the above mentioned economic constraints in the Namibian context, proposing a minimum wage needs a detailed analysis of the entire economy. In fact it also requires a gradual and systematic approach, which needs a serious observation. This is because without a proper and gradual analysis, legislation can result in critical repercussions in the economy. For example, resources can be moved from high value users to lower value users. Thus, spilling over potential resources, which otherwise could have been saved or ploughed back into investment.

This, however, does not contradict the need for a better income distribution in Namibia; there is a need for that. In fact the entire economic structure needs reform where necessary. At this point in time it cannot be safe to just draw up a policy concerning the minimum wage based on social interest as the private interest might be badly harmed, and therefore causing the Namibian economy to suffer. Farmers receive income either seasonally or annually. The Namibian geography guarantees farmers to receive income only some years and therefore some seasons.

The cause of the fear of what can result in the Namibian economy is the difficulty in obtaining reliable information from farmers concerning the Farming Industry. If the acquiring of reliable information was not difficult, and bearing in mind the average food consumption cost and average production cost, a preliminary minimum wage proposal would be for N$1.53 or above per hour for each farm worker. Due to the complexity of the findings the preliminary minimum wage proposal can stand at 0.95 cents per hour. This may only cushion the san who get between N$50 and N$70 each month. The 0.95 cents per hour will be used to guide economists for future analysis of the Farming Industry, particularly the Agricultural labour market.

1.1.4. Implementation

In Namibia, minimum wage legislation may attempt to redress the plight faced by the lowest income employees by raising their income and standard of living. However, income can be raised but the standard of living also depends on consumption behaviour. There are complications, however involved in attempting to draw up the minimum wage issue on farms. This is because the cost of living and standard of living differ from region to region. Also an attempt to tackle it by using the inflation rate in Namibia has some technical complexities. For instance, there are different tastes amongst communities in Namibia. Therefore, the minimum wage policy should accommodate the preferences of the average farm worker's dietary preference. In this regard, the approach is to first analyse the price differentials of Namibia's thirteen regions, but relative to Windhoek i.e., relative to the Khomas region before an attempt at the legislation and Agricultural labour market.

Legislation redressing the essential needs of the low income employees is important. This is because the low income groups, particularly farm workers cannot keep up with both inflation and monopsonistic power; unfair labour practise. Reinforcement of the *Labour Act 1992* is required to set a wage in the farm labour market; whether above or below the optimal competitive wage. However, reasons for the recommendation of the wage floor can differ depending on the state of economic phenomena that is being redressed. Reasons for a minimum wage might range from socio-economic factors to income policy considerations. For instance, Elliott (1991:306) explains that when the United States government wants to encourage teenagers to pursue more years of schooling on a full-time basis, the opportunity cost is reduced by setting a lower minimum wage. Once a lower minimum wage is implemented it becomes too costly to leave schooling and less costly to pursue schooling. This is because the forgone income (minimum wage) is lower than the expected future income that could result from more years of schooling.

However, in Namibia the intention is different, but is still a socio-economic income policy. Therefore, being an income policy, the price differentials and dietary preferences are important for analysis. This is because the whole analysis concerns the welfare of those with minimal bargaining powers. To look at welfare, one needs to understand dietary preferences and prices of items.

Chapter 2

MINIMUM WAGE DETERMINATION

2.1. Consumption Cost *(Price differentials)*

Despite the diversity in demands for all items, the analysis will have to be limited to the basic essentials that can predominately satisfy the marginal or average demand of the farm worker. This can be done by making `baskets of goods', namely X,Y,Z and W etc. Suppose each of the following letters stand for the corresponding basket of items as indicated in table no. 2.

In the model the following assumptions strictly hold:

(1) the average consumer represents the preferences of all other consumers.

(2) the average consumer consumes a number of items preferably in more than one basket.

(3) each item is a perfect substitute for another item in a different basket. Also, items in the same group are perfect substitutable.

(4) the bundle of composite items is strictly superior for farm workers.

