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‘National’ Minimum Wage-Setting in South Africa

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Abstract

In 2014-15 the South African Government began to consider seriously proposals from the trade union federation COSATU that a uniform, ‘national’ minimum wage be set at a level several times higher than the lowest sectoral minimum wages set hitherto. The suggestion that a national minimum be set is hardly controversial, given that the state already regulates the wages of most low-paid workers and has the statutory power to regulate any that fall outside of the current sectoral mechanisms. What is controversial is the level at which a national minimum should be set, and the procedures for setting it. COSATU argues that a high national minimum is in line with international norms and would not have negative effects on employment. We show that South Africa’s existing sectoral minima are in fact broadly in line with international norms and that COSATU’s proposal is far out of line with them. We show also that both international and South African evidence suggests that COSATU’s proposed high national minimum would cause job destruction directly without any compensatory macro-economic boost to employment. We conclude that a high national minimum wage would be likely to worsen poverty and inequality, and suggest that expanded tax-financed social assistance and job creation programmes combined with South Africa’s existing sectoral minimum wages would be more effective ways of addressing poverty and inequality.

Introduction

Over the past twenty or so years minimum wage-setting has once again become a popular tool of economic policy in the advanced capitalist democracies of the global North. This shift was driven in part by concern that median earnings have remained stagnant at the same time as the rich have grown richer, whilst opposition to minima was mitigated by academic studies suggesting that minimum wages in the USA and elsewhere had, contrary to the predictions of orthodox microeconomics, modest or no effects on employment. Citing such studies, even the staunchly liberal *Economist* joined the ranks of advocates of setting national minima. The post-2008 financial and economic crisis further fuelled scepticism about orthodox economics as well as disgust with the inequality driven by the grossly inflated incomes of national and global elites.

Allowing income inequality to continue to grow came to be seen widely as neither economically efficient nor normatively defensible and hence efforts were made in a number of countries to lift the incomes of relatively low-paid workers through minimum wage increases. Even the Conservative Party in the United Kingdom, which had initially opposed the national minimum wage introduced by a Labour Party government in 1998, abandoned its opposition. In the 2015 election, the Labour Party promised to raise the minimum. When the Conservatives won, they announced much larger increases than the one proposed by Labour (perhaps because they wanted to distract attention from the rich)! In Germany, a national minimum wage was introduced by the conservative Christian Democrats in 2014 (for implementation in 2015), albeit as part of a power-sharing deal with the Social Democratic Party. The International Labour Organisation (ILO) has rediscovered its enthusiasm for national minima, including in middle- and low-income countries as part of its package of regulations intended to strengthen ‘decent work’, improve productivity, reduce poverty, and boost economic growth (ILO, 2013, 2014).

In 2014, a national minimum wage was placed on the policy agenda in South Africa also. Two years earlier, in 2012, the Central Executive Committee of the Congress of South African Trade Unions (COSATU) had discussed a widely-distributed ‘concept paper’ on the introduction of a national minimum wage written by its ‘strategist’ Neil Coleman (Coleman, 2012a).¹ Coleman recommended that the minimum be set at between R4,800 and R6,000 per month, although lower minima might be set in a transitional stage. COSATU’s ‘organisational report’ to the 2012 national congress reportedly proposed an initial national minimum of R2,800 per month.² Early the following year COSATU adopted what seemed to be a more radical position, accepting at its National Bargaining Conference (in March 2013) the proposal that the national minimum be set at R4,500 per month.³ Coleman continued to promote his proposals extensively, through a published version of his paper (Coleman, 2013a), numerous presentations (e.g. Coleman, 2012b, 2013b, 2014c, 2014d) and numerous articles in the media (e.g. Coleman, 2014a, 2014b, 2014e).

¹ Coleman’s paper was presented to the CEC in May 2012 (Coleman, 2012a). A revised version was presented at a conference in Cape Town in September 2012 (Coleman, 2012b) and published as a Working Paper by the ILO in November 2013 (Coleman, 2013a). Page references are to the version presented in Cape Town.

² See Gillian Jones, ‘National minimum wage a moot point at COSATU conference’, *Mail and Guardian* online (16th September 2012), available on <http://mg.co.za/article/2012-09-16-national-minimum-wage-debate-mooted-for-cosatu-conference>, accessed 16th May 2015.

³ See Coleman (2013a): 1, fn 1; ‘COSATU calls for increase to minimum wage’, *Mail and Guardian* online, 12th March 2013, available on <http://mg.co.za/article/2013-03-12-cosatu-calls-for-increase-to-minimum-wage>, accessed 16th May 2015.

Apparently under pressure to accommodate its trade union allies in the run-up to the elections in May 2014, the governing African National Congress (ANC) included in its election manifesto a rather vague commitment to ‘investigate the modality for the introduction of a national minimum wage as one of the key mechanisms to reduce income inequality’ (ANC, 2014: 7, 26). The Minister of Labour, Mildred Oliphant, had already (in January 2014) told NEDLAC that her department was ‘of the view that minimum wages should increase to a level that addresses the challenge of poverty and that supports economic expansion’. She explained further that it would not be difficult to amend the Basic Conditions of Employment Act to accommodate a national minimum.⁴ After the election, the issue was one of several given to the new deputy-president, Cyril Ramaphosa, to carry forward. In September 2014, he initiated a discussion at the National Economic, Development and Labour Council (NEDLAC) Annual Summit. In early November, he (together with NEDLAC) convened a ‘Labour Relations Indaba’ to discuss (inter alia) the national minimum wage issue. The media reported that a NEDLAC ‘task team’, chaired by Ramaphosa, was expected to report on the technical aspects of implementing a national minimum, by July 2015. Meanwhile, in August/September 2014, the Portfolio Committee on Labour in the National Assembly had held public hearings on the issue in Cape Town. In late 2014 and early 2015 it held hearings in different provinces.⁵ The Presidency and the Department of Labour commissioned research,⁶ South Africans have been on study tours abroad, and international organisations (including the International Labour Organisation, ILO) have held local workshops. In September 2015, Ramaphosa seemed to tell Parliament that business, labour and the state had agreed on the principle of a national minimum and negotiations were continuing over the details.⁷

This flurry of activity around a national minimum wage was a dramatic innovation in terms of South African public policy. Hitherto, none of the government’s development visions and plans – including, most recently, the 2010 New Growth Path and 2012 National Development Plan (NDP) – had even

⁴ Oliphant speech to NEDLAC Organised Labour conference, Roodevallei, 21 Jan 2014. <http://www.gov.za/address-honourable-minister-labour-ms-mildred-n-oliphant-mp-annual-nedlac-organised-labour>.

⁵ Individuals and organisations that made presentations to the Portfolio Committee included employers’ organisations (including the Black Management Forum, Chamber of Mines, NEASA, BUSA and Agri-SA), university researchers (the Development Policy Research Unit (DPRU) at the University of Cape Town; Professor Neil Rankin from Stellenbosch; and the Social Law Project and PLAAS at the University of the Western Cape) and a few other organisations (the Free Market Foundation, the Progressive Professionals’ Forum).

⁶ Including from the Development Policy Research Unit at the University of Cape Town.

⁷ Carol Paton, ‘Minimum wage negotiations proceeding well, says Ramaphosa’, *Business Day Live*, 3rd September 2015, <http://www.bdlive.co.za/national/labour/2015/09/03/minimum-wage-negotiations-proceeding-well-says-ramaphosa>.

mentioned a *national* minimum. The New Growth Path did not mention minimum wages at all, and emphasised wage moderation and job creation as well as ‘decent work’ (South Africa, 2010). The NDP recommended better compliance with existing *sectoral* minima (South Africa, 2012: 134), whilst emphasising overall wage moderation, lightening the regulatory burden on small businesses and reducing labour costs through a youth wage subsidy, with the objective of facilitating job creation. Nor were minimum wages mentioned in either the ‘Recommendations’ from the ANC’s 4th National Policy Conference in June 2012 or the Resolutions of its 53rd National Conference in Mangaung in December 2012 (ANC, 2012a, 2012b).⁸

COSATU and other advocates presented a high national minimum wage as part of a strategy to reduce poverty directly amongst low-wage workers and to curb South Africa’s excessive inequalities, and to boost the economy through increased spending. It cited the recent global literature on minimum wages, and the experiences of Brazil and Germany specifically, in support of its argument. Implicitly, and sometimes explicitly, COSATU (and Coleman) saw South Africa’s existing system of sectoral wage regulation as a failure, or at least as deficient. The vision of a society in which the poor are employed in well-paid jobs and inequalities are reduced is of course very appealing. But the COSATU/Coleman position overlooks the extent of unemployment in South Africa and the serious possibility that a high national minimum wage would result in job destruction, still higher unemployment, and hence worsened poverty and inequality. In a context of high unemployment, such as in post-apartheid South Africa, wage-regulation needs to take into account the goal of job creation if the objective really is to reduce poverty and inequality.

