

WAGE RATE DETERMINATION THEORY AND ITS RELEVANCE TO AGRICULTURAL SECTOR

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Abstract: Labour input remains a major factor of production in agricultural sector. It includes those that are rated on daily, hourly and monthly basis depending on the job description. Wage rate of agricultural Labourers is generally below the minimum wage of 18,000 in Nigeria. The paper attempts to identify Wage Rate Determination Theory and its Relevance to Agricultural Sector. The study was conducted in Nigeria and secondary data was used for the study. Results from the study reveal that Subsistence theory, Wages fund Theory, The Surplus value theory of Wages, Residual claimant Theory, Marginal productivity Theory, The bargaining theory of wages, Behavioural theories as the relevant theories of wage also the from the study Agricultural growth, Food prices and food security, Labor supply and Minimum wages are some of the factors affecting wage rate determination in Nigeria going forward Excess Working Hours, Seasonal Employment, Low Wages, Agricultural Slavery, Indebtedness, Weak institutional framework, Exploitation of Child and Women Laborers, Lower Social Status, Shortage of Other Jobs, Housing Problem are the problems agricultural labour. The study therefore recommends that a fast and sustainable measures be put in place to ensure that farm labourers get proper pay for their work also an institutional body be put in place that will oversee the activities of farm employer and employee.

Keywords: Wage Rate, Agricultural Labour, Nigeria.

1. INTRODUCTION

Agriculture remains an important sector in the Nigerian economy contributing 24.44% to nominal GDP in the 3rd quarter of 2017 (NBS, 2017); basically, it provides employment opportunities for the teeming population, eradicates poverty and contributes to the growth of the economy. Nigeria rely majorly on earnings from crude oil to sustain her economy, only recently crude oil price nosedived to \$40.68 per barrel in 2016 from \$107.46 per barrel in 2011 and hovering around \$69.02 per barrel in 2018 (Statista, 2018). Diversification is necessary for the survival of the Nigerians economy and agriculture has been tipped as one of the sectors with great potentials. The sector comprises of commercial and subsistence farmers with labour input as major factor of production common to both types of farmers. Labour is one of the factors of production which involves family, hired and communal labour. Labour includes those that are rated on daily, hourly and occasionally basis monthly depending on the job description (Panwal, 2006). Sometimes, the labour is being negotiated for the work on a specific area of farm and can refer a continuous input and therefore is available on hourly and daily basis. The paper attempt to identify wage rate determination theory and its importance to agriculture in Nigeria given the importance of labour input in actualization of Nigeria desire to be self-sufficient in food production and diversification of economy. The paper put emphasis on different theories of wage, factors for the variations of wages and problem of agricultural wage in Nigeria as there is little or no agricultural wage model on the basis of the market theory of labour demand and labour supply. Wage theory attempts to explain the determination of the payment of labour. It is any economic compensation paid by the employer under some contract to his workers for the services rendered by them. Wages, therefore, include family allowance, relief pay, financial support and other benefits. It refers price paid for the services of labor in the process of production and include only the performance wages or wages proper.

1.1 Problem Statement:

Our understanding of the agricultural wage determination in developing countries is less than satisfactory. Traditional subsistence and nutrition-based efficiency wage theories (Ahmed, 1976) are either too naive or inadequate, although they are not totally irrelevant for the determination of the agricultural wage rate. In these theories, it is expected that at least in the long run the real wage rate will remain more or less stable at the subsistence or efficiency level, and will not fluctuate very much due to changes in labour demand and labour supply conditions.

