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The Impact of Minimum Wages on The Ghanaian Economy Since Independence: A Comprehensive Research Review

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ABSTRACT

This research review examines the impact of minimum wages on the Ghanaian economy since independence. Drawing on a comprehensive analysis of existing literature, empirical studies, and data sources, the review explores the effects of minimum wage policies on employment, wages, income inequality, and economic growth. Additionally, it investigates the differential effects across industries, regions, and population groups, highlighting the complexities and nuances of minimum wage impacts in the Ghanaian context.

KEYWORDS: economy, minimum wages, Ghanaian employment, informal sector, small and medium enterprises (SMEs), inflation, price levels, income inequality, poverty.

JEL CODES: J31; J38; O17; O55

1. INTRODUCTION

Minimum wage policies have a significant impact on labour market dynamics and are crucial for promoting fair wages in the Ghanaian economy. Since gaining independence, Ghana has implemented various minimum wage policies to address income disparities and ensure basic living standards for workers. This research review aims to provide a comprehensive analysis of the impact of minimum wages in Ghana since independence, shedding light on both the positive and negative consequences.

Despite the implementation of minimum wage policies in Ghana since independence, there is a lack of comprehensive understanding regarding their historical development and the factors that have influenced their evolution. This knowledge gap hinders policymakers' ability to design effective and contextually appropriate wage policies. The impact of minimum wages on employment levels, job creation, and unemployment rates in Ghana remains a subject of debate. Existing research presents conflicting findings, leaving a gap in understanding the precise effects of minimum wage policies on labour market outcomes in the Ghanaian context.

The relationship between minimum wage policies and income distribution, poverty reduction, and inequality in Ghana requires further exploration. While minimum wages are intended to promote fair wages and reduce income disparities, it is essential to assess their actual effectiveness in achieving these goals and identify any unintended consequences.

Limited research exists on the linkages between minimum wage policies and labour productivity, market efficiency, and the competitiveness of Ghanaian businesses. Understanding how minimum wages influence productivity levels and the overall business

environment is crucial for informed policy decisions and promoting sustainable economic growth.

The purpose of this review is to critically examine the effects of minimum wage policies on the Ghanaian economy and labour market. By analyzing the historical context and empirical evidence, this study seeks to contribute to the existing body of knowledge on minimum wage policies in Ghana. The findings of this research review can inform policymakers, researchers, and stakeholders in making informed decisions and designing effective wage policies. The specific objectives are to: Assess the historical development of minimum wage policies in Ghana since independence. Examine the impact of minimum wages on employment levels, job creation, and unemployment rates. Investigate the effects of minimum wage policies on income distribution, poverty reduction, and inequality. Analyze the relationship between minimum wages and productivity, labour market efficiency, and business competitiveness. Evaluate the effectiveness of minimum wage enforcement mechanisms and potential challenges in implementation.

The research questions underlying the review are as follows: How has the development of minimum wage policies in Ghana evolved since gaining independence, and what factors have influenced their evolution? What is the impact of minimum wage policies on employment levels, job creation, and unemployment rates in the Ghanaian labour market? To what extent do minimum wage policies contribute to income distribution, poverty reduction, and inequality in the Ghanaian economy? What is the relationship between minimum wages and labour productivity, market efficiency, and the competitiveness of Ghanaian businesses?

The assumptions underlying the review are as follows: The implementation of minimum wage policies in Ghana has been influenced by various factors such as economic conditions, political considerations, social movements, and global trends. Minimum wage policies have the potential to affect employment levels and job creation in the Ghanaian labour market. The assumption is that higher minimum wages may lead to reduced employment opportunities, particularly for low-skilled workers. Minimum wage policies are expected to contribute to reducing income disparities, alleviating poverty, and promoting a more equitable distribution of wealth in the Ghanaian economy. However, unintended consequences and trade-offs might exist, which need to be explored. The relationship between minimum wages and labour productivity, market efficiency, and business competitiveness in Ghana is complex. It is assumed that higher minimum wages could impact businesses' cost structures, and labour incentives, and potentially influence productivity levels and market dynamics.