In this paper we first summarise the case put forward by Coleman and COSATU, noting the importance therein of the lessons supposedly to be learnt from the Brazilian and German cases especially. We then turn to the level of the national minimum, arguing that the key lesson from the German case is that the question of *whether* to have a national minimum wage is less important than the *level* at which the minimum is set. Even amidst low unemployment, the German national minimum wage is set paying close attention to the implications for employment. The Brazilian case also shows the importance of setting the level of the national minimum at an appropriate level. In Brazil, the national minimum is – in terms of purchasing power – at about the level of most existing sectoral minima in South Africa and well below the levels for a national minimum that have been proposed by Coleman and COSATU. We then turn to evidence on the direct effect of minimum wages on employment and

⁸ Except for an obscure mention that immigrant workers should be educated about their rights, including to minimum wages (ANC, 2012a: para. 47(c); ANC, 2012b: para.48).

unemployment. We review critically the South African evidence, noting also recent international studies of both the methodology of researching employment effects and the effects of raised minima elsewhere in the global South. We review South Africa's own past experience with wage regulation, showing that progressive technocrats *and trade unionists* have repeatedly opted to set minima in relatively labour-intensive sectors at levels far below Coleman and COSATU's current proposals, in order to protect jobs. Finally, we turn to macro-economic arguments in favour of a high national minimum wage. We acknowledge that the Brazilian case showed that, in specific circumstances, raised minimum wages can contribute to poverty-reduction and economic growth. But the Brazilian case shows also the limits to this argument: In Brazil itself, macroeconomic conditions are no longer amenable to increases in minimum wages. We argue that economic conditions in South Africa are also not conducive to the kind of wage-led growth advocated by COSATU and Coleman in support of a high national minimum wage.

Neither the experiences of Brazil and Germany (or of other countries), nor evidence from South Africa itself, suggest that COSATU and Coleman are correct in their assertions that a national minimum wage set at levels significantly above existing sectoral levels would reduce unemployment and poverty in South Africa. There is a very real danger that a high national minimum wage would reduce wage inequality at the cost of higher unemployment and hence poverty. This is not an argument for the deregulation of wages, but rather an argument broadly in favour of South Africa's existing system of minimum wage-setting that takes into account sectoral and regional conditions (although we do advocate modest reforms of some aspects of the current system). A national minimum should provide a very basic floor, above which higher sectoral minima would be set where these would not result in job destruction. Inequality could be reduced by increasing the taxation of high earners and using the additional revenue to create jobs either through wage subsidies or public works programmes.

COSATU's shifting view of wage-setting

South Africa's existing system of minimum wage-setting was established in the late 1990s by the democratically-elected ANC-led government, after negotiations with organised business and organised labour, and at the same time as the issue was considered in detail by a Presidential Labour Market Commission. The institutional foundations of the system dated back to the 1920s, but had long been used to protect the interests of white workers, including usually through the systematic exclusion or marginalisation of African workers (Seekings & Natrass, 2005). The reforms of the 1990s deracialised the

system, providing for the regulation of the wages of all – or at least potentially all – low- and even medium-waged workers, regardless of race, sector or location within South Africa. The two legislative pillars of wage regulation were the 1995 Labour Relations Act (LRA) and the 1997 Basic Conditions of Employment Act (BCEA).

The LRA provided for minimum wages to be set through sectoral collective agreements, between trade unions and employers' associations in registered bargaining councils, which were then almost always 'extended' by the Minister of Labour to all employers and workers in the sector or industry concerned. As of late 2014, there were 30 bargaining councils in South Africa setting wages for an estimated 2.2 million workers, according to the Department of Labour (South Africa, 2014) – although this figure probably under-estimated workers affected by extensions. Some sectors – notably gold- and coal-mining, and automobile manufacturing – have comparably institutionalised collective bargaining outside of the bargaining council system. Collective agreements often provide detailed schedules of wages for different occupations, experience, and even locations (although trade unions, sometimes with the support of major employers, have long pushed for the reduction of regional differentiation). In the clothing sector, for example, the lowest minimum wage gazetted by the Minister of Labour in 2014 was R565/week, for inexperienced machinists in selected non-metropolitan areas (although new employees could be paid 20 percent less, i.e. R452/week or R1,898/month, subject to conditions).

The BCEA provided for minimum wage setting and the regulation of conditions of employment in sectors where trade unions and employers' associations are weak or non-existent, and where workers are considered 'vulnerable'. Under the BCEA, the Minister of Labour instructs the Employment Conditions Commission (ECC) to investigate a sector and recommend a Sectoral Determination that sets out minimum wages and conditions of employment. The BCEA explicitly requires the ECC to take into account the affordability of wage increases and the risk of job losses as well as the cost of living. The Department of Labour estimated that, at the end of 2014, a total of between three and five million workers were covered by the ten Sectoral Determinations (South Africa, 2014). The lowest minimum wage at the end of 2014, set under a Sectoral Determination, was R1,813/month, for domestic workers in some parts of South Africa,

There are two important differences between the mechanisms for wage regulation in the LRA and BCEA. First, whereas the LRA provided for bipartite (employer/union) negotiations and extensions by the Minister of Labour, the ECC (established under the BCEA) included independent experts appointed by the Minister as well as representatives of organised business and labour.

Secondly, the ECC is required to take into account potentially adverse employment effects, but there is no such requirement in the LRA. In practice, however, these differences have hitherto been somewhat muted. Bargaining councils have generally been much less sensitive than the ECC to employment effects, but cannot disregard them entirely, both because trade union members might be affected and because of negative publicity. Furthermore, many of the sectoral determinations recommended by the ECC are linked to agreements reached by employers and unions in informal bargaining fora. Occasionally the wage minima set in collective agreements under the LRA, covering part of South Africa, have been lower than the minima set through a sectoral determination under the BCEA in the same sector but elsewhere in the country. The fundamental similarity between the LRA and BCEA is that both have enshrined a system of *sectoral* wage regulation, rather than setting a uniform national minimum across all sectors, and have also allowed (and often practiced) *regional* differentiation in response to differential costs of living and production.

This system of sectoral wage regulation was the result of careful thought and deliberation. In the late 1980s COSATU opted for industrial or sectoral bargaining, with a single COSATU-affiliated union bargaining with employers in each industry or sector. When COSATU debated minimum wages in the early 1990s, it decided *against* demanding a uniform national minimum wage and opted instead for sector-specific minima. The argument in favour of continuing with sectoral minima was made most forcefully by the Southern African Clothing and Textiles Workers' Union (SACTWU): 'A minimum wage that is determined according to the cost structure of each industry would be better able to look after the interests of that sector and thereby the interests of the workers employed in that industry' – whilst minima set without taking into account the cost structure of the industry would have 'disastrous' consequences for job destruction, especially in sectors such as clothing manufacturing, agriculture and domestic work.⁹ COSATU recognised that it should not call for a high national minimum wage (which 'would be difficult to enforce and could lead to massive job loss') and could not call for a low national minimum (because it would not look good, even if it did not destroy jobs) (Seekings, forthcoming a).

For about fifteen years COSATU and its affiliated unions used without evident objection the sectoral wage-setting mechanisms provided by the LRA and BCEA. In sectors where most employers could afford higher wages, trade unions pushed successfully for generous collective agreements, backing up their bargaining positions with the threat or reality of strike action. In sectors where most employers could not afford large wage increases, trade unions tended to

⁹ 'The National Minimum Wage: A Contribution to the Debate', by Lesley Maasdorp & Mark Bennett for SACTWU, sent to the COSATU Living Wage Working Group, 24 June 1990.

exercise wage restraint. In the clothing manufacturing sector, for example, the closure of factories and its declining membership prompted SACTWU into a chronically pragmatic position in wage negotiations, raising only modestly the real wages of its core membership in Cape Town (although the union was more willing to risk the jobs of non-members in non-metropolitan areas such as Newcastle, in Northern KwaZulu-Natal) (Nattrass & Seekings, 2014). Outside of the public sector, most wage negotiations were concluded without major strikes. On the ECC, trade unionists pushed for incremental improvements in real wage minima for vulnerable, non-unionised workers, but almost never dissented from the majority decisions (Seekings, forthcoming b). The result was a set of minima that varied not only between occupations and regions, but also between sectors.

COSATU's post-2012 embrace of a high, uniform, national minimum wage thus entailed not only the rejection of the existing, sectoral, post-apartheid wage-setting system, but also the reversal of its own pro-sectoral approach over the preceding twenty or more years. For whatever reason, COSATU seems to have decided that the existing system of wage regulation was deficient. In Coleman's analysis, the 'apartheid wage structure' had barely changed, with 'the majority of black workers continu[ing] to live in poverty'. COSATU's own 2012 survey apparently found that 20 percent of COSATU workers reported earning less than R2,500 per month, and 45 percent reported earning less than R5,000 per month (Coleman, 2012b: 2-3).¹⁰ Sectoral determinations under the BCEA were 'partial (only covering some low paid sectors), uncoordinated, with big variations in the minima, and without any coherent rationale in terms of the basic subsistence needs of workers' (ibid: 3). Many of the minima set under collective agreements under the LRA were not much better, Coleman wrote, listing a series of sectors (furniture manufacturing, retail and hospitality, contract cleaning, laundry services and even the motor industry) where unions had agreed to minima that were lower even than the minimum in the clothing industry. The lowest of these was in the hairdressing industry in Pretoria: R1,297 per month (in 2011) (ibid: 4-5). Moreover, he suggested, the existing 'patchwork' of sectoral minima had large 'gaps' (ibid: 25) with many low-paid workers not covered at all. The 'entire wage-fixing system ... needs to be re-evaluated', with the adoption of 'effective, large-scale state intervention in the wage structure', as in Brazil (ibid: 7). In retrospect, Coleman wrote, COSATU erred in the early 1990s in not pushing for a national minimum wage as well as sectoral bargaining (ibid: 9). Coleman argued that South Africa should follow the Brazilian example in setting and raising aggressively a national minimum wage, doing away with the existing 'voluntarist' collective bargaining system and the 'technocratic' system

¹⁰ This finding sits uneasily with data from independent sources, that suggest that almost no trade union members are in the poorest half of the population, and less than 10 percent are in the bottom two earnings quintiles (Seekings & Nattrass, 2015: 61-3).

of sectoral determinations. The national minimum wage would serve as a floor, above which wages could be set through sectoral collective bargaining.