In Nigeria Government wage review is as old as the history of the nation's minimum wage. Minimum wage, which relate to some legal restrictions on the lowest wage rates payable by employers to their workers, have influenced wages in Nigeria since 1955, courtesy of the Wages Board Act of 1955. From 1955, successive governments have set minimum wages for all kinds of occupations/trades, especially the ones that can be considered formal. In 2010 the minimum wage was reviewed to ₦18,000 from ₦7,500 by the Federal Government of Nigeria. Despite this increase, wage rate of agricultural labourers is generally below the minimum wage. From empirical studies hired male labourers are paid an average of ₦1,000/day while their female counter part earns an average of ₦800/day depending on the farm activities in Abuja. Also, on average a poultry attendant is placed on a salary of between ₦10,000/month to ₦18,000/month which most times is still below the minimum wage. Over the years there hasn't been a minimum wage for agricultural labour. Farm labourers in Nigeria have little or no bargaining power and hence are underpaid. Going forward the agricultural sector in Nigeria lacks the institutional framework and level of professionalism needed to command high wage rate for hired labour as compared to her counterparts in law, engineering and medicine. It's against this backdrop that this paper seeks to achieve the following objectives.

1.2 Objective of the Study:

The main objective of the study was to identify Wage Rate Determination Theories and its Relevance to Agricultural Sector while the specific objectives were to: -

1. identify wage rate determination theories
2. identify the factors affecting the wage rate determination in Nigeria
3. highlight some problems of wage rate determination in Nigeria

2. METHODOLOGY**2.1 Study Area:**

The study was conducted in Nigeria. Nigeria has an area of 923,768.00 Sq kilometres and lies between latitude 40 and 140 North of the equator and longitudes 30 and 140 East of the greenwich meridian. This is entirely within the tropical zone. There are two marked seasons: The rainy season lasting from April to October and the dry season from November to March. Absolute maximum temperature in the coastal areas of the south is 37°C while the absolute minimum temperature is 10°. The climate is drier further north where extremes of temperature range from 45° to 06° are common. Nigeria's population consists of approximately 182million (Ghaji, 2017), Major crops include beans, sesame, cassava, cocoa, maize (corn), melon, millet, palmkernels, palmoil, among others.

2.2 Source/Type of Data:

Secondary data was used for this study and was gotten from National bureau of statistics (NBS), Journals, articles among others.

2.3 Method of Data Analysis:

The objectives were achieved using several literatures gathered from the various sources consulted.

3. RESULT AND DISCUSSION

3.1 Theories of wages: There are two key theories that explain why salaries are the way they are in a particular field. These two theories are:

1. Traditional Theory of Wage Determination: In this theory the law of supply and demand dictates salary.

2. Theory of Negotiated Wages: Those employees who work in unions where the union negotiates salary on behalf of all workers fit into this theory. There may be payment by time or payment by results, including payment at piece rates. Wages are fixed mainly as a result of individual bargaining, collective bargaining or by public or State regulation. Some theories of Wage are:

1. Subsistence theory: This theory, also known as ‘Iron Law of Wages,’ was propounded by David Ricardo (1772-1823). This theory (1817) states that: “The laborers are paid to enable them to subsist and perpetuate the race without increase or diminution.” The theory assumed that if the workers were paid more than subsistence wage, their numbers would increase as they would procreate more; and this would bring down the rate of wages. If the wages fall below the subsistence level, the number of workers would decrease - as many would die of hunger, malnutrition, disease, cold, etc. and many would not marry, when that happened the wage rates would go up. In economics, the subsistence theory of wages states that wages in the long run will tend to the minimum value needed to keep workers alive. The justification for the theory is that when wages are higher, more workers will be produced, and when wages are lower, some workers will die, in each case bringing supply back to a subsistence-level equilibrium. The subsistence theory of wages is generally attributed to David Ricardo, and plays a large role in Marxist economics. Most modern economists dismiss the theory, arguing instead that wages in a market economy are determined by marginal productivity

2. Wages fund Theory: This theory was developed by Adam Smith (1723-1790). His basic assumption was that wages are paid out of a predetermined fund of wealth which lay surplus with wealthy persons - as a result of savings. This fund could be utilized for employing laborers for work. If the fund was large, wages would be high; if it was small, wages would be reduced to the subsistence level. The demand for labour and the wages that could be paid them were determined by the size of the fund.