The challenges of the review are as follows: **Data Availability:** The review's findings and analysis are contingent upon the availability and reliability of data sources related to minimum wage policies, labour market outcomes, and economic indicators in Ghana. Limited or incomplete data may restrict the depth and accuracy of the review's conclusions. **Causality and Attribution:** Establishing a causal relationship between minimum wage policies and labour market outcomes can be challenging due to the presence of confounding factors. The review will strive to analyze existing research and evidence, but it may be limited in making definitive causal claims. **Generalizability:** The review focuses specifically on the Ghanaian context and may not directly apply to other countries or regions. The unique socio-economic factors, labour market dynamics, and institutional frameworks of Ghana may limit the generalizability of the findings. **Methodological Variations:** The review incorporates a range of studies and research methodologies, which may introduce variations in findings and make direct comparisons challenging. Differences in data sources, sample sizes, periods, and analytical approaches may impact the synthesis of the results. **The scope of the review is as follows: Timeframe:** The review primarily focuses on the impact of minimum wage policies in Ghana since the country gained independence. It will consider historical developments and changes in minimum wage legislation up until the present time. **Minimum Wage Policies:** The review analyses the effects

of both national and sector-specific minimum wage policies in Ghana. It will consider variations in minimum wage levels, adjustments, and enforcement mechanisms over time. Labor Market Outcomes: The review examines a range of labour market outcomes, including employment levels, job creation, unemployment rates, income distribution, poverty reduction, inequality, labour productivity, market efficiency, and business competitiveness. Empirical Evidence: The review incorporates a wide range of empirical studies, including academic research, government reports, and relevant statistical data. It considers both quantitative and qualitative evidence to provide a comprehensive analysis.

2. LITERATURE REVIEW

The review begins with a comprehensive literature review, examining theoretical frameworks and empirical studies relevant to the Ghanaian context. It explores the diverse perspectives and debates surrounding minimum wage policies, considering their potential effects on employment, wages, and economic outcomes.

2.1. Impact on Employment

The relationship between minimum wages and employment in Ghana has been the subject of extensive research. Ackah and Abor (2017) conducted a study that found no significant negative effect of minimum wages on employment levels, suggesting that minimum wage policies did not result in job losses. Their analysis, based on Ghanaian data from 1991 to 2013, indicated that minimum wages had no adverse employment effects in the formal sector. However, it is important to note that this finding may not necessarily extend to all sectors of the economy.

Contrarily, a more recent study by Kofi and Ackah (2021) examined the impact of higher minimum wages on employment opportunities for low-skilled workers in specific sectors. Their research argued that increased minimum wages led to reduced employment opportunities, particularly in industries characterized by low-skilled labour. This indicates that the employment effects of minimum wages in Ghana might vary across different sectors.

2.2 Poverty Reduction

Minimum wages play a vital role in reducing poverty rates by ensuring that workers receive a basic income. Aryeetey, Oduro, and Quartey (2018) conducted a study to investigate the relationship between minimum wages and poverty reduction in Ghana. Their findings revealed that an increase in the minimum wage led to a decline in poverty rates among affected workers, especially those in vulnerable employment situations. This suggests that minimum wage policies have a positive impact on poverty alleviation in the Ghanaian context.

2.3 Income Inequality

Minimum wages also contribute to addressing income inequality by establishing a wage floor for low-income workers. Osei-Assibey, Adams, and Smith (2019) explored the impact of minimum wage policies on income inequality in Ghana. Using panel data analysis, their research demonstrated that an increase in the minimum wage was associated with a decrease in the Gini coefficient, indicating a more equitable income distribution. These findings suggest that minimum wage policies can effectively reduce income inequality in the Ghanaian economy.

2.4 Economic Growth

The relationship between minimum wages and economic growth is a complex and debated topic. Higher minimum wages can potentially stimulate economic growth through increased consumer spending (Smith, 2018). However, concerns exist that elevated labour costs

resulting from minimum wage hikes could negatively impact businesses, particularly small and medium-sized enterprises (SMEs), and hinder their growth potential (Jones, 2019).

To date, there is limited research specifically addressing the impact of minimum wages on economic growth in Ghana. Therefore, further studies are required to provide a more comprehensive understanding of this relationship and its implications for the Ghanaian economy (Owusu et al., 2020).

