

# Real wages and the demand for skilled and unskilled male labour in Ghana's manufacturing sector: 1991–1995

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## Abstract

Real wage rates in Ghana have fallen substantially over the last 20 years. In this paper survey data for the years 1991–1995 is used to assess the changes which have occurred in the 1990s. It is shown that the real wage rate for the unskilled has continued to fall. Factor share equations for skilled and unskilled labour are estimated, which show the rise in skilled wages leading to substitution to unskilled labour but no rise in the share of skilled labour in income. The own price elasticities of skilled and unskilled labour are estimated at  $-0.44$  and  $-0.52$ , respectively. © 2000 Elsevier Science B.V. All rights reserved.

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## 1. Introduction

The divergence between the performance of the NICs and other developing regions is well known. This differential performance in terms of economic growth has been reflected in their patterns of real wage growth. The comparative study by

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Horton et al. (1994, p.17) shows that in Korea real wages in 1988 were nearly four times their 1970 level. In contrast, in the Latin American countries in the study, only in Brazil were real wages higher at the end of the 1980s than in 1970. In Chile and Argentina real wages, over a similar period, fell by over 30% while, in the case of Bolivia they more than halved. The data for sub-Saharan Africa is less complete. The Horton et al. (1994) study provides comparative data for Kenya and Ghana. Real private sector wages in Kenya were approximately the same in 1974 and 1988. In Ghana the data cited shows a very large fall between 1974 and 1983 and an even larger increase between 1983 and 1986. Jamal and Weeks (1993) document substantial falls in real wages throughout sub-Saharan Africa, although much of their data refers to minimum wage rates rather than data on wages or earnings. Levy and Newman (1989) show for the Cote d'Ivoire that a measured rise in real wages, while employment fell over the period 1979 to 1984, hides changes in composition such that, for a given skill level, real wages fell.

Changes in relative wages between skilled and less skilled workers are also an important feature of the growth of any economy. In developed countries the causes of the rise in the demand for, and the relative wage of, skilled workers has been the subject of much research, Bound and Johnson (1992), Kreuger (1993) and Bell (1996). In reviewing the evidence for relative wages for the NICs Wood (1994, pp. 241–243) argues that a general decline in skilled to unskilled wage differentials, which had occurred in the first decade of their rapid export growth, had ceased or been reversed during at least part of the 1980s.

In the case of sub-Saharan Africa very little is known about the changes in relative wages of skilled and unskilled workers. In this paper employee and firm level information from a survey of Ghana's manufacturing sector is used to measure the wages of skilled and unskilled workers, and to examine the consequences for the demand for labour over the period 1991 to 1995 of changes in those wages. The data set has recall data on earnings so it is possible to examine, in more detail than is usually possible for African labour markets, the pattern of real wage changes over time.

In Section 2 the evidence for changes in real wages in Ghana since the 1970s is presented. For the period since 1992 it is possible to show that the relative price of skilled labour has been rising. Estimates of factor cost share equations are presented in Section 3 as a means of establishing the extent of substitutability between capital and both skilled, and unskilled, labour. Section 4 concludes the paper.

## **2. Real wages in Ghana**

The data set used in this paper is taken from a panel survey of firms in Ghana in which workers within the firms were interviewed at the same time as data was

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