Coleman subsequently elaborated on how and why the ECC had failed to protect adequately vulnerable workers. In his assessment, the ECC has been the victim of elite capture, by a combination of technocrats and (unidentified) ‘powerful interests’:

‘The Employment Conditions Commission, responsible for recommending sectoral minima, has not distinguished itself as a powerful advocate for vulnerable workers. The impression exists that the lobbying by employers’ interests, around arguments such as “affordability” are more influential in setting these minima than any objective criteria of workers’ needs. Inherited apartheid wage structures in cheap labour sectors have not been fundamentally disturbed. ... The legislative provisions in the Basic Conditions of Employment Act governing the ECC, need to be evaluated, to assess whether its composition and mandate is appropriate, ..., particularly in the light of how this mandate has been interpreted in practice’ (Coleman, 2013a: 30, 53).

Coleman neither acknowledged nor explained why trade union representatives on the ECC had gone along with most of the ECC’s recommendations for sectoral determinations. Turning to wage-setting under the LRA, Coleman suggested that trade unions in the private sector had failed to raise more aggressively workers’ minimum wages through collective agreements because they had been ‘blackmailed’ by employers, who had threatened to collapse the collective bargaining system in the sector. Employers could only do this, he wrote, because collective bargaining was voluntary (and he therefore advocated making centralized collective bargaining mandatory in all sectors for all employers). In short, Coleman viewed the existing institutions of wage-setting as weakening trade unions and their representatives, and proposed state-imposed institutional reforms to strengthen trade unions, giving them more – and more centralized – control over wage-setting.

Coleman did not consider the possibility that trade unions and their representatives may have been constrained by a recognition of the risks of job destruction (as SACTWU and others had warned in the early 1990s). Coleman did not ignore entirely the (un)employment issue, but cited foreign experience and thinking as well as South African studies in support of his contention that introducing and raising a national minimum wage would not have any negative effects on employment. In Coleman’s account, higher minimum wages would instead fuel demand-led growth, resulting in *more* not fewer jobs. According to

Coleman, the increase in minimum wages in Brazil in the mid-2000s – the so-called ‘Lula moment’ – was an example of precisely the kind of wage-led growth that South Africa should emulate (Coleman, 2013a). A similar economic logic was displayed by COSATU’s spokesman in response to the German government’s decision (in 2014) to introduce a national minimum wage:

‘If right-wing European governments with lower levels of inequality than South Africa can successfully enforce a national minimum wage, there can be no argument that it is both necessary and practical in South Africa. COSATU will continue to demand that it be brought in as quickly as possible, and remains convinced that it will both reduce inequality and poverty and stimulate economic growth as the additional money earned by workers is converted into increased demand for goods and services, which in turn will lead to more jobs for those producing the goods and delivering the services’ (COSATU, 2014).

As Coleman and COSATU have made clear, this debate is not simply about a national minimum wage. It is instead about how a national minimum wage could be used, by trade unions who have deepened their institutional powers through their leverage within the ANC and ANC-led Alliance, as part of a broader transformation of the political economy. This is important because the goal of a national minimum wage could be achieved *without any reform of existing institutions of wage-setting*. Not only are the wages of most low-wage workers already regulated,¹¹ and the Minister of Labour can instruct the ECC to recommend minima in any unregulated sectors, but the 2013 Basic Conditions of Employment Amendment Act (Act 20 of 2013, which became effective in September 2014) explicitly provides for the Minister to ‘publish a sectoral determination that applies to employers and employees who are not covered by any other sectoral determination’ or bargaining council collective agreement¹² – i.e. to ensure that every South African worker is subject to minimum wage-regulation. The issue at stake in the debate over a national minimum wage is *not* the principle of countrywide wage regulation, but rather the *level* at which a national minimum should be set, and hence the *procedures* for setting it, the *institution* that will do so, and the *criteria* it will be required to take into account. Put bluntly, the choice is between (1) procedures that (as under the current BCEA) involve technocrats as well as corporatist representatives and require them to take employment effects into account, and that devolve decision-

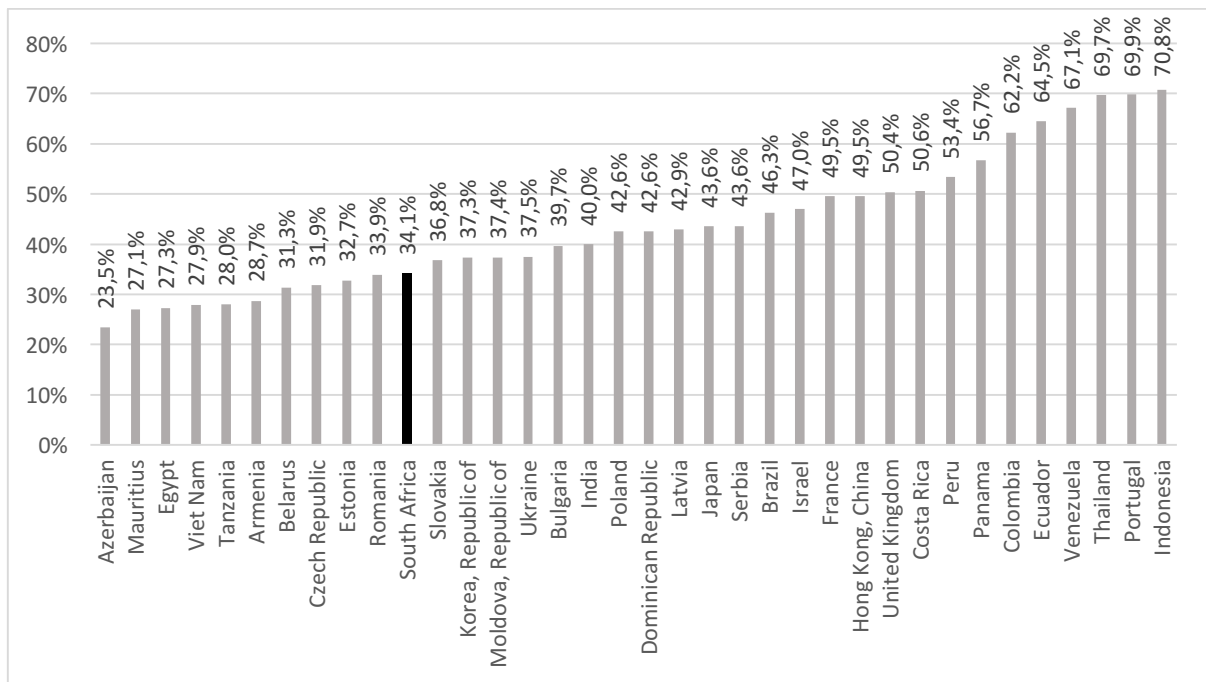
¹¹ It is very unclear how many low-paid workers are not covered. In 2014-15 the ECC itself began to investigate new sectoral determinations to cover sectors that were not yet covered, including especially the building industry (only parts of which were covered by sectoral determinations for the civil engineering industry).

¹² Section 8(f), revising section 50 of the original Act.

making to the sectoral level (as under the current BCEA and in bargaining councils under the LRA), and (2) a centralised and presumably politically-driven procedure without any apparent requirement to take job destruction into account.

The Level of the Minimum Wage

Three approaches predominate in South Africa in the calculation of minimum wages: basing it on the cost of living; setting it in relation to median or mean wages; and taking into account economic factors such as the likely effects on employment. Trade unions and allied intellectuals have long used the cost of living as a basis for estimating what constitutes a ‘living wage’, informing unions’ demands in wage negotiations as well as thinking about the level of a minimum wage in statutory bodies like the ECC. In his initial concept paper, Coleman argued for a national minimum wage that was much higher than many existing sectoral minima because many of these sectoral minima did not suffice to raise workers out of poverty (Coleman, 2012b: 28-9). He also argued that ‘international norms’ regarding the ratio of minimum to average wages indicated that South Africa ought to raise minimum wages. He calculated that the ratio of minimum to average wages in South Africa was about 20 percent, compared to 40-50 percent in OECD countries (and, after big increases, Brazil) (*ibid*: 30) and concluded that a national minimum wage of between R4,800 and R6,000 per month, in 2011 prices (i.e. R5,650 to R7,060 in 2014 prices), would be more in line with these norms. Such comparisons are, however, highly sensitive to how the minimum wage is calculated when there are multiple minima (i.e. should it be the lowest minimum or a weighted average?) and how average wages are calculated (e.g. whether in affected sectors only or in the economy as a whole, how adjusted for hours worked or for survey sampling error). Data from the ILO database (ILOSTAT) collated mainly from government reports and labour force surveys suggest that the ratio of the average South African minimum wage to mean wages in 2012 was higher than suggested by Coleman (see Figure 1). And even though South Africa’s ratio was below average for the countries reported in the figure, this in and of itself does not necessarily amount to an argument for raising South African minimum wages: wage inequality can be addressed also by limiting bonuses (perhaps through taxation) and the like at the top end.