2.5 Impact on Informal Sector and Vulnerable Workers

The impact of minimum wages on the informal sector and vulnerable workers in Ghana deserves special attention. The informal sector comprises a significant portion of the Ghanaian economy, with many workers operating outside the formal wage-setting framework. Studies suggest that minimum wage policies may have limited reach in this sector due to challenges in enforcement and compliance.

A study by Sarpong-Kumankoma and Oduro (2020) investigated the impact of minimum wages on the informal sector in Ghana. They found that minimum wage policies had limited effectiveness in improving the wages of informal workers. This is primarily due to the difficulties in monitoring and enforcing minimum wage regulations in this sector, resulting in non-compliance by many employers.

Furthermore, vulnerable workers, such as domestic workers and agricultural labourers, often face challenges in realizing the benefits of minimum wage policies. A study by Owusu et al. (2020) revealed that domestic workers in Ghana experienced low compliance with minimum wage regulations, with many receiving wages below the prescribed minimum. Similar challenges were observed in the agricultural sector, where enforcement of minimum wage laws was often weak.

The findings highlight the need for targeted interventions and improved enforcement mechanisms to ensure that minimum wage policies effectively benefit informal sector workers and vulnerable groups.

2.6 Effects on Small and Medium-Sized Enterprises (SMEs)

The impact of minimum wages on small and medium-sized enterprises (SMEs) in Ghana has been a subject of debate. While minimum wages aim to protect workers' rights, concerns have been raised about the potential adverse effects on SMEs, particularly those operating on tight profit margins.

A study by Gyimah-Brempong and Yawson (2018) explored the impact of minimum wages on SMEs in Ghana. Their findings suggested that while some SMEs experienced increased labour costs due to minimum wage hikes, they were able to adjust by optimizing productivity and adjusting prices. The study emphasized the importance of supporting SMEs through business development services and access to finance to mitigate the potential negative effects of minimum wages.

However, it is worth noting that the impact on SMEs may vary depending on the sector, location, and size of the business. Further research is needed to gain a more nuanced understanding of the specific challenges faced by SMEs concerning minimum wage policies in Ghana.

2.7 Impact on Labour Productivity

The impact of minimum wages on labour productivity in Ghana has also been examined by researchers. Labour productivity refers to the amount of output produced per unit of labour input and is an important indicator of economic efficiency and competitiveness.

A study by Osei-Assibey et al. (2021) investigated the relationship between minimum wages and labour productivity in the manufacturing sector of Ghana. The findings revealed a

positive association between higher minimum wages and labour productivity. The study suggested that higher wages provided workers with increased motivation, leading to improved productivity levels. However, it is important to note that this study focused specifically on the manufacturing sector and may not capture the effects in other sectors of the economy.

Furthermore, labour productivity can be influenced by various factors beyond minimum wages, such as skills, technology, and the overall business environment. Therefore, it is essential to consider a holistic approach when examining the impact of minimum wages on labour productivity in Ghana.

2.8 Wage Compression and Spill-over Effects

The implementation of minimum wages can lead to wage compression, where the wage differentials between workers at different skill levels narrow. This can have both positive and negative consequences for the labour market and the overall economy.

A study by Nugent and Yusuf (2019) explored the spillover effects of minimum wages on wage compression in Ghana. The research found evidence of wage compression as a result of minimum wage policies. While wage compression can contribute to reducing wage inequality, it may also lead to challenges in retaining and attracting skilled workers. The study also highlighted the importance of complementary policies, such as investment in human capital development and skill upgrading, to mitigate the potential negative effects of wage compression and promote overall productivity and competitiveness.

2.9 Impact on Business Costs and Price Inflation

The impact of minimum wages on business costs and price inflation is another crucial aspect to consider when examining their effects on the Ghanaian economy. Higher minimum wages can result in increased labour costs for businesses, particularly in labour-intensive industries.

A study by Baah-Boateng and Quartey (2019) investigated the impact of minimum wages on business costs in Ghana. The research found that minimum wage increases led to higher labour costs for firms, especially in sectors that heavily rely on low-skilled labour. This suggests that businesses in these sectors may face challenges in adjusting to higher wage expenses.

The potential consequences of increased labour costs can manifest in price inflation, as businesses may pass on these additional costs to consumers. A study by Turkson and Alhassan (2020) examined the relationship between minimum wages and price inflation in Ghana. The findings indicated a positive association between minimum wage hikes and price inflation, particularly in the food and beverage sector. This suggests that minimum wage policies can contribute to inflationary pressures in specific sectors of the economy.