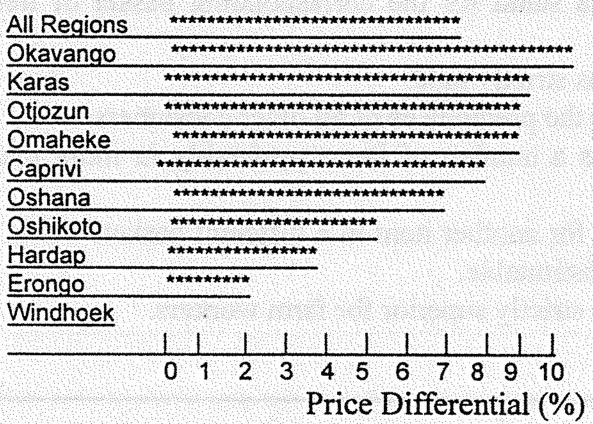
Table 3. Expenditure

Items of Expenditure	Examples of the items of expenditure
BRAED & CEREAL	X i.e mealie meal, rice,macaroni, oats,etc.
MEAT & MEAT PRODUCTS	Y i.e beef,mutton,pork,etc.
FISH & FISH PRODUCTS	Z i.e frozen hake ,fresh fish, steenbras, etc.
FATS & OILS	W i.e cooking oil, other magarine, etc.
DAIRY PRODUCTS & EGGS	H i.e fresh milk, butter, eggs, etc.
FRESH VEGETABLES	V i.e fresh potatoes, fresh lettuce, etc.
FRUIT: FRESH AND PROCESSED	N i.e pure fruit juice, bananas, etc.
SUGAR AND SUGAR PRODUCTS	G i.e white sugar,jam,chocolate bar,etc.
COFFEE, TEA AND COCOA	K i.e instant coffee,teabags,etc.
OTHER FOODS	O i.e mayonnaise,powdered soup etc.
COMPOSITE BUNDLE	C i.e groups 2,3,5,6,7,8 & 9.

Source: Appendix 1. Central Statistic Office

Taking the above assumptions into consideration leaves enough rational argument that the average farm worker's cost of living can relatively represent those of others despite the difference in the price differentials among regions. Taking all the regions the price differential is just close to 7% (6.5%). As can be seen on chart 1 below, the price differential for all regions is less than the price differential for Okavango, Karas, Otjozundjupa, Omaheke and the Caprivi, and more than for the others; the Erongo region having the lowest price differential. Price differentials can be caused by a number of factors; transport cost, the relative substitutability of one item for another, and consumer tastes amongst them.

Chart 1 Regional Prices as Percentage of Windhoek Price Level



Source: Central Statistics Office

It is important to point out that the research puts much emphasis on food consumption relative to other consumption items. This is because farm workers are lowly paid and their income is mainly meant for the sustenance of life. The consumer price index (CPI) weights for food as given by the Central Statistics Office is 22.6 compared to 0.9 for medical, and the importance of food can be stipulated by the number of items included in the survey (*see Table 4*).

Table 4 Index Weights and Number of Items

Group	CPI Weights	Survey Items*	No: of Items
1. Food	22.6	40	65
2. Beverage & Tobacco	4.1	7.3	8
3. Household Utilities	7.7	13.6	2
5. Household Goods	6.4	11.4	13
6. Transport & Communication	9.7	17.2	6
7. Recreation & Entertainment	1.4	2.5	5

8. Medical	0.9	1.6	5
9. Personal Care Goods	3.6	6.4	12
TOTAL	56.4	100	122

* CPI Weights scaled to sum to 100
Source: Central Statistics Office

Table 5. Consumption Expenditure

ITEMS OF EXPENDITURE	ITEM	AVERAGE COST (N$)	
		APRIL 1995	
		Ave. 1	Ave. 2
BREAD & CEREALS*	11X	54.52	4.96*4
MEAT & MEAT PRODUCTS*	13Y	244.96	18.84*4
FISH & FISH PRODUCTS*	7Z	101.92	14.56*4
FATS & OILS	3W	14.18	
DAIRY PRODUCTS & EGGS*	8H	76.96	9.62*4
FRESH VEGETABLES*	7V	22.47	3.21*4
FRUIT: FRESH & PROCESSED	5N	23.47	
SUGAR & SUGAR PRODUCTS	3G	18.00	
COFFEE, TEA AND COCOA	4K	47.91	
OTHER FOODS	7o	46.97	
COMPOSITE BUNDLE	C	15387.92	
TOTAL			204.75

Source: Central Statistics Office * Taken to determine consumption cost

Determining the cost of living is not easy in Namibia considering how problematic it is to get information, for example on labour issues (unit labour costs), farm parity ratio and consumer confidence indicators. One method to use given this, is to take either marginal or average numbers. In table no.4 the analysis takes a look at the average cost to determine the average consumption constraint of a farm worker. The model, takes under the items of expenditure bundle *xyzhv*, ie., *bread* and *cereal, meat* and *meat products,* *fish* and *fish products, dairy products* and *eggs*, and *fresh vegetables* for analysis. Bundle *xyzhv* consists of items the consumer (farm worker) can access easily to consume. However, the farm worker can still substitute among items as mentioned before. The total average is considered first, followed by the product of the quotient and the number of weeks in a month.