Source: ILOSTAT (<http://www.ilo.org/ilostat>)

Figure 1: Ratio of minimum wages to mean monthly wages (total) in 2012 (data downloaded from ILOSTAT, 8 September 2015).

Coleman himself recognised, however, that a national minimum wage of R4,800 to R6,000 (in 2011) might not be achievable in the short-term, ‘it should definitely be a target which we aim to progressively realise over the medium-term’. A ‘useful start’, he suggested, would be to set a minimum at between R2,500 and R3,000 (in 2011 prices, i.e. between R2,940 and R3,530 in 2014 prices) (Coleman, 2012b: 30). Although far below the ‘minimum living level’ and ‘international benchmarks’, this would raise substantially the wages of many less skilled workers (*ibid*: 37). Coleman did not articulate the implicit economic reasoning as to why a high minimum could not be achieved immediately (i.e. that it would undermine employment), but he mentioned sectors such as agriculture and domestic work, the implication being that sectors such as these could not afford much larger increases. In his Powerpoint presentation to COSATU’s Collective Bargaining, Organising and Campaigns Conference in March 2013 (Coleman, 2013b), he omitted to mention the lower figure. The COSATU conference reportedly endorsed a minimum of R4,500 per month (R4,780 in 2014 prices), which was about the same as the ‘minimum living level’. Subsequent presentations by Coleman (Coleman, 2014c, 2014d) and statements by COSATU (e.g. COSATU, 2014) did not specify any figure, but pointed to the minimum living level (or what Statistics South Africa now called the ‘upper-bound poverty line’) which by 2014 implied a household income of between R5,000 and R5,500 per month. Coleman reported in 2014

that COSATU had ‘not proposed a figure yet, but has expressed the view that R4,500 is a useful benchmark, because it approximates the minimum living level and is about 40% of the average national wage’ (supposedly ‘an internationally used yardstick’) (Coleman, 2014e). ILO data, however, put South Africa’s minimum wages at 34 percent of the average wage in 2012 (Figure 1).

In early 2015, COSATU’s Gauteng leaders told the Parliamentary Portfolio Committee on Labour that the minimum wage should be set at R7,000 per month and the South African Communication Union called for a minimum wage of R12,500 (Gernetzky, 2015). All of these proposed minima by COSATU and affiliates would entail substantial increases above the lowest existing sectoral minima, in sectors such as clothing (regulated under the LRA) or domestic work (regulated under the BCEA). The COSATU suggestion of R4,500/month (or about R5,000/month, in 2015 prices) would more than double the minima in these sectors. A national minimum of R7,000 per month would more than treble these existing sectoral minima. These kinds of increase in minimum wages would probably be unprecedented in global history.

Coleman regards the Brazilian case as especially informative for the South African debate on national minimum wages. Table 1 reports minimum wages in South Africa, Brazil and Germany in both local currency units (LCUs) and international dollars, reflecting equivalent purchasing power. The lowest minimum wage for domestic workers in poorer parts of South Africa, which was raised to R1,813/month in late 2014, corresponded to R1,541 in 2011 prices, and was thus between one third and one quarter of Coleman’s target national minimum (and about 60 percent of his proposed transitional minimum). Yet even this minimum was not far below the Brazilian national minimum in terms of purchasing power. In Brazil, the minimum wage in 2014 was 724 reis per month, which in terms of purchasing power in the US was worth \$385/month. An equivalent wage in South Africa would have been R2,198/month). In 2015, the Brazilian minimum wage was raised to 788 reis per month, worth \$419 (the South African equivalent purchasing power being R2,392 per month). In other words, the national minimum wage in Brazil is very similar, in terms of purchasing power, to the average of the minima set by the ECC in sectoral determinations in 2014 (i.e. R2,362/month) and is lower than the average minimum set by bargaining councils (R2,732/month). The Brazilian minimum wage is lower also in terms of purchasing power than the minimum wage set by ministerial extension in the South African clothing industry (R2,638/month), and is considerably lower than the minimum wage for qualified machinists in the clothing industry in Cape Town (R3,834/month). It is also lower than the minimum wage set by the ECC for workers on farms (R2,606/month from March 2015), in contract cleaning (R2,683/month from January 2015) and various other sectors. If South Africa was to set a national minimum wage at the

Brazilian level in 2015, in terms of purchasing power, it would be set at R2,392, which would make no difference to most of the sectors where wages are set by either bargaining councils and ministerial extensions (under the LRA) or the ECC and Minister (under the BCEA). In short, in terms of purchasing power, South Africa's existing sectoral minima are not low in comparison with the Brazilian national minimum. Indeed, they are remarkably in line with it.

National minimum wages are obviously linked to the level of development of a country, so one would expect South African minimum wages to be lower than minimum wages in Brazil (as South Africa's per capita income is only 80 percent of Brazil's) or, more obviously, Germany. The German national minimum wage of €8.5/hour (introduced in January 2015) amounts to €1,473 per month assuming a 40-hour week. This corresponds to \$1,796 or R10,255/month in terms of local purchasing power. Coleman's target minimum (R4,800-6,000 in 2011 prices (about R5,810-7,260 in 2015 prices) would entail raising the South Africa minimum to between 60 and 70 percent of the German minimum – a truly radical suggestion given that German per capita income is three and a half times that of South Africa's.

Table 1. South African minimum wages in comparative context

	Brazil		Germany		South Africa	
	LCU (Reis)	\$ (PPP)	LCU (Euro)	\$ (PPP)	LCU (Rand)	\$ (PPP)
GDP per capita (2014)	27,328	\$16,155	35,898	\$45,616	70,302	\$13,046
Minimum monthly minimum wage	724 (2014) 788 (2015)	\$385 (2014)* \$419 (2015)*	1,473 (2015)	\$1,796 (2015)*	1,812.57 (domestic work) (2014/5)	\$317 (domestic work) (2014/5)*
Basic social security (2015)	788 (old age pension)	\$419*	1,360 (for family support)	\$1,659*	R1,410 (old age pension)	\$247*
Ratio of minimum annual wage to GDP per capita (2014/5)**	0.32		0.45		0.31	
PPP conversion factor for GDP (2014)	1.69		0.79		5.39	
PPP conversion factor for private consumption (2014)	1.88		0.82		5.71	

Notes: * Using PPP (purchasing power parity) conversion factor for private consumption (international \$) 2013. This is the number of units of a country's currency required to buy the same amounts of goods and services in the domestic market as a U.S. dollar would buy in the United States. This conversion factor is for private consumption (i.e., household final consumption expenditure). ** Using minimum wages for 2014 (except for Germany where the January 2015 minimum is used).

Sources: South African Department of Labour (2014); World Bank, World Development Indicators (<http://data.worldbank.org/data-catalog/world-development-indicators>).

The minimum wage is 45 percent of GDP per capita in Germany, and 32 percent in Brazil. In South Africa, the minimum wage of a domestic worker is marginally lower, at 31 percent of GDP per capita, but the average minimum set through sectoral determinations (R2,362 in 2014) was 40 percent of GDP per capita in 2014, i.e. significantly higher than that in Brazil and approaching that of Germany. If South Africa's minimum wage was set (in 2014) at the same proportion of GDP per capita as Brazil, it would be R1,875, and if it was set at the same proportion of GDP per capita as is the case in Germany it would be R2,636. These are far below the figures bandied about by Coleman and COSATU. Minimum wages set at Coleman's target band (R4,500 to R6,000 in 2011 i.e. R5,648 and R7,060 in 2014) would have amounted to 96 percent and 121 percent of GDP per capita respectively. This would be way out of line with the GDP per capita 'benchmarks' set by Brazil and Germany.

Figure 2 reports the ratio of (annualised) minimum wages (using data from ILOSTAT) to GDP per capita (from the World Bank's World Development Indicators) for 2013 for middle-income countries. It shows by these measures, South Africa's ratio of minimum wage to GDP was higher than that of Brazil and close to the median for middle-income countries (48.1 percent).¹³

¹³ It was also in line with the German figure (45 percent) reported in Table 1.

Figure 3 shows, using the ILO's measure of average minimum wages in South Africa in 2013 (R2,474), that South Africa's minimum wages were slightly higher than predicted by the average relationship for middle-income countries. This suggests, yet again, that South Africa's existing minimum wages are not out of line with international comparisons.