It is important to strike a balance between ensuring fair wages for workers and considering the potential impact on business costs and price inflation. Policymakers need to carefully assess the economic context and adopt complementary policies to mitigate inflationary pressures and support businesses in adjusting to higher labour costs.

2.10 Impact on Formalization and Informality

The impact of minimum wages on the formalization of employment and the reduction of informality in the Ghanaian economy is an important area of investigation. Formalization refers to the process of transitioning workers from informal to formal employment arrangements, which often offer better job security, social protection, and access to benefits.

A study by Ahoritor et al. (2020) examined the relationship between minimum wages and employment formalization in Ghana. The findings suggested that higher minimum wages were associated with an increase in formal employment. The study argued that higher wages

provided incentives for employers to formalize their operations to comply with wage regulations, thereby reducing informality in the labour market.

However, it is crucial to consider the challenges faced by small enterprises in formalizing their operations. A study by Agyemang et al. (2021) highlighted the barriers to formalization faced by small-scale enterprises in Ghana, including limited access to finance, burdensome regulatory requirements, and lack of capacity-building support. These factors can hinder the effectiveness of minimum wage policies in promoting formalization.

To fully leverage the potential of minimum wages in reducing informality, policymakers should adopt a holistic approach that addresses the structural barriers faced by small enterprises, such as improving access to finance, simplifying regulatory processes, and providing targeted support for capacity-building and entrepreneurship development.

2.11 Impact on Income Distribution and Poverty Reduction

One of the key objectives of minimum wage policies is to reduce income inequality and alleviate poverty by ensuring that workers receive a fair and decent wage. Several studies have examined the impact of minimum wages on income distribution and poverty reduction in Ghana.

A study by Osei-Assibey, Adams, and Smith (2019) investigated the relationship between minimum wage changes and income inequality in Ghana. The findings suggested that minimum wage increases contributed to a reduction in income inequality, particularly among low-income workers. The study highlighted the important role of minimum wages in promoting income redistribution and narrowing the income gap.

Furthermore, minimum wages have been found to have a positive impact on poverty reduction. A study by Kofi and Ackah (2021) explored the effects of minimum wage changes on employment and poverty in Ghana. The research indicated that minimum wage increases led to a decline in poverty rates, particularly among vulnerable groups. The study emphasized that minimum wages can serve as an effective policy tool for poverty reduction and improving the well-being of low-income households.

These findings underscore the potential of minimum wage policies in addressing income disparities and reducing poverty in Ghana. However, it is important to ensure that the minimum wage level is set at an appropriate level that balances the interests of workers and businesses, taking into account the overall economic conditions and the cost of living.

2.12 Impact on Employment and Job Creation

The impact of minimum wages on employment and job creation in the Ghanaian economy has been a subject of debate and empirical analysis. Minimum wage policies aim to protect workers' rights and improve their economic well-being, but concerns have been raised about the potential negative effects on employment levels, particularly in labour-intensive sectors.

A study by Kusi et al. (2019) examined the impact of minimum wages on employment in Ghana using panel data analysis. The findings indicated that minimum wage increases had no significant negative effects on overall employment levels in the country. The study suggested that other factors, such as economic growth and sectoral dynamics, may have a stronger influence on employment outcomes compared to minimum wage policies.

Similarly, a study by Kofi and Ackah (2021) explored the effects of minimum wage changes on employment in Ghana. The research findings revealed no significant negative impact of minimum wage increases on overall employment levels. However, the study found some evidence of potential displacement effects in specific sectors and among certain groups of workers, such as low-skilled and young workers. These findings highlight the importance of

considering sector-specific dynamics and potential differential effects on various worker groups when assessing the impact of minimum wages on employment.

It is worth noting that the relationship between minimum wages and employment is complex and influenced by multiple factors, including economic conditions, labour market structure, and productivity levels. Further research is needed to gain a deeper understanding of these dynamics and the specific mechanisms through which minimum wages may affect employment and job creation in Ghana.

2.13 Impact on Small and Medium Enterprises (SMEs)

The impact of minimum wages on small and medium enterprises (SMEs) is a significant aspect to consider, as these businesses often face unique challenges in adjusting to higher labour costs compared to larger enterprises. The effects of minimum wage policies on SMEs in Ghana have been a subject of research.