Taking this arbitrary number we get a total consumption cost of N$205.00 ie., to the nearest dollar (*see table 5*). This is slightly close to the Namibia Farm Workers's Union (Nafau) minimum wage proposal of N$250.00 for communal farm workers and N$350.00 for the commercial farm workers (Interview 1996). Before we determine the actual minimum wage the production cost faced by farmers is essential.

2.2. Production (Minimum Wage Proposal)

Both communal and commercial farmers use labour along with machinery, rainy season, intermediate implements and land as inputs in production. Furthermore, some need to pay interest on loans as part of production cost. In fact there is a 13 per cent interest per annum farmers engaged in a full-time farming activity have to pay out, while part-time farmers face a 15% interest per annum in this regard (Agribank: 11). At the moment there is an increase in the number of loans taken by the farmers. However, this does not mean that the agricultural sector is growing. "The main issue why it is not a growing sector is because farmers are taking loans to meet commercial debts incurred in the past" (Bornman 24/06/96). Thus, loans taken by farmers from the Agri-Bank are in the short term geared to meet long term liabilities.

The AgricBank operates under strict norms and regulations of which the full content is not available. This is because the norms can be very sensitive to public. However, there is a production cost of N$700 per hectare and a 50 per cent - 60 per cent deduction from the gross annual income (Bornman 24/06/96). The 50 per cent - 60 per cent deduction is applicable on livestock farmers, while the N$700.00 per hectare is on agro-nomic farming. The agronomic production cost covers for the following costs:
(1) fertilizer (2) insecticides to control infection from pests (3) fuel, oil and seeds (4) ploughing services eg., wages and maintenance costs.
The production cost agronomic farmers pay to run the farm is subject to fluctuations. This is because of the changes caused by fluctuations in the cost of fuel, labour and the interest paid on loans. As for the gross annual income deduction, a special consideration is taken into account before making an estimation as to what amount is to be deducted. The average market figure over a long term is taken into consideration when making the projection for the potential gross income deduction per annum (Bornman 24/06/96). This is done in order to avoid discrepancies that could result from the fluctuations in the labour, goods and money markets.

Farming equipment that can be obtained on loan are many and of different types. At the present moment the `Machines for Africa,' for example has an Agzat Mini Tractor in stock. This machine is a small tractor that can be used particularly by communal farmers, but is also made to suit commercial farmers. This mini tractor can be used along with the implements whose prices also appear in table 5.

The Agzat is a good option for a potential farmer who wants to engage in a crop production at a larger scale. At total cost of N$35 240.00 it is reasonable considering all the advantages that this mini-tractor has. The water pump can draw water seven metres from underground, the winch can shift large stones around at the farm and the grader blade can make a track, just to mention few, many more can be done. Spare parts according to the conditions made by the South African Government with `Machines for Africa' will be available all times (Finkeldeh 19/06/96). In fact the Agzat mini-tractor can meet the requirements of the South African Bureau of Standards as the machine has already been rewarded with an even higher standard its the country of origin. Thus potential farmers and farmers have an option good enough at a reasonable cost of N$35 240.

Table 6

NO DESCRIPTION	PRICE G.S.T excl. (N$)	8% G.S.T	PRICE G.S.T. incl. (N$)
1 AGZAT Single Axle Tractor with brake	9 083.33	726.67	9 810.00
2 AGZAT Bar-mower with spare blade	4 148.15	331.85	4 480.00
3 AGZAT Two-sided plough	1 925.93	154.07	2 080.00
4 AGZAT Potato plough	1 148.15	91.85	1 240.00
5 AGZAT Grader blade	1 814.81	145.19	1 960.00
6 AGZAT Potato ridger/ Furrow plough	1 592.59	127.41	1 720.00
7 AGZAT Rotary Tiller	2 287.04	182.96	2 470.00
8 AGZAT Centrifugal pump with hoses	2 675.93	214.07	2 890.00
9 AGZAT Trailer with brake	2 527.78	202.22	2 730.00
10 AGZAT Winch	5 425.93	434.07	5 860.00
TOTAL			35 240.00

Source: Machines for Africa (Namibia)
Also available on request: Passive cultivator, Discus cutter, Lawn mower, Sowing machine etc.