Given the weakness of Coleman's argument around 'international benchmarks', it is perhaps unsurprising that advocates of a high minimum have reverted to arguments about the 'cost of living'. This approach was reinvigorated by recent research showing that a minimum wage of R4,125/month would bring 'an average poor household with at least one wage earner up to the poverty line' (Finn, 2015: 47). There are several important limitations to this study. Firstly, it takes earnings data at face value, despite the fact that there is evidence that wage earnings are under-reported in household surveys – as the author himself acknowledges (Finn, 2015: 38; see also Seekings, 2014). Secondly, and more importantly, the study employed a static analysis that did not consider any impact on employment or other dynamic economic effects on poverty. Finn acknowledges this, referring the readers to a dynamic micro-simulation that found that higher minimum wages are likely to have only a marginal impact on inequality, that job losses are likely to affect the poorest among minimum wage workers and that because of this and rising prices, increasing minimum wages are 'not an effective anti-poverty tool in South Africa' (Pauw & Leibbrandt, 2012: 771). Finn's paper should thus not be seen as in any way a recommendation that minimum wages be set at this level. Thirdly, the methodology was limited to probing how much an individual breadwinner-worker's wage would have to rise to raise poor households out of poverty. It did not consider the alternative scenario of increasing household earnings up to the desired level through the creation of additional low-wage jobs. Households can and do rise above the poverty line through multiple earnings, despite the fact that individual workers earn low wages. Finally, Finn shows that wage inequality is high in South Africa because of the earnings of the very rich – yet the paper only considers minimum wage policies to address this wage inequality rather than probing various policy options to address high earnings.

Finn reports that the ratio of wage earnings of richest to poorest deciles was 15 in South Africa, as compared to 7 in Brazil (Finn, 2015: 32). Given that South Africa's minimum wages are already in line with Brazil's, by several measures, an obvious implication is that South Africa's highest wage earners earn over double that of their Brazilian counterparts. This probably reflects skills shortages in South Africa and the increasing bias towards capital- and skill-intensive growth. Even so, room probably exists to combat inequality in household disposable income through increasing taxation at the top end. Between 1998 and 2002 South Africa's top personal income tax rate was

decreased from 45 percent to 40 percent and effective personal income tax has remained below its peak of 20.6 percent in 1999/2000 (South Africa, 2015: 46). According to the Davis Tax Committee, ‘there appears to be some scope to increase taxes on capital income, marginal personal income tax and indirect taxes such as fuel levies and VAT’ (*ibid*: 47). A small increase in personal income tax was effected in the 2015 budget. Further increases in progressive income taxation should be considered as part of a wider strategy to fund an expanded public works programme. This would do more to address poverty and inequality than a significantly increased minimum wage.

The Direct Effects of High Minimum Wages on Employment

COSATU’s decision not to call for a national minimum wage in the early 1990s was the result, in large part, of the argument made by SACTWU, other unions and union-allied researchers, that a high minimum would destroy jobs in low-wage sectors, including clothing manufacturing (organized by SACTWU) as well as unorganised sectors such as domestic work and agriculture. When Coleman resuscitated proposals for a high national minimum in 2012, he acknowledged implicitly that unemployment and job destruction might need to be taken into account. His proposal that more modest minima be set during a phasing-in period suggested that there might at least be transitional problems, and he also acknowledged that sectors such as agriculture and domestic work posed special challenges. He went on to argue that both international and South African evidence suggested that anxieties over job destruction were misplaced, going as far as claiming that every purported link between high minima and unemployment is a ‘myth’ (Coleman, 2014b). But his discussion of both international and South African evidence was highly selective, resulting in gross complacency over the risk of job destruction.

Coleman writes that ‘there has been a decisive shift in international thinking in favour of the national minimum wage’, and ‘previous dogma by conservative economists about the employment destroying effect of minimum wages have been comprehensively discredited’ (2012b: 10). The first claim overlooks necessary qualification, and the second claim is simply not true. Coleman relies primarily on reports from the ILO, which has argued strongly for wage regulation, but with qualifications that Coleman ignores. Coleman ignores entirely the more skeptical research from the World Bank and other sources.

Coleman is correct to suggest that there was a widespread backlash among economists against the view, rooted in theory, that wage regulation necessarily

reduces employment. In the mid-1990s, Card & Krueger (1994) used a difference-in-difference comparison, contrasting the employment trend in employers in one sector and area covered by an increased minimum wage with the trend in a control group of employers in a comparable sector and area, and found in one case in the USA that raised minimum wages were associated with relative employment growth. The Achilles heel of this methodology was the quality of the counterfactual comparison. Neumark & Wascher (2008) comprehensively reviewed research from the USA and concluded that the evidence for positive employment effects was poor, and evidence of negative employment effects on unskilled employment was strong (see also Neumark *et al.*, 2014). A series of recent studies have argued that negative employment effects have often been underestimated because studies have focused too much on short-term changes in employment. Sorkin (2015) suggested that the demand for labour might be inelastic in the short-term, but elastic in the longer-term, as employers substitute capital for labour. Meer & West (2015) argue that minimum wages affect employment over time ‘through changes in growth rather than an immediate drop in relative employment levels’. Using data from three administrative panel datasets from the USA, over the period 1975-2012, they found that the negative employment effect peaks three or more years after the relative increase in minimum wages. Aaronson *et al.* (2015) examined the mechanism through which firms substitute capital for labour. They found that existing employers in the fast-food restaurant industry are unable easily to substitute capital for labour in response to minimum wage increases, but new employers – who are typically restaurant chains – can do so. Even over the short-term, industries adjust to changed wages through the exit of more labour-intensive employers and the entry of less labour-intensive ones. In light of this research, *The Economist* backed away from its earlier endorsement of minimum wages, concluding that evidence of modest short-term effects might be a ‘poor guide’ to the long-term effects of large increases.¹⁴

Evidence from developing countries is even less consistent with Coleman’s claims. The ILO (2013) is emphatic in concluding that minimum wages have had small or no effects on employment in developed countries, but concludes that employment effects in developing countries depend on the economic context, the level of the minimum wage, enforcement, and the ‘labour market peculiarities and institutions prevailing in each country’ (2013: 49). A World Bank study goes further:

‘The clear majority of developing-country studies find some adverse employment effects, but this is not always the case. ... Not surprisingly, researchers tend to find that employment effects are

¹⁴ ‘Destination Unknown’ (Free Exchange), *The Economist*, 25th July 2015, p60.

generally more significant at the segment of the wage distribution where the minimum wage actually “bites”. ... A negative employment effect can extend beyond workers earning around the minimum wage, but it tends to dissipate as one moves up the wage distribution’ (Betcherman, 2014: 8).

The primary losers are therefore young workers and women, the less skilled, and workers in small firms. This study concurs with the ILO that the effects are often modest either because of non-compliance or because minima are set at low levels, anticipating employment effects. Large increases in minima have tended to have substantial negative effects on employment especially when demand for labour was weak (for example, in Colombia in the 1990s) (*ibid*: 10).

Minimum wage increases in the USA and developing countries alike rarely had dramatic effects on aggregate employment because, as Freeman has noted, policy-makers usually take likely employment effects into account when they set the level of the minimum: ‘policy-makers are aware of the potential harm of very high minimum wages, so they tend to set them at a reasonable level, roughly in line with prevailing market wages for unskilled workers’ (Freeman, 2010, cited in Betcherman, 2014). Showing that minimum wages usually have a limited effect on employment tells us more about the decision-making of the wage-setting institutions than it does about the general relationship between wages and employment. As Freeman (2010) emphasises, finding that minimum wages generally have modest negative effects on employment ‘does not mean that demand curves do not slope downward or that a high minimum wage cannot decimate employment’ (2010: 4,667). In Brazil – discussed at length by Coleman (e.g. 2012b: 11-20) – steady real increases in minimum wages did coincide for a while with declining unemployment and even a shift from informal to formal employment, but minimum wages remained modest and employment trends were made possible by unusual and unsustainable macro-economic expansion (as we discuss further below).

The South African evidence on the relationship between minimum wages and employment is also ambiguous, as Coleman himself seems to acknowledge. Coleman correctly suggests that there is no mechanical relationship between minimum wages and employment, noting that employment is affected by other factors besides wages. But he also describes as a ‘myth’ the claim that minimum wages destroy jobs (2012b: 39; see also Coleman, 2014b). The South African evidence that minimum wages affects employment is, however, much clearer than he acknowledges, and does not support his bold advocacy of a massively increased minima. As discussed below, econometric studies (by Bhorat *et al.*), the investigations and experience of the ECC and bargaining councils over the past fifteen years, and sectoral studies all suggest that minimum wages have

modest effects on employment when they are set at low levels, taking into account potential job losses, but job destruction does occur when minima are raised dramatically, especially among less skilled workers in tradable sectors.

Econometric studies by Borat *et al.* (2013, 2014) have used a version of the difference-in-difference methodology employed in the USA. Like the American studies, they rely on specifying a counterfactual, i.e. finding a control group of employers that approximate to the employers affected by the minimum wage in all respects except for the minimum wage. In the USA, this typically entails selecting employers in the same sector, often carefully defined, in a neighbouring state (because each American state sets its own minima). In Borat *et al.*'s studies of South Africa, they employ as control groups occupations with similar skill characteristics as the affected sector, but not affected by the wage increase. Given that very few unskilled or semi-skilled workers are not affected by wage regulation, any 'control group' is probably subject to rising minima, with the result that Borat *et al.* probably underestimate job destruction, because unskilled jobs are being destroyed across the board. Borat *et al.*'s findings on aggregate effects on employment probably also obscure more negative effects on vulnerable, less skilled workers specifically.