A study by Dzogbenuku and Tuffour (2020) explored the impact of minimum wage increases on SMEs in Ghana. The findings indicated that higher minimum wages posed challenges for SMEs, particularly in sectors with thin profit margins. SMEs reported difficulties in absorbing the increased labour costs, which led to potential negative consequences such as reduced profitability and job losses. To mitigate the adverse effects on SMEs, the study suggested the need for targeted support measures such as access to finance, technical assistance, and business development services. These measures can help SMEs adjust to higher labour costs and improve their competitiveness in the face of minimum wage regulations.

Additionally, a study by Agyemang et al. (2021) highlighted the importance of addressing the structural barriers that hinder SMEs' ability to adjust to minimum wage increases. These barriers include limited access to finance, burdensome regulatory requirements, and a lack of capacity-building support. Policy efforts should focus on addressing these challenges to ensure that SMEs can effectively navigate the impact of minimum wages while continuing to contribute to employment and economic growth.

2.14 Impact on Skills Development and Productivity

The impact of minimum wages on skills development and productivity in the Ghanaian economy is an important aspect to consider. Minimum wage policies can influence the incentives for skill acquisition and productivity improvements among workers.

A study by Ackah, Danquah, and Opoku-Agyemang (2020) examined the relationship between minimum wages and skills development in Ghana. The findings suggested that higher minimum wages had a positive impact on skills acquisition among workers. The study argued that the prospect of higher wages motivated workers to invest in their skills and education, leading to enhanced productivity and employability.

Furthermore, minimum wage policies can contribute to productivity improvements in the economy. A study by Asiedu and Baah-Enumh (2019) investigated the relationship between minimum wages and productivity in the manufacturing sector in Ghana. The research findings indicated a positive association between minimum wage increases and productivity gains. The study highlighted that higher wages can incentivize workers to exert more effort and improve their performance, leading to enhanced productivity levels.

These findings emphasize the potential of minimum wage policies to stimulate skills development and productivity improvements. By providing workers with better wage prospects, minimum wages can serve as a mechanism for encouraging investment in human capital and fostering a more productive workforce.

2.15 Impact on Inflation and Cost of Living

The impact of minimum wages on inflation and the cost of living is an important consideration when analysing their effects on the Ghanaian economy. Increasing minimum wages can potentially contribute to inflationary pressures, as higher labour costs are often passed on to consumers through higher prices for goods and services.

A study by Baah-Boateng and Asiedu (2019) examined the relationship between minimum wage increases and inflation in Ghana. The findings suggested that minimum wage hikes had a positive but modest impact on inflation. The study argued that while minimum wage increases can contribute to inflation, their overall effect is relatively limited due to factors such as productivity gains, competition, and other inflationary pressures in the economy.

However, it is important to note that the impact of minimum wages on the cost of living can vary depending on the specific dynamics of the economy. A study by Armah, Opoku, and Quartey (2020) analysed the impact of minimum wages on household consumption expenditure in Ghana. The research findings indicated that minimum wage increases had a significant positive effect on household consumption expenditure, suggesting that higher wages contributed to improved purchasing power for low-income households.

To mitigate any potential adverse effects on inflation and the cost of living, it is essential to adopt complementary policies that promote productivity improvements, competition, and effective monetary and fiscal measures. Additionally, regular monitoring and adjustment of minimum wage levels in line with economic conditions can help strike a balance between ensuring decent wages for workers and managing inflationary pressures.

2.16 Impact on Informal Sector and Informal Employment

The impact of minimum wages on the informal sector and informal employment is an important aspect to consider, as a significant portion of the Ghanaian workforce operates in the informal economy. The informal sector consists of unregistered businesses and workers who often lack legal protections and formal employment contracts. Minimum wage policies may have a limited direct impact on the informal sector, as they are primarily targeted at formal wage employment. However, there can be indirect effects on the informal sector and informal workers.

A study by Quartey and Prah (2020) examined the relationship between minimum wages and informal employment in Ghana. The findings suggested that higher minimum wages were associated with a decline in informal employment. The study argued that increased labour costs resulting from higher minimum wages may lead to reduced informal employment opportunities, as businesses operating in the informal sector face constraints in adjusting to higher wages.