Chapter 3

AGRICULTURAL LABOUR MARKET

3. 1. Labour discrimination

The underlying need of a wage floor in the Namibian Agricultural labour market is the current set up of the market structure. The Agricultural labour market structure is characterised by lack of competition. This is mainly due to the over supply of labour in this market. Suzman (1995:36-63) identified the operational characteristics of this non-competitive market

(1) labour discrimination reflected by the payment of wages rationale

(2) a combination of contract labour, salaried labour and small task labour as the only types of labour

(3) livestock herding, fencing\fence-repairing and domestic work (fetching water\firewood) are the three main farm activities

(4) wages are determined by the employer and take the form of rations and nominal dollar wages.

Therefore, leaving the Agricultural labour market to ration the supply and demand of labour can hardly result into an equilibrium in the market. The fundamental determining factor of all the deficiencies in the market is the fact that there is an excess supply of unskilled labour both in reserves (rural areas) and marginal areas (urban). The demand is less than the supply of labour, making it easier for employers requiring the services of potential workers to determine and set wages and the market conditions. Clearly the oversupply of unskilled labour, reinforced by the employers colluding in the market creates a monopsony.

In the Agricultural labour market, customer and worker discrimination hardly exist. The only type of discrimination is the employer (labour) discrimination. This can be explained by looking at how wages are being `allocated' to workers by farmers. This has resulted in wage differentials. The wage differential evident in the Agricultural labour market results from a mechanism that uses criteria which have no or little reflection on the performance of comparative individuals; equal productive workers are not rewarded the same. Arrow in Elliott (1991: 384) points out that the wage differential is a result of the valuation in the market place of personal characteristics of the worker that are unrelated to productivity; it is racially based, eg., the san are perceived that they do not need much money.

Therefore, in the context of the farm workers's productivity in Namibia, pre-market discrimination, eg., schooling does not necessarily influence the determination of wages in the market. But what causes the wage differential between generational and migrant workers is the self interest of employers. Employers undervalue labour of the same type in order to receive higher rate of profit. The rate of higher profit is extracted from the arbitrage after the cost of hiring labour has been deducted.

The higher rate of profits extracted from the salaries of workers does not necessarily constitute the main cause of monopsony. For instance, monopsony in Namibia does not only exist in the farming sector, but also in the government sector. This is because the government is the sole buyer of labour supplied by nurses, prison warders and policemen. With regards the farming sector several farmers apparently have colluded to act as one buyer of farm workers, however.

3.2. Labour Source

Despite low wages that do not reflect the high marginal product of labour the farm monopsony continues. This is because of a large pool of unskilled workers who compete for limited vacancies. The farmers make use of the large supply of unskilled labour to maximise profits. The steady large supply of unskilled labour mainly comes from two sources: the migrant and generational workers. The migrant workers (mainly Owambo and Kavango) come from the communal areas and afield as far as South Africa and Angola, while the generational are mainly the Damaras, Namas, Hereros and Bushmen ie groups whose fathers and themselves were born and worked on farms (Suzman 1995:29). The reserves for labour are the communal areas from where labour is abundant and available.

3.3. Wage differential rationale

Despite the fact that both migrants and generational are hired by the employers, the job agreement between the employer and either of the two differs. Suzman (1995:39) points out that the rationale employers put forward by paying the migrants a wage ranging between N$160 and N$400 per month and between N$50 and N$75 for the generational are:

(1) migrants are reliable, hard working and too clever to cheat
(2) generational are not reliable, they are ignorant about money value and therefore easy to abuse.

Bushmen as seen from the farmers' point of view cannot make rational decisions by themselves, but tend to depend on employers to decide for them. The Bushmen are disadvantaged, they need basic essential commodities (food, shelter, health) yet some lack technical information and knowledge regarding labour matters. However, technical information and knowledge regarding labour matters can be possessed by other migrants and Bushmen, yet their bargaining position is weakened by the value of the fallback position. The fallback position is the alternative choice and is given by the following formula;

Fallback position=(1- u)Wo+uUB (Wells 1995:362). Where (1-u) is the probability of finding an alternative job, Wo is the alternative wage offered by other firms\sectors and uUB is the unemployment benefit.

In the Namibian economy, *uUB* is zero and *Wo* can be a large positive number, but *(1-U)* for the unskilled labour in the farming sector is very close to zero. Thus, clearly even though the alternative wage is a large positive number, the fallback position is a small value. This makes the wage bargaining position for workers very weak and as a result accept whatever wage the employer offers. Also, the colonial legacy still affects the bargaining position of farm workers, particularly on commercial farms.