Taken at face value, however, Borat *et al.*'s research suggests that the demand for labour in most non-tradable sectors is only weakly wage-elastic at the wage levels at which minima have been set hitherto, whilst the demand in tradable sectors (i.e. sectors exposed to international competition) is more obviously wage-elastic. This is hardly surprising. The demand for domestic work has remained buoyant in part because the rising real earnings of the rich have meant that many domestic employers have been able to pay their domestic employees higher wages. The demand for farmworkers, in contrast, has fallen dramatically, in part because of the rising minimum, in part for other reasons. Borat *et al.* (2014) conclude that 'employment fell significantly' following the 2002 sectoral determination in agriculture, with the minimum wage explaining most of the 200,000 jobs lost over one year. They do not assess how many jobs were lost in the longer-term. It is also too early to say how many jobs were lost following the huge increase in the minimum wage in agriculture in 2013 (shown in Figure 4), but anecdotal evidence suggests that job destruction was again considerable even over the short-term, affecting especially women.¹⁵ In the (tradable) forestry sector, Borat *et al.* (2013) found that the sectoral determination did not lead to any observed improvement in total earnings, because higher wages were offset by a reduction in working hours.

¹⁵ e.g. *Cape Times*, 3rd December 2014.

This econometric analysis accords with the predictions of the fifty-odd investigations of low-wage sectors conducted by the ECC over the past fifteen years. Every time the Minister instructed the ECC to investigate a sector and recommend new minima (and conditions of employment), the Department of Labour and ECC would investigate. In general, the Department of Labour and ECC sought to raise wages, but only as high as they considered possible without significant job destruction. After setting sectoral minima for the first time, the ECC increased minima on average by about 3.5 percent p.a. in real terms (most increases were less than this, but the average was pulled up by a few larger increases). Over time, the increases were substantial. In several sectors – farming, forestry, and wholesale and retail trade – minima were approximately doubled (in real terms) over ten to fifteen years (and this does not count the increase effected by the first sectoral determination in each of these sectors). In almost all cases, the Department of Labour and ECC assessed that these increases were all that could be achieved without a serious risk of job destruction. In very few of these cases did trade union representatives on the ECC dissent from the recommendation. In other words, trade union representatives on the ECC concurred with independent commissioners and business representatives on the ECC, and with Department of Labour personnel (many with backgrounds allied to the trade unions) that minima should be increased modestly to prevent job destruction. In several sectors – notably domestic work, the taxi industry and private security – the Department of Labour and ECC chose not to raise minima dramatically because they assessed the risk of job destruction to be too high. Most of the sectors regulated through sectoral determinations were non-tradable, and the econometric analyses suggest that the ECC generally struck a good balance between raising real wages, especially for the lowest-paid, and job conservation.

The clear exception to this story, as the econometric analyses also suggest, is the agricultural sector. Case-studies in different parts of the country (Conradie, 2007; Murray & van Walbeek 2007), as well Bhorat *et al.*'s analysis of national data (Bhorat *et al.*, 2014), suggest that the original (2002) sectoral determination in agriculture raised minimum wages and improved compliance with non-wage regulations – but it also resulted in a significant reduction in total employment and/or hours worked. In late 2011, the ECC proposed that the minimum wage in agriculture be set at just over R1500 per month from March 2012. Later in 2012 farmworkers in parts of the Western Cape engaged in dramatic protest, and the ANC and government rushed to announce that wages would be increased. Striking farmworkers demanded a minimum daily wage of at least R150 (or R3,600 per month, assuming a six-day week). Commissioned research suggested that higher wages would lead to job destruction, but job destruction would be modest if *average* daily wages were not raised above R104. The Minister of Labour then exerted considerable pressure on the Department of Labour and

ECC to endorse a new *minimum* of R105/day (or almost R2,300 per month), which would raise the average wage significantly above R104/day. The ECC's report warned that increasing average wages above R104/day would lead to job destruction and might have negative effects of farmworkers' incomes because higher wages would be offset by job losses. A majority of the ECC's members nonetheless endorsed the R105/day minimum. Anxious about the possibility of job destruction, however, the Department of Labour took the unprecedented step of allowing farmers to apply for exemption from these minimum wages on the grounds of unaffordability. It is not clear how many exemptions were submitted or approved. Having increased farmworkers' minimum wage, the ECC had to decide whether the minimum wages for other low-wage workers – especially domestic workers – should also be increased. The Department of Labour warned that an increase in line with farmworkers would 'either lead to massive layoffs or reduction in working hours'. The ECC concluded that very large increases would lead to job destruction, especially among lower-income employers, and recommended a slower rate of real increase (see Seekings, forthcoming b).

Many of the sectors covered by bargaining councils are tradable, so that large increases in minimum wages risk job destruction. Trade unions in these sectors have generally desisted from demanding minima anywhere near those proposed by Coleman and COSATU. In the clothing industry, for example, SACTWU has pushed for steady increases in the minimum wages payable in lower-wage parts of the country (such as Newcastle in northern KwaZulu-Natal and Phutaditjaba in the southern Free State, see Figure 4). But SACTWU has been cautious in pushing for higher minima in its areas of core support, such as Cape Town (whilst pushing successfully for massive government subsidies to assist compliant factories to improve productivity and thus their international competitiveness). As SACTWU's membership has grown in places like Newcastle, however, the union has lost its enthusiasm for closing non-compliant factories (Nattrass & Seekings, 2015).

In sum, almost every time a labour-intensive sector is studied, whether by independent scholars or trade unionists, the result is a recommendation of modest real increases in minimum wages, because most independent scholars and trade unionists alike concur that substantial real increases are likely to lead to job destruction. Econometric analyses suggest that limited increases in non-tradable sectors have generally had modest effects on employment, i.e. that the ECC generally struck a good balance between wages and employment (although methodological weaknesses in the econometric studies might result in an underestimation of job destruction). Tradable sectors have been more susceptible to job destruction, as trade unions and their representatives themselves recognise. There is thus plenty of evidence that the labour demand curve in South Africa slopes downwards, meaning that higher wages typically

translate into fewer hours worked and even job losses as firms shed their unskilled labour, mechanise, or move into less labour-intensive sectors (see also Pauw & Leibbrandt, 2012).

Given that South Africa's unemployment rate was between 25,6 percent (if only active job seekers are counted as in the labour force) and 33.9 percent (if the so called 'discouraged job seekers' are included) in the first quarter of 2015,¹⁶ it is appropriate for the ECC, trade unions and government to be very concerned about the risk of job destruction. If existing minimum wages were doubled or tripled, as Coleman and COSATU suggest, it is almost certain that there would be dramatic job destruction. Entire tradable sectors (such as clothing) would be wiped out entirely. As importantly, any hope for labour-intensive economic growth would be eliminated. There is nothing in the South African or international experience to support Coleman's contention that massive increases in the minimum wage would have no effect on employment.

Coleman (and COSATU) have one final defence of very high minima. In their view, massive increases in minimum wages would generate the kind of wage-led growth that fuelled economic growth in Brazil until recently. It has also been suggested that the German model, of wage-driven productivity increases, offers lessons for South Africa. Unfortunately, these arguments misunderstand the possibilities for and constraints on economic growth in both Brazil and South Africa.

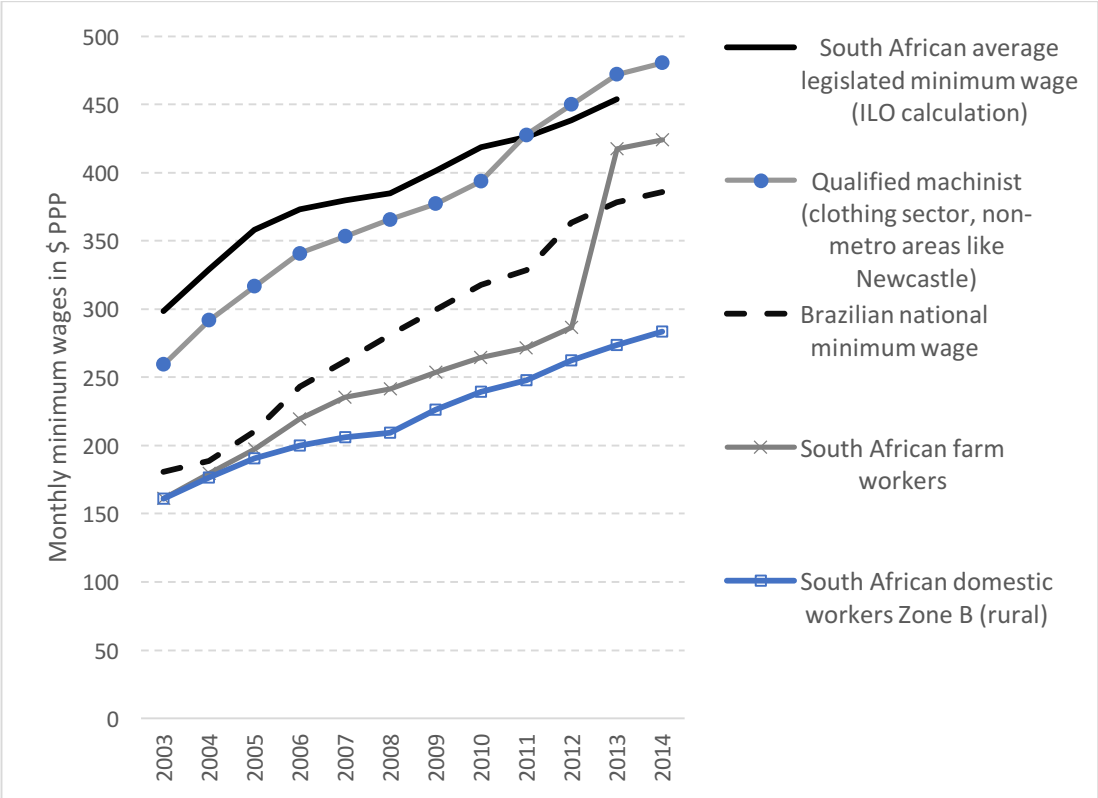
Minimum wages, economic growth and the economic growth path