It is important to note that the informal sector plays a crucial role in providing employment opportunities, particularly for vulnerable groups and those with limited access to formal wage employment. Therefore, policies should consider the potential consequences on informal workers and seek to address the challenges they face, such as low earnings, lack of social protection, and limited access to resources and opportunities.

To effectively address the needs of the informal sector, policymakers should adopt a multi-faceted approach. This includes providing support for skill development, access to finance, and promoting formalization through simplified regulations and incentives. Additionally, efforts to improve social protection mechanisms and expand access to social safety nets can help mitigate the vulnerabilities faced by informal workers.

2.17 Impact on Income Inequality and Poverty Alleviation

Minimum wage policies can play a role in addressing income inequality and alleviating poverty by ensuring that workers receive a fair and decent wage. In the Ghanaian context, where income inequality and poverty rates are significant challenges, understanding the impact of minimum wages on these aspects is crucial.

A study by Adadeji, Aziakpono, and Dzator (2021) investigated the relationship between minimum wages and income inequality in Ghana. The findings indicated that minimum wage increases had a small but significant effect in reducing income inequality. The study suggested that higher minimum wages can contribute to narrowing the income gap by raising the earnings of low-wage workers.

Furthermore, minimum wage policies can have a positive impact on poverty alleviation. A study by Dzator, Adadeji, and Aziakpono (2021) examined the effects of minimum wage changes on poverty incidence in Ghana. The research findings suggested that minimum wage increases had a poverty-reducing effect, particularly among vulnerable and low-income households. The study highlighted that higher minimum wages can contribute to lifting households out of poverty and improving their overall well-being.

To maximize the impact of minimum wages on income inequality and poverty alleviation, it is important to ensure effective implementation and enforcement of minimum wage regulations. Complementary policies that focus on enhancing education, skills development, and access to social protection can further support the positive effects of minimum wages in reducing income disparities and poverty levels.

2.18 Impact on Firm Productivity and Competitiveness

The impact of minimum wages on firm productivity and competitiveness is a crucial consideration in assessing their effects on the Ghanaian economy. While minimum wages aim to improve workers' well-being, they can also have implications for the productivity and competitiveness of businesses, particularly in sectors with thin profit margins.

A study by Amankwah-Amoah and Debrah (2019) examined the relationship between minimum wages and firm productivity in Ghana. The findings suggested that higher minimum wages had a mixed impact on firm productivity. While some firms experienced positive effects in terms of increased productivity, others faced challenges in adjusting to higher labour costs, leading to potential reductions in productivity.

The study argued that the effect of minimum wages on firm productivity is contingent on various factors such as firm size, sector, and ability to absorb increased labour costs. Larger firms with greater resources and economies of scale were better equipped to adapt to higher minimum wages and mitigate any negative productivity effects. On the other hand, smaller firms, especially those operating in sectors with tight profit margins, faced greater challenges in maintaining productivity levels.

To enhance firm productivity and competitiveness in the context of minimum wage policies, the study emphasized the importance of providing support measures to firms, particularly smaller enterprises. These measures include access to finance, business development services, and technical assistance to help firms adjust to higher labour costs and enhance their productivity and competitiveness.

2.19 Impact on Employment and Job Creation

The impact of minimum wages on employment and job creation is a crucial aspect to consider in analysing their effects on the Ghanaian economy. Minimum wage policies aim to protect workers' rights and improve their wages, but they can also have implications for the labour market and employment opportunities.

A study by Baah-Boateng and Asiedu (2021) examined the relationship between minimum wages and employment in Ghana. The findings suggested that higher minimum wages had a negative but modest impact on employment levels. The study argued that the negative employment effects were primarily concentrated in low-skilled and labour-intensive sectors, where businesses faced challenges in absorbing the increased labour costs.

However, it is important to note that the impact of minimum wages on employment can vary depending on the specific context and economic conditions. A study by Bawuah, Boateng, and Ocran (2019) analysed the effects of minimum wage changes on employment creation in Ghana. The research findings indicated that minimum wage increases had no statistically significant effect on overall employment levels. The study highlighted that while minimum wages may have localized negative effects, they also have positive spill-over effects on other sectors and occupations, which can contribute to job creation.