The weak bargaining position of unskilled workers due to small fallback position benefits employers. Employers have a strong bargaining position for wages as a result. However, employers have a different perception of the whole contract. They blame the Bushmen for their tastes and irrational choice for alcohol and argue in explanation thus;

> ...[Bushmen] are perceived to be useless with money especially as regards their apparent partiality to alcohol, *tombo* in particular, which many [bushmen] appear to spend a great deal of time consuming. This is no minor problem, as ... desperate [bushmen do]... sell off their government food rations in [exchange] for cash which goes to booze. Thus, frequently leaving hungry children or dependants. As a result of this, many... employers express apparent concern for these people and will usually give them small task labour as an act of charity. You can just say, "Hey Boesman! Get up and get me some water and I will give you porridge," and he goes [because] what else can he do? He is hungry. Farmer's wife 27/02/95 in (Suzman 1995:41-42).

Thus, labour practice of the Bushmen is adversely affected by the practice of charity system or paternalism when they take on a more formal labour agreement. A farmer explains as follows:

> To some people - if you want to take care of those people - you say, "I'm going to pay you N$200 each month," but the day after you have paid him he has no money left and is asking for food, so what we try do is give them less money and more food (Suzman 1995:42).

A worker, whether generational or migrant is free to decide how to spend his/her income. It could be on any combination of a bundle of commodities, and that is not a social interest for the employer to determine paying less on that ground.

The foregoing account stipulates that the demand for labour does not match the supply of labour. This can be explained by the fact that employers are in a position to set wages which are supplemented by rations, or in some cases the wage the workers receive is net the total cost of the ration/s . There is excess supply of labour in the farm labour market and a monopsony is suspected from an economist`s analytical point of view. A monopsony is operational in the sense that employers do not compete either in services or payment rendered to the employees but, instead co-operate in the discrimination of workers (Tjoutuku 1996). The co-operation by a number of employers in discriminating and extracting of a quota rent guarantees the analysis to label the market monopsonistic.

3.4. Labour Market Structure

The motive behind the organised employers who collude is to maximise their self interest; accumulation of higher profit. The analysis of the market structure identifies a standard marginal valuation curve for labour (labour demand). However, the supply of labour is kinked; less elastic at lower wages and more elastic at higher wages. *Diagram 1* shows the kinked labour supply curve for farm workers. Below the wage level of *Wo/p*, opportunity wage is very low. Therefore, in the wage range of *Wo/p* and *W*/p* a reduction in the wage level will not result in a large reduction in the amount of labour that is supplied. There is no better alternative elsewhere to induce farm labours to leave the farming sector.

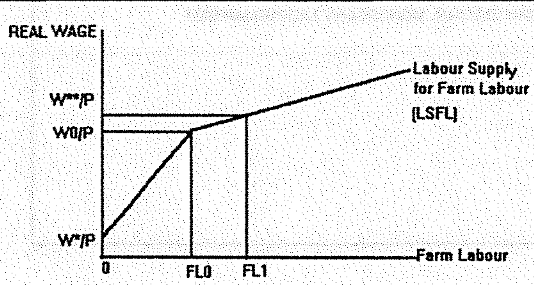


DIAGRAM 1: FARM LABOUR SUPPLY

Some opportunity may, however, exist in another alternative labour market, but the lack of technical skills and human capital hampers the farm workers from leaving to seek employment in the alternative labour market. Alternatively, above the wage level of *Wo/p* the opportunity wage is very high. Therefore, in the wage range of *Wo/p* and *W**/p* an increase in the wage level will result in a large pool of labour supplied in the farming sector. The opportunity wage which could be forgone by not supplying labour in the farming sector is high. The high opportunity cost induces the unskilled individuals to supply more units of labour. Shortage of investment in technical skills and human capital limits the success of the unskilled individuals. Thus, making it even more costly not to work on farms.

The over supply of unskilled labour in the farming sector reinforces the private interests of farmers. As a result the more organised farmers can easily collude. On the other hand, however, the unskilled workers are less or poorly organised making it possible for the farmers to undervalue the units of labour they hire. Nowadays they are becoming organised in Nafau, but because farms are far apart and few workers present on each farm the possibility of a strike is small and hence they bargaining power is very limited. However, their consciousness is growing and knowledge of their rights is increasing and might be different in future. Because of a strong organisation the farmers are in strong bargaining position in the unskilled farm labour market over the workers. *Diagram 2*, clearly depicts that the unskilled workers in the farming sector receive wages *(Wfw -D)/p* that are less than the market clearing wage.