3. The Surplus value theory of Wages: This theory owes its development to Karl Marx (1818-1883). According to this theory, the labour was an article of commerce, which could be purchased on payment of ‘subsistence. price.’ The price of any product was determined by the labour time needed for producing it. The labourer was not paid in proportion to the time spent on work, but much less, and the surplus went over, to be utilized for paying other expenses. Marx himself considered his theory of surplus-value his most important contribution to the progress of economic analysis (Marx, letter to Engels of 24 August 1867). It is through this theory that the wide scope of his sociological and historical thought enables him simultaneously to place the capitalist mode of production in his historical context, and to find the root of its inner economic contradictions and its laws of motion in the specific relations of production on which it is based.

4. Residual claimant Theory: Francis A. Walker (1840-1897) propounded this theory. According to him, there were four factors of production/ business activity, viz., land, labour, capital and entrepreneurship. Wages represent the amount of value created in the production, which remains after payment has been made for all these factors of production. In other words, labour is the residual claimant.

5. Marginal productivity Theory: This theory was developed by Phillips Henry Wicksteed (England) and John Bates Clark (USA). According to this theory, wages are based upon an entrepreneur’s estimate of the value that will probably be produced by the last or marginal worker. In other words, it assumes that wages depend upon the demand for, and supply of, labour. Consequently, workers are paid what they are economically worth. The result is that the employer has a larger share in profit as has not to pay to the non-marginal workers. As long as each additional worker contributes more to the total value than the cost in wages, it pays the employer to continue hiring; where this becomes uneconomic, the employer may resort to superior technology.

6. The bargaining theory of wages: John Davidson propounded this theory. Under this theory, wages are determined by the relative bargaining power of workers or trade unions and of employers. When a trade union is involved, basic wages, fringe benefits, job differentials and individual differences tend to be determined by the relative strength of the organization and the trade union.

7. Behavioural theories: Many behavioral scientists - notably industrial psychologists and sociologists like Marsh and Simon, Robert Dubin, Eliot Jacques have presented their views on wages and salaries, on the basis of research studies and action programmes conducted by them.

3.2 Factors affecting wage rate determination in Nigeria:

Agricultural growth: Agricultural productivity growth can translate in a sustainable reduction of hunger and poverty, as farm incomes rise following productivity increases. Increased farmers' incomes and higher agricultural workers' wages create increased demand for basic non-farm products and services in rural areas. Positive changes in wage rates seem instead to be associated with bargaining by agricultural workers or with the availability of alternative work opportunities.

Food prices and food security: Worker households often spend over 70% of their cash wage on food. Rising food prices can push significant numbers of waged workers and their families below, or even further below, the poverty line. Improving earning power and livelihoods and ensuring food security are closely linked issues for agricultural workers and their trade unions. Because of low earnings, agricultural workers lack the purchasing power to buy sufficient food from the market. Furthermore, changes in crop patterns from staple food grains towards higher priced cash crops have worsened food insecurity for many worker households. The unions believe that dependence on imported food is likely to increase, eventually leading to lack of food sovereignty.

Labor supply: Real increases in wages are closely associated with rising labor absorption in agriculture, or land-augmenting agricultural practices based on higher cropping intensity, stimulated by investment in irrigation. Robust agricultural growth, fuelled by exports, can also be an important means of real wage increases.

Minimum wages: National or sectorial statutory or negotiated minimum wages aim to protect the most vulnerable and lowest paid workers so as to guarantee a living wage to all workers. As collective bargaining is often weak in agriculture, some form of national wage-fixing machinery, involving government, can be important to set minimum wage levels. Enforcement of minimum wages is widely thought to be difficult if not impossible in rural areas in view of the extent of surplus labor and widespread unemployment. The largely informal nature of labor contracts in agriculture seems to preclude the possibility of enforcing a non-market determined minimum wage.