Proponents of minimum wage growth often cite macroeconomic benefits in defence of their arguments. For example, Coleman (2013a, 2014a) and Isaacs and Fine (2015) argue that a minimum wage of between R4 800–R6 000 would be good for economic growth because it would boost aggregate demand (spending in the economy) thus encouraging firms to increase output and employment.¹⁷ In commenting on the proposed National Minimum Wage, Vavi

¹⁶ Quarterly Labour Force Survey, First Quarter 2015, Statistics South Africa Statistical Release P0211, 26 May 2015. Available: <http://www.statssa.gov.za/publications/P0211/P02111stQuarter2015.pdf>

¹⁷ Neither Coleman nor Fine and Issacs confront the obvious question that if there is no trade-off between wages and employment why not propose wage increases significantly higher than even this? The fact that they do not suggests that at some level, they accept that economic consequences are not always so rosy. It is unfortunate that they do not articulate this explicitly as their macroeconomic arguments give the impression that they believe there is *never* a trade off between wages and employment.

(then general secretary of COSATU) adopted a similar stance, telling reporters that “we must pay higher wages that will stimulate the demand for locally produced goods. That’s why the manufacturing sector lost all those jobs, because workers can’t afford [the goods] because of the low pay” (quoted in Zwane, 2014).



Source: ILOSTAT (<http://www.ilo.org/ilostat> and World Development Indicators (<http://data.worldbank.org/data-catalog/world-development-indicators>), various South African government gazettes.

Figure 4: Minimum Wages in South Africa and Brazil (adjusted for purchasing power).

Vavi and Coleman cite the Brazilian case in support of their argument that wage-led growth is possible in South Africa. But the lessons from Brazil suggest that greater caution is needed. Firstly, as argued above, South African minimum wages are not out of line with what one would expect in middle-income countries, including Brazil. Figure 4 shows, using average sectoral and regional wages collated by the ILO, that by this measure South African minimum wages have been consistently above that for the Brazilian national minimum wage in purchasing power terms. Figure 4 also reports the low-wage sectors of (rural) domestic work and agriculture. It shows that these minima did rise steadily,

although lagging behind Brazil's minimum – until 2013, when the lowest minimum for farm workers was increased sharply to a level above the Brazilian national minimum. The minima for South African domestic workers shown in Figure 4 are the lowest minima, with higher minima set for domestic workers in better-off parts of the country.

Secondly, South Africa's macroeconomic context and the recent Brazilian experience point to the constraints on wage-led growth. Theoretically, wage-led growth is possible if employers are compensated sufficiently for the higher wages they pay workers by the increased demand for their products that result from higher wages. The idea here is that higher domestic sales will generate sufficient profits and funds for investment that employment and output rise (Marglin and Bhaduri, 1990). Subsequent theoretical and empirical research showed that this happy scenario was less likely in an open economy (Bowles and Boyer, 1995). Two studies of the South African economy using macroeconomic simulations and data from the 1990s and 2000s respectively concluded that wage-led growth was not feasible, and that increasing the wage share would undermine investment, growth and employment (Gibson and Van Seventer, 2000; Oranan and Galanis, 2013). During the mid-2000s, Brazil did experience demand-led growth, fuelled by rising minimum wages, rising social security payments (including old age pensions, Bolsa Familia and other programmes, fuelling demand without increasing labour costs) and domestic savings that sufficed to finance investment. This helped cushion the impact of the 2008 global financial crisis, especially on the poor (ILO, 2011; Serrano and Suma, 2011). But this wage- and social-security-led growth dramatically ran up against the constraints of weakening global demand, falling commodity prices, an excess of consumption over investment, and domestic inflation. By 2013 Brazil was running a large current account deficit (see Table 2), indicating that demand was fuelling imports, and the growing fiscal deficit meant little if any space for further increases in social assistance or the national minimum wage. Investment remained sluggish. The Brazilian economy stagnated in the early 2010s before sliding into recession in 2014-15. Given that South Africa's current account deficit was already at Brazilian levels, as was the share of household consumption and government consumption in GDP (see Table 2), the prospects for wage-led growth in South Africa seem poor.

In short, the available macroeconomic evidence indicates that South Africa is supply rather than demand-constrained and that wage-led growth is likely to undermine investment and hence employment. Rather than rely on the fantasy of wage-led growth, it is more prudent to continue to set minimum wages sector by sector, taking into account economic conditions and hence likely job losses. Rather than model policy on Brazil in the mid-2000s, policy makers should look to the example of Mauritius in the 1970s where, acting on the recommendations

of the (progressive) economist James Meade, the country prioritized low-wage job creation, notably in the clothing industry, to address the unemployment problem. It was only once the labour market had tightened, that statutory minimum wages were raised because policy-makers wanted to ensure that there would be no job destruction (see Dabee & Greenaway, 2001).

As shown in Table 2, South Africa has a much lower percentage of working-aged people in employment than in Brazil and Germany and an unemployment rate about five times higher. South Africa's colossal failure to create jobs is the key reason why South Africa's Gini coefficient (measure of inequality) is worse than Brazil's and why it has twice the share of population below the poverty line. South Africa's labour-market and economic policies ought to prioritise job creation, and any proposals that risk further job losses, especially in labour-intensive industry, should be treated with extreme caution. As Fields (2003) reminds us, the International Labour Organisation's decent work agenda entails the dual objective of attaining full employment and better quality jobs and countries need to place themselves strategically on the continuum between these objectives. High unemployment economies like South Africa (and as was the case in Mauritius in the 1970s) should prioritise employment growth.

Table 2. Brazil, Germany and South Africa: Key Indicators

	Brazil	Germany	South Africa
Government consumption as % GDP (2013)	21.9%	19.3%	22.2%
Household consumption as % GDP (2013)	62.6%	55.9%	61.2%
Current account deficit as % GDP (2013)	-2.4%	6.9%	-2.8%
Government budget deficit as % of GDP (2014)	-6.7%	0.1%	-3.8%
Labour force participation rate (2013)	70%	60%	52%
Employment to population ratio, 15+, total (%) (modelled ILO estimate) (2013)	66%	57%	39%
Unemployment, total (% of total labour force) (modelled ILO estimate) 2013	5.9%	5.3%	24.9%
GINI index (World Bank estimate)	0.527	0.36	0.65
Poverty headcount ratio at \$1.25 a day (PPP) (% of population) 2011	4.5%	N/A	9.4%

Source: World Development Indicators, <http://www.bloomberg.com/news/articles/2015-01-30/brazil-s-budget-deficit-in-december-twice-as-wide-as-forecast>, <http://www.tradingeconomics.com/south-africa/government-budget>. * Using PPP conversion factor for private consumption (international \$) 2013.

Even in Germany, where unemployment is low, the national minimum wage was introduced only after widespread consultation and concern about potential job losses. Germany has a long tradition of co-determination. Trade unions and employers concurred that the national minimum wage should be set at a level consistent with maintaining German economic competitiveness. Wages in Eastern Germany are typically lower than in West Germany, but even in Eastern Germany the national minimum wage of €8.5/hour was generally not seen as a threat to employment. For example, the largest low-wage employer in the formerly East German city of Erfurt – Amazon’s online supply depot – was already paying €9.50/hour, set by collective bargaining with the workers on the understanding that anything above that would result in the firm relocating to Poland.¹⁸ German jobs most at risk from a national minimum wage were restaurant waiters/waitresses, taxi drivers, and part-time ‘mini’ jobs, i.e. jobs (mostly aimed at married women wanting to work part-time) paying up to €450/month, the cut-off salary above which social security contributions needed to be made by employers.

Table 2 shows that the share of consumer spending in the GDP was lower in Germany than in South Africa and Brazil, and that the country was running a significant current account surplus. This indicates that there was some macroeconomic room for wages to boost domestic demand following the introduction of a national minimum wage. As of May 2015, indications were that the new national minimum wage had caused some job losses (notably with regard to mini-jobs), but that these job losses were more than offset by the effects of continuing economic growth (Tiefensee, 2015).¹⁹ German export competitiveness was not affected but there was anecdotal evidence that taxi fares and restaurant prices had increased in some cities because of the new national minimum wage. The Confederation of German Employers’ Associations (BDA), which had initially opposed the introduction of a national minimum wage, argued that the biggest challenge for employers was not the

¹⁸ Interview with Michael Panse, CDU Chairperson, Erfurt City Council, 1/6/15.