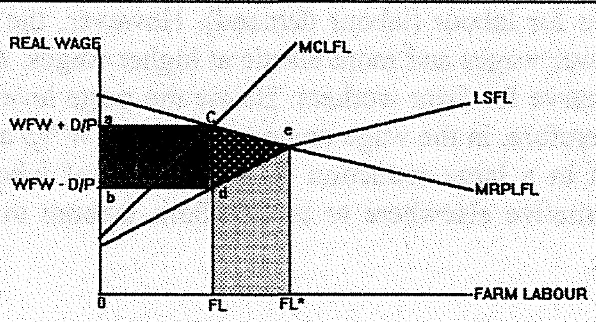


DIAGRAM 2: AGRICULTURAL MONOPSONY LABOUR MARKET

Due to a better bargaining position the farmers receive wages *(Wfw +D)/p* that are more than the market clearing wage. Under the monopsony market, unlike in the competitive market, labour supply *(Ls)* is not the same as the marginal cost of labour (Elliott 1991: 395). This is because the marginal cost of employing an additional worker exceeds the wage paid to the marginal worker; the same wage has to be paid to all the other workers. Economically, the existence of the monopsony has implications in the economy; direct and indirect effects (economically analysed).

3.5 MARKET ANALYSIS

3.5.1 Direct effects

Besides the fact that as a direct effect the workers receive *(Wfw-D)/p* which is less than the market clearing real wage, the direct effect on farmers is that they receive *(Wfw+D)/p* which is more than the market clearing real wage. (See diagram 2).Furthermore, as a result of the monopsony, only a limited number of farm workers are employed, which is less than the equilibrium level.

3.5.2 Indirect effect

Apart from the direct effect, the over supply of unskilled farm labour in the market has indirect effects, also. These indirect consequences are the potential resources not being used in the market, *area lflf*fd,* resources that are wasted (social dead weight loss), *area cdf* and the quota rent, *area abcd*. The potential resources for the agricultural sector are being constrained in the sector. For instance, agricultural output can be adversely affected. Since less units of labour is being used, more units of resources whose marginal cost is less than the marginal value are mis-allocated. In the second market, farm workers' demand for consumable good gets distorted.

Chapter 4

IMPLICATIONS ON THE ECONOMY

4.1. Microeconomic

Rations cannot be ruled out as such because it is a source of income. It all depends on both parties making up a transaction, however. Where applicable, rations should have to be perceived as fringe benefits, but not as a form of wage. This is in order to have a 'standard' marginal value for the unskilled workers in the farming sector. Quantifying the value of rations in order to convert them into monetary wages, however has to be avoided. Consequently, with the implementation of the minimum wage legislation farmers can be inclined not to give rations. Even though they decide not to give rations, anticipating that workers may suffer, cannot be a threat to the minimum wage legislation. This is because the minimum wage proposal will be enough to cover the cost of living for the workers.

The distribution of income is a crucial point to be considered whenever proposing legislation for the labour market. This is because it can transfer income from one group to another, ultimately affecting the welfare of both groups. Both the income distribution and welfare effects are direct. A certain percentage of income in the monopsony farm labour market as a result of the minimum wage clause will be transferred from the farmers to the workers. This is because the wage workers get will then be above what they receive under the monopsony market. As for the welfare effect the income constraint under monopsony lowers the welfare of workers. Welfare of workers once the monopsony operation is cleared by the minimum wage legislation will increase; workers will be better off than before. Therefore, all other things being equal, the minimum wage legislation clause is an efficient tool to redress income distribution problem in the Agricultural monopsony labour market.

Following the income distribution argument is the cost of labour to be employed at a high cost. It can be argued that farmers will be more constrained considering the prevailing socio-economic conditions in Namibia; drought, rising crime, unemployment, marginally weak exchange rate, etc. However, all other things being equal, a minimum wage above the monopsony wage can have no effect on the wage bill received by farmers. This is because non-wage payments (rations) alternatively reduced, will compensate for the minimum wage above the monopsony wage. Depending on the trade-offs the wage bill can be the same, however. The only problem that could surface in the market of farm workers is the tendency of trying to under-value or over-value non-wage payments in comparison with dollar wages (minimum wage).