3.3 Problem of Wage Rate Determination in Nigeria:

Excess Working Hours: The working hours of farm laborer in Nigeria are not only irregular but also excessive. They have to work morning to late night. working hours change with harvest, season and activities. This is contrary to the standard 8 hours work hour per day and 40 hours per week. From empirical study some labourer go to the farm as early as 6am and work till 6pm for a fee of ₦1000 and occasionally food is provided for them.

Seasonal Employment: Agricultural production is seasonal in character. The demand for labour tends therefore to shift significantly from period to period throughout the year. In certain instances, the market for casual labour ceases to function for lack of demand; at other times competitive bidding may raise wages above the supply price of landless workers.² The production of a given crop entails a series of tasks linked in a time-sequence. Each has a specific technological characteristic. The demand for labour reaches a peak when the agricultural operation is labour intensive and/or must be performed within a short interval. Both the timing and the speed at which a given task should be performed may partly depend on occurrences which escape the farmer's control: maturity of plant, availability of water, weather, flood, pests. These simple features of agricultural production, often mentioned in the literature to emphasize the significance of seasonal underemployment, have other important implications for the present analysis. The seasonal pattern of demand for labour affects the nature of the labour-contract that capitalist farmers tend to offer and the type of commitment landless workers would like to undertake at different times of the year. During the slack season, employers may require labour in limited amounts for very casual jobs. Their preference is for very short contracts: a day or two, a few hours here and there according to the nature and the importance of the task. Since labour is generally under-employed at that time, 'capitalist' farmers can easily enforce their preferences even if they do not correspond to the workers' desire for greater security

Low Wages: The wage level of agricultural labors very low as compared to that of industrial labor. It has two reasons: increase in landless laborers and lack of non-agricultural areas of work in rural areas. Despite the minimum wage of ₦18000 in Nigeria agricultural labourers still struggle to earn a figure of ₦ 10,000/month in the rural areas given the kind of activities they perform compared to their counterpart in industrial sector.

Agricultural Slavery: Majority of agricultural laborers are landless and of backward classes. Due to their lower social status they are treated as animals. Big land owners make them work as slaves. They are used as laborers and in return given minimum wages.

Indebtedness: Due to lower income, the indebtedness of agricultural farmers is increasing. They hesitate in negotiating their wages with the land owners in the fear that their services would be terminated. The laborers remain indebted even after working with the land owners for their whole life.

Weak institutional framework: Since the agricultural laborers are spread in millions of village all over the country they lack unity. Thus, they are unable to negotiate their wages etc. with the land owners by uniting themselves.

Exploitation of Child and Women Laborers: Due to lower income the children and women of agricultural laborers are also forced to work for their livelihood. The child and women laborers are made to work more for livelihood. Thus, exploitation of child labor and woman labor is a major problem in the field of agriculture.

Lower Social Status: Most of the agricultural laborers are of backward classes who have been exploited since centuries. Due to this reason also their social status is lower.

Shortage of Other Jobs: There is shortage of other jobs in villages. Thus, if the crop is destroyed by floods, famines etc., it becomes difficult for the agricultural labor to survive.

Housing Problem: The landless laborers have no private house. They live in cottages, made on the useless land of the landowners with their permission and in its return they have to work without payment, for the landowners. When a number of people live under the same roof, the physical, social, moral and religious problem arises.

4. CONCLUSION AND RECOMMENDATION

From the foregoing it can be concluded that agriculture remains an important sector in the Nigerian economy contributing 24.44% to nominal GDP in the 3rd quarter of 2017 (NBS, 2017). Also, the institutional framework around farm laborers wages in Nigeria is relatively weak, therefore, the study recommends that a fast and sustainable measures be put in place to ensure that farm labourers get proper pay for their work also an institutional body be put in place that will oversee the activities of farm employer and employee.

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