¹⁹ This was the view of the national Department of Labour (interviews with Thorben Albrecht and Thomas Keyzers 4/6/15), trade unions (interviews with Alexander Kirchner, the chair of EVG (4/6/15), and Eva Welskop-Deffaa from Verdi 3/6/15) employers (interviews with Stephan Fauth, the CEO of the Verband der Wirtschaft Thuringens e.V (2/6/15) and Peter Clever, BDA 4/6/15). It was also the view of elected officials in Eastern Germany (Michael Panse (CDU Chairperson, Erfurt City Council 1/6/15)

hourly wage rate per se but rather the bureaucratic costs of compliance (because employers are required to keep detailed records of wages and working hours).²⁰

Unlike in South Africa, where employers are treated with suspicion if not hostility by labour and government, great care was taken in Germany to assist employers with the introduction of the national minimum wage. A hotline was created for workers and employers to obtain advice and assistance and various vulnerable occupations were provided additional flexibility and time to comply. Wages of below €8.50/hour could continue for up to two years if these were the result of a collective agreement, and some sectors such as newspaper delivery, meat packing and agriculture were also given an additional two years to comply (German Federal Ministry of Labour and Social Affairs, 2015: par 1.7 – 1.9).²¹ The national minimum wage did not apply to those in apprenticeships or enrolled in measures to promote their participation in the labour market (*ibid*: par 2.1).

In short, the national minimum wage was set in Germany at a level specifically designed not to threaten its national competitiveness, in a way that was flexible to the needs of different sectors, and in the context of a welfare system that provides income and job-related support for those in vulnerable occupations who may lose their jobs. Indications are that it was a successful policy in that employment continued to grow, social security contributions increased and many low-wage German workers benefited from rising incomes without losing their work. The impact on employment and profitability in foreign owned firms (which had previously been paying below minimum wages and which were a key target of the German national minimum wage) is, however, unknown. In any event, the ‘lesson’ for South Africa is that any proposed national minimum wage should be set only after widespread consultation with all interest parties including small as well as large employers from across the whole country, that it should not undermine competitiveness, and it should be introduced gradually and flexibly where there is concern about job losses.

Conclusion

South Africa already has the legislative framework for a national minimum wage (through the BCEA, as amended, in conjunction with the LRA). Most low-wage workers are already covered under either the LRA or BCEA, and few of these are covered by sectoral minima that are below (in terms of purchasing

²⁰ This was argued to be the case by Thorben Albrecht of the Ministry of Labour and by Peter Clever (BDA) (both interviewed on 4/6/15).

²¹ Interview with Albrecht.

power) the national minimum wage in Brazil. Sectoral minima have generally been set at these low levels for good reasons: In the affected sectors, higher minima are likely to lead to job destruction. In sectors where there is less risk of job destruction, minima have been higher (making many of them significantly higher than the national minimum in Brazil, in relation to either the cost of living or GDP per capita). Trade unions and their representatives have generally concurred with this modest wage-setting. South Africa's existing system for minimum wage-setting ensures that minima entail much the same standard of living and share of GDP as does Brazil's system, whilst usually taking into account risks of job destruction.

Why, then, are Coleman and COSATU insistent on setting a much higher national minimum wage? First, they emphasise that poverty remains stubbornly and unacceptably high in South Africa, even among households that include workers. Increasing wages would reduce poverty, as long as jobs were not destroyed. Secondly, according to Coleman and COSATU, any minor job destruction caused directly by a higher national minimum wage would be more than offset by the job-creating effects of wage-led growth. The result, they would have us believe, would be reduced poverty and inequality.

Unfortunately, neither international nor South African evidence support this assessment. In Brazil, poverty has fallen as much because of very low unemployment rates and expanding social protection as of rising minimum wages. Many households have risen above the poverty line because they have more than one wage coming in. Moreover, the balance of international evidence is that high minimum wages generally do destroy less skilled jobs. Such effects are only offset by the job-creating effects of wage-led growth when imports do not rise, domestic investment and production expands, and employers expand production in relatively labour-intensive ways. None of these conditions pertain in South Africa (or in Brazil, as is evident from Brazil's current economic crisis). If high minimum wages result in the destruction of unskilled jobs then the benefits of higher wages will be offset by lower employment, and the outcome is likely to be increased inequality and poverty.

COSATU might not be concerned primarily with poverty. Indeed, COSATU's core membership has prospered under democracy, enjoying rising real wages. Trade union members are concentrated in the more skilled, better paid end of the workforce, disproportionately in the public sector (Seekings, 2014). This means not only that for a national minimum wage to have any 'bite' at all among trade union members it would have to be set at a high level, but also very few trade unions have many members in the kinds of lower-waged jobs at risk of destruction. The one union which would obviously be at risk of being wiped out entirely – SACTWU, in the clothing sector – has been conspicuously coy in the

current national minimum wage debate, perhaps because it believes that higher labour costs would be offset by massive state subsidies (see Natrass and Seekings, 2015). COSATU might be more concerned with the ‘wage gap’ – by which it means the gap between the salaries of top executives and the wages of trade union members – than with poverty. A high national minimum wage would reduce the wage gap (although not as effectively as through taxation of top earners).

It is possible that COSATU’s concerns are as much political as economic. The Marikana Massacre (in August 2012) came to symbolise discontent not only over wages but also with COSATU. The deepening crisis within COSATU – culminating in the expulsion of the Metalworkers’ Union NUMSA and the suspension and later expulsion of COSATU general-secretary Zwelinzima Vavi – meant more pressure on unions to ‘deliver’. At the same time, the political power enjoyed through the ANC and ANC-led Alliance seems rather more useful and usable than the organisational power rooted in shopfloor structures (Buhlungu, 2010). The experience of the 2012 Western Cape farmworkers’ strike and 2013 minimum wage increase would have made evident to union leaders the possibility of using political power (through the ANC and government) effectively to subvert the usual, sectoral wage-setting procedures provided under the BCEA.

The issue at stake is not whether wages should be regulated countrywide, with a view to preventing the exploitation of vulnerable workers, but whether the existing system should be discarded and replaced with a new system that empowers trade union leaders to use political power to set a minimum without substantive consideration of the effects on employment and poverty. Ours is not an argument against wage regulation. Our position is in the middle of the minimum wage debate, in between the principled hostility to wage regulation of the Free Market Foundation and the National Employers Association of South Africa (Urbach, 2015)²², and the position of Coleman, COSATU and allied intellectuals (such as Isaacs and Fine) that a national minimum wage should be set at a high level through an essentially political process without regard for the effects on employment and poverty. In our assessment, South Africa’s existing institutions for wage-setting have been broadly successful, raising real minima with many sectors without destroying many jobs. But our position is not a defence of all of the minima set by bargaining councils and the Minister of Labour (under the LRA) or the ECC (under the BCEA). In tradable sectors like clothing manufacturing (regulated under the LRA) and agriculture (regulated under the BCEA), the evidence suggests that rapid increases in minima have

²² See also <http://www.neasa.co.za/Press-Room/Video-links-and-podcasts/The-introduction-of-a-national-minimum-wage.aspx>

already contributed to large-scale job destruction. The ECC might even have been too conservative in assessing the potential for increased minima in some, mostly non-tradable sectors, although it is unlikely that any such caution has had more than a marginal effect. A national minimum, set at an appropriate level through appropriate procedures with attention paid to employment effects in vulnerable sectors, would probably enhance equity and social justice. The obvious way forward is simply for the Minister of Labour to instruct the existing ECC to propose a minimum wage applicable to all sectors not currently covered by sectoral determinations or bargaining councils, using the provisions of the amended BCEA, and taking employment effects into account (as required under the BCEA). There is no need for new legislation or any new institution.

Wage-setting institutions do require some reforms if they are to protect vulnerable workers without destroying their jobs. First, the LRA needs to be reformed to ensure that the interests of small businesses are taken into account more effectively in bargaining councils. Secondly, the extension mechanism provided under the LRA needs to be reviewed, requiring the Minister of Labour to take job destruction into account when extending collective agreements reached in bargaining councils. Thirdly, the Department of Labour and especially ECC require substantial additional resourcing in order to allow more substantial research on the likely benefits and risks of new wage minima. The contrast between the minimal research capacity of the ECC and the considerable capacity of (say) the Low Wage Commission in the UK is very striking. It is possible that improved information would justify higher minima than at present in some sectors (such as domestic work).

Minimum wages present one of the most difficult choices to any policymaker concerned with poverty, inequality and unemployment. It demands careful analysis and nuanced policy interventions – not a blanket approach to a very complex matter with high risks of unintended and perverse consequences. It also needs to be sensitively negotiated with employers (representative across all sectors and of small and large firms) before being introduced. This was the key message of Thorben Albrecht, the Permanent State Secretary at the Federal Ministry of Labour and Social Affairs in Germany) to two South African delegations invited to Germany to study the impact of a national minimum wage in South Africa.²³ South Africa would do well to heed this advice. The main lesson from the German case is not demand-led growth (as implied by COSATU) but concern across all social partners with competitiveness and co-determination.

²³ Interview with Thorben Albrecht, 4/6/15.

Recognising that a high national minimum wage is not a panacea for poverty in the South African context does not mean that nothing more can be done about poverty or inequality. On the contrary, redistributing from rich to poor through tax-financed social assistance and job creation programmes (whether through wage subsidies or public employment programmes) serves to reduce the disposable income of the rich and increase the disposable income of the poor without increasing labour costs. Poverty and inequality are thus reduced without undermining international competitiveness or incentivizing employers to substitute capital (and more skilled labour) for less skilled labour. Policy reforms like these really do have the weight of international experience behind them.

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