Alternatively, besides the asymmetrical information problem farmers may reinforce some degree of market power by substituting inputs used in production, especially on crop farms. Depending on the complementarity between skilled and unskilled, and between full time and part time workers, minimum wage can lead to some degree of substitution (Card and Krueger 1994:784). In the Agricultural monopsony labour market, the minimum wage legislation can cause farmers to substitute part-time employment for full-time employment. Minimum wage has to induce farmers to behave as such in order to minimize transaction costs in hiring and training workers involved with casual part-time labour. This will result in a steady source of income for those hired, and also ultimately reducing the number of unemployment in farm labour market.

Card and Krueger (1994:784) points out that minimum wage can also induce employers to substitute skilled workers and capital for minimum wage workers. However, this cannot happen in the short run because of the current economic `climate' in Namibia. For instance, the agricultural sector is adversely affected by the drought making it too costly to pay back loans with interest.

There are barriers to entry in the Agricultural monopsony labour market caused by the prevailing economic conditions in Namibia. The severe drought and the land acquisition transaction are some of the key factors adversely affecting the agricultural sector. Potential farmers are encountered with difficulty to have direct access to land because of unclear negotiations over the acquisition of cultivable land between government and private individuals. There is a need to enforce incentives among farmers already in the market or those potential ones to enter the market and undercut those who discriminate. Market power currently in existence should be quashed in order to create a market not bias against workers's productivity.

Once the wage bias is eliminated the discrimination co-efficient will decline close to zero. Indeed, farmers are facing a trying period in the 1990's. The Namibian (22.8.95) reported that in June 1995 Government had made an international appeal to donors for over N$100 million in drought aid to alleviate the consequences of a poor and erratic rainy season such as crop failures, poor grazing and water shortages.

> [Among other reasons there is no] enough incentives to encourage farmers to increase their production and Albie Basson of the KPMG Peat Marwick auditing firm [emphasized] that uncertainty about the implications of the Commercial Land Bill [(i.e., redistribution of land)] by the farmers could instil fear in farmers that might result in lower production, less development of the land and less investment in the land. Farmers do not know how, when and at what price the land would be appropriated. Namibian farmers are exempted from the wealth tax, land tax, capital gains tax, donation tax and estate tax which could take a serious stake from the farmer's income, [but face] the burdens of income tax, import tax, customs and excise duty, GST and Additional Sales Duty (The Namibian 7. 3.1995).

The uncertainty `clouding' farmers in making choices make it too costly to venture into more capital intensive production in agriculture. Rather they could prefer a labour intensive agricultural production to the capital intensive agricultural production. Rays of hope regarding the purchase of capital equipment for agricultural production can be made from the Drought Aid Scheme.

> [However, the Drought Aid Scheme only covers for] fodder subsidy and subsidy on the lease of grazing land. ..[Apparently the fodder subsidy had been] cut from N$21 to N$15 a month for large stock units and from N$4.50 to N$3.00 a month for the small stock units and only a maximum of 100 large stock units or 500 small stock units can qualify (The Namibian 17.8.95).

The disadvantages faced by the farmers despite a number of advantages are more critical because it distracts potential farmers from entering the market. The subsidy itself is not enough in monetary terms and is beyond farmers's control. The drought makes the cost of machinery in the Namibian context too costly in the current decade. This is because not only is drought a problem on its own, but is also a constraint on inputs used in agriculture as it makes capital labour substitution difficult. Buying a machine today should account for both the monetary cost including depreciation cost and the cost of having the machine laying idle during the poor production seasons. Yet in some cases there can be no possibility of using idle machines for an alternative job, while one type of work can be substituted for another by using labour.

4.2. Macroeconomic

4.2.1. Industrial Effects

The fear of negative effects on other related labour markets eg., construction, trade & hotels and manufacturing is inevitable. The spill-over effect on other related unskilled labour markets is noticeable. This is because depending on the nature of the work involved into, both workers and employers can be involved in an industrial dispute. Management in respective industries may decide to lay-off workers in order to reduce the magnitude of the spill on marginal labour cost. However, this could be done in line with the expected economic growth in Namibia. If the expectation is not quite a prosperous one, employers could be more inclined to lay off some workers of lower productivity, thus raising marginal returns in the process.

On the other hand, suppose the expected economic conditions are good in the minds of the related employers, laying off workers cannot be viable. This is because employers will more likely incur firing costs then, followed by the search and hiring costs when the economy picks up once again. However, applying this argument in the Namibian context gives an ambiguous scenario because of quite a variety of reasons, particularly the fact that the farming industry depends heavily on climatic conditions, causing income received to fluctuate seasonally or yearly. This is caused by the geographic setting of

Namibia which makes the country prone to adverse climatic changes.