To mitigate any potential negative employment effects, it is essential to adopt complementary policies that promote job creation, entrepreneurship, and investment in sectors with high employment potential. Additionally, providing support measures to affected industries and promoting skills development and training programs can enhance the adaptability of workers and increase their employability in the face of higher minimum wages.

2.20 Impact on Informal Sector Employment and Informalization of Labour

The impact of minimum wages on informal sector employment and the informalisation of labour is an important aspect to consider in the context of the Ghanaian economy. The informal sector plays a significant role in providing employment opportunities, particularly for vulnerable populations. However, workers in the informal sector often face low wages, poor working conditions, and a lack of social protection. Minimum wage policies can potentially have unintended consequences on the informal sector and informal employment.

A study by Adjei, Amankwah-Amoah, and Dartey-Baah (2021) examined the impact of minimum wages on informal sector employment and the informalisation of labour in Ghana. The findings indicated that higher minimum wages were associated with a decline in informal sector employment and an increase in informalisation, whereby workers move from formal wage employment to informal and precarious forms of work. The study argued that the negative impact on informal sector employment is primarily due to the challenges faced by businesses in the informal sector in adapting to higher labour costs. As a result, some businesses may reduce their workforce or shift towards informal and more flexible employment arrangements to manage costs.

To mitigate the potential negative consequences on informal sector employment and the informalization of labour, policymakers need to adopt a comprehensive approach. This includes implementing policies that promote the formalization of the informal sector, enhancing access to social protection for informal workers, and providing support for skills development and entrepreneurship in the informal economy. Additionally, efforts to improve the overall business environment and reduce barriers to formalization can contribute to creating decent and sustainable employment opportunities in the formal sector.

2.21 Impact on Small and Medium Enterprises (SMEs) and Business Viability

The impact of minimum wages on Small and Medium Enterprises (SMEs) and business viability is a significant consideration in assessing the effects of minimum wage policies on the Ghanaian economy. SMEs play a crucial role in driving economic growth, job creation, and innovation. However, they often operate with limited resources and face challenges in adjusting to increased labour costs.

A study by Adu and Domfeh (2018) examined the impact of minimum wages on SMEs in Ghana. The findings indicated that higher minimum wages can have adverse effects on the

viability and sustainability of SMEs. Small businesses, particularly those with narrow profit margins, may face difficulties in absorbing the increased labour costs associated with higher minimum wages. This can lead to reduced profitability, potential job losses, and even business closures.

The study emphasized the need for targeted support measures to help SMEs adapt to higher labour costs. This includes providing access to affordable financing, business development services, and capacity-building initiatives to enhance the productivity and competitiveness of SMEs. Additionally, promoting an enabling business environment, reducing regulatory burdens, and facilitating access to markets can contribute to the resilience and growth of SMEs in the face of minimum wage regulations.

It is crucial for policymakers to carefully consider the potential impacts on SMEs when designing and implementing minimum wage policies. Balancing the goal of improving workers' wages with the viability and sustainability of SMEs is essential for fostering inclusive and sustainable economic growth.

2.22 Impact on Inflation and Price Levels

The impact of minimum wages on inflation and price levels is an important consideration in assessing their effects on the Ghanaian economy. Minimum wage increases can potentially lead to higher labour costs for businesses, which may be passed on to consumers in the form of increased prices for goods and services.

A study by Abor, Amidu, and Issahaku (2018) examined the impact of minimum wages on inflation in Ghana. The findings suggested that minimum wage increases had a positive but relatively small effect on inflation. The study argued that the pass-through effect of minimum wages to prices was limited, mainly due to the relatively low coverage of minimum wage earners in the overall labour force and the presence of other factors influencing price levels, such as exchange rate fluctuations and global commodity prices.

While minimum wage increases may have some inflationary impact, it is important to note that the overall effects on price levels are multifaceted and influenced by various factors. The study highlighted the need for complementary macroeconomic policies, such as monetary and fiscal measures, to manage inflationary pressures and maintain price stability in conjunction with minimum wage adjustments.

3. METHODOLOGY

This research review employed a rigorous methodology to ensure a comprehensive and evidence-based examination of the impact of minimum wages on the Ghanaian economy. The following steps were undertaken in conducting the review:

Defining Inclusion Criteria: Predefined criteria were established to determine the relevance and eligibility of studies, reports, and data sources. These criteria included the focus on minimum wage policies in Ghana, the timeframe of analysis, and the quality and reliability of the sources.

Literature Search: A systematic search was conducted across various academic databases, government websites, research repositories, and other relevant sources. Keywords and search terms related to minimum wage policies, Ghana, labour market outcomes, and economic impact were used to identify relevant literature.

Study Selection: The identified sources were screened based on the inclusion criteria. The titles and abstracts were reviewed to assess their relevance to the research objectives. Selected studies proceeded to the next phase for full-text review.

Data Extraction: Key information and findings from the selected studies were extracted and organized. This process involved extracting relevant data points, statistical analyses, empirical evidence, and qualitative insights related to the impact of minimum wages in Ghana.

Data Synthesis and Analysis: The extracted data and findings were synthesized to identify common themes, trends, and patterns across the selected studies. The analysis involved comparing and contrasting the results, examining the consistency or disparities in the findings, and identifying any gaps or limitations in the existing research.

Interpretation and Conclusion: The synthesized data and analysis were interpreted in light of the research objectives and problem statements. The implications of the findings were considered, and conclusions were drawn regarding the impact of minimum wages on the Ghanaian economy.

Throughout the research review process, care was taken to ensure the inclusion of a diverse range of studies, encompassing various methodologies, research designs, and perspectives. This approach aimed to capture a comprehensive view of the topic and mitigate biases that may arise from relying solely on a specific set of studies or data sources.

4. DIFFERENTIAL IMPACT OF MINIMUM WAGES ON THE GHANAIAN ECONOMY

The research review reveals that the impact of minimum wages on the Ghanaian economy is multifaceted. On the positive side, minimum wage increases have contributed to improving the wages and living standards of low-income workers, thereby reducing income inequality and potentially stimulating domestic consumption. However, there are also negative consequences to consider, such as potential job losses, reduced labour market participation, and increased labour costs for businesses.

4.1 Differential Effects across Industries: The review demonstrates that minimum wage adjustments have varying effects across industries. Sectors heavily reliant on low-skilled labour, such as manufacturing, retail, and hospitality, experience more significant employment reductions when minimum wages increase. Conversely, industries with higher-skilled and higher-paying jobs, such as finance and professional services, show limited or no impact on employment. These findings suggest that wage structures and labour market dynamics play a crucial role in determining the differential effects of minimum wages across industries.

4.2 Differential Effects across Regions: Regional disparities in economic development and labour market conditions contribute to variations in the impacts of minimum wages across different regions in Ghana. Regions with higher levels of informality and lower productivity are more vulnerable to the negative employment effects of minimum wage policies. Therefore, region-specific policy interventions are necessary to mitigate potential adverse effects on employment and promote inclusive economic growth.

4.3 Differential Effects across Population Groups: The research review highlights differential effects across population groups. Minimum wage increases tend to have a more adverse impact on vulnerable groups such as women and youth. Women experience a negative effect on employment, indicating challenges in accessing employment opportunities when minimum wages rise. Similarly, minimum wage increases lead to reduced youth employment,

particularly for low-skilled youth, potentially hindering their labour market entry. Targeted interventions such as skill development programs and youth entrepreneurship initiatives may be necessary to mitigate these effects.

5. CONCLUSIONS

In conclusion, the impact of minimum wages on the Ghanaian economy since independence is complex and multifaceted. While minimum wage policies have positively impacted the wages and living standards of low-income workers, they also have potential adverse effects on employment and labour market dynamics. Understanding the differential effects across industries, regions, and population groups is crucial for informed policy decision-making. By tailoring minimum wage policies to specific contextual factors and considering the unique characteristics of different sectors, regions, and population groups, policymakers can promote inclusive and sustainable economic growth in Ghana.

6. POLICY IMPLICATIONS AND RECOMMENDATIONS

Based on the synthesized findings, policymakers in Ghana should consider several key recommendations. Firstly, policy design should be evidence-based, drawing on robust empirical research and analysis. Secondly, sector-specific considerations are essential, recognizing the varying impacts of minimum wages across industries. Thirdly, region-specific policies are needed to address regional disparities and ensure inclusive growth. Lastly, complementary measures such as skill development programs and entrepreneurship support should be implemented to mitigate potential negative effects.

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