Industrial action on wages has limits to cause waves across the entire labour market of low income earners. The magnitude of the likelihood of waves is uncertain due to facts like the lack of co-ordination and organization amongst unskilled labour force. Low income workers in Namibia are not well organized and represented, thus the whole exercise can be crippled by asymmetric information problem.

Economic situation in the country at the stage of implementation and the likely consequences is of great concern. For instance, beside the severe drought hitting not only Namibia, but the whole of Southern Africa with the exception may be of South Africa, the farming Industry is not in equilibrium in Namibia. There is a conflict between social and private interest. The interest conflict is caused mainly by lack of understanding engineered by the need to protect self interests. Not every one can understand another one's logic concerning certain issues in society. Understanding each other, however, is not necessary, but reaching sustainable agreement is important. Currently, the activities of farming industries is a hot issue whereby adding the minimum wage would increase tension. Arguments would range from political, social (union) and economic gains.

Already Govt has been looked at critically by unions and public regarding this sector. Paul Vleermuis, Namibia National Farmers Union Acting Director was quoted as saying:

> ...Government..[were discriminating against communal farmers by paying higher marketing incentives for animals sold at Meatco and little for those sold at open markets. Communal farmers [did not]...have access to Meatco and this meant that commercial farmers would benefit most because, as "middlemen", they would buy from communal farmers and sell to Meatco. ...animals sold on open markets were earmarked to avoid a [double subsidy for each animal]. Commercial farmers restocked with animals bought from communal farmers and sold theirs to Meatco for a subsidy. Although commercial farmers re-stocked with animals acquired from communal farmers and never restocked, Agribank continued to give them loans to restock, while communal farmers received no support at all. ...in some areas communal farmers were excluded from transport and fodder subsidies. ...[Yet], these farmers were unable to get loans from banks to buy fodder because they lacked credit worthiness. ...communal farmers were being discriminated against because they produced through "low capital input" and high labour intensive practices. "Are we not supposed to encourage labour intensive practices as a means to job creation? Are we assisting those who are using `machines' instead of human labour?" (The Namibian 04/07/96 :1-2).

Thus, Vleermuis puts across an argument that criticizes government choice to accommodate the interests of workers at farms and those of communal farmers. Additional, he argues that lack of security reinforced by their production inputs choice, hampers the flow of loanable funds to communal farmers. Thus, it is more likely that the minimum wage could cause disagreements between farmers and government. They could counteract government choice by raising their plight resulting from the drought; making it unbearable to think of minimum wage cost in production. Minimum wage effect on the economy through industrial effect ultimately may result into a distributional effect.

4.2.2. Distributional Effects

Whether poverty is reduced or not can be answered by analysing what happens to income distribution. Currently the formula for the contribution towards the social security fund is pegged at the product of 0.9 per cent and the salary each worker gets is contributable as long as the employee works for more than a month (The Namibian 15/03/96 25). A salary of N$300.00 and less is N$2.70, and the salary of more than N$300.00 is attained by using the contribution formula. Thus, the minimum contribution is N$2.70 and the maximum is N$27.00. The distributional effect on the social security fund can be positive, but could be minimal. This is because it might be very hard to carry out the proper collection of these contributions towards the fund without any fund evasion. A large number of workers can do away with it and thus ripping off the fund of couples of dollars. The remoteness of some areas makes it hard to carry out the exercise. Therefore, employment might increase but not necessarily in line with the fund's cash.

Chapter 5

CONCLUSION

The tough conditions of living force potential farm labourers to accept whatever payment farmers can offer on the farm and that reinforces farmers's monopsonistic powers. Also, the fall back position which is zero reinforces tough competition to get jobs amongst the unemployed, considering the rising unemployment rate in Namibia. As a result there is always an oversupply of potential farm labour in rural areas.

All the mentioned facts leave farm labourers in a weak bargaining position for a living wage on farms, therefore making it more difficult to organise themselves against the poor payment system. Excess supply of labour, drought, high and difficult conditions of living all limit the success of the minimum wage in the farming sector. However, there is a need of a minimum wage as it could lead to more workers being hired were it not for the tough conditions the sector is currently in. Not only will it help to reduce the number of unemployment, but also the recipients who will then receive an inflation indexed wage. The introduction of minimum wage is important as it could reduce labour discrimination.

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