

# New body to tackle national minimum wage

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Government is creating a panel of seven academic experts to try to resolve, by October, the impasse over the introduction of a national minimum wage.



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In SA, minimum wages vary by sector. In 2015, the median wage of all workers covered by these sectoral determinations was R2,447/month. In addition, trade unions and employers negotiate in bargaining councils the minimum wages for sectors like mining and manufacturing. These pay more than R4,000/month.

About 27% of workers are not covered by sectoral determinations, trade unions or bargaining councils. There is agreement that the current system is too complicated, patchy in its coverage, and that weak enforcement has resulted in low compliance. The advantage of one national minimum wage (NMW) is that it would be simpler and more equitable.

The problem is the wide gap between low minimum wages in agriculture and domestic work and high ones in mining and utilities, and how to harmonise them.

After 18 months of negotiations, the parties in Nedlac are deadlocked with labour favouring a national minimum of around R3,500/month, business arguing for R1,800/month and government somewhere between the two.

## University research

Their task hasn't been made easier by two of SA's top universities producing large bodies of diametrically opposed research.

Wits University's National Minimum Wage Research Initiative finds that an NMW, if set at a meaningful level above the lowest sectoral minimum wages, could reduce working poverty and inequality in SA while lifting income, spending, productivity, investment, output and growth. And it could do so without causing significant job losses.

It says an NMW beginning between R3,500 and R4,600 and escalating to R3,900 and R5,100 after five years could add about 2.1% to SA's GDP growth rate every year on average from 2016 to 2025.

University of Cape Town (UCT) research finds, however, that a minimum wage of R3,400 could cause more than 500,000 job losses even under moderate assumptions (see table). Moreover, any beneficial impact on wage inequality and poverty would be relatively modest, given that many of SA's poorest households have very few or no wage earners.

"In a country that is so job-starved, choosing a national minimum wage which is going to cause unemployment is deeply problematic," says Prof Haroon Bhorat, lead author and co-ordinator of UCT's research.

"Wits has taken a particular view," he adds. "They've taken only evidence of where the introduction of an NMW would have a positive impact and run a public campaign based on that. An academic view would have to consider all the evidence. For SA it suggests you can have disemployment effects."

He is referring to the fact that almost 200,000 jobs were shed in agriculture between September 2002 and September 2003, when a minimum wage was introduced in the sector for the first time. It pushed up wages by about 17%.

"A national minimum wage is not a oneway bet where all the consequences are positive," says Bhorat. "The market will bite back and you will see employment losses. You can't put your head in the sand and pretend it won't."

## **Panel nominees**

Professor Imraan Valodia, Wits' dean of commerce, law & management, is expected to chair the new panel - though he is waiting for written confirmation from deputy president Cyril Ramaphosa, who will decide on the panel's final composition.

Other nominees include Murray Leibbrandt, who heads the Southern Africa Labour & Development Research Unit at UCT; Christopher Malikane, an associate professor of economics at Wits; and Patrick Belser, a minimum wage expert from the International Labour Organisation.

The panel's job is to make sense of the conflicting research to enable government to choose that benign level for an NMW, where the protection of workers' wages is balanced against the need to prevent job losses.

Responding to the accusation that the Wits initiative has crossed the line from research to advocacy, Valodia says: "The academics are perfectly entitled to put forward any research they want, whether for business or for labour, as long as their methodology is sound."

He says he will have no problem being a neutral panel chairman, despite the fact that he was on the oversight committee of the Wits initiative.

Of the 16 members of the oversight committee, nearly all are academics, except for three who represent trade unions, one of whom is Neil Coleman, Cosatu's labour spokesman.

"Just because I was on the oversight committee doesn't mean I support all of [the research coming out of] it," Valodia adds. "If someone disagrees with it and the methodologies are not sound it must play out in public."

Business Unity SA (Busa) has welcomed the establishment of the panel. It does not oppose Valodia as the chair since he also heads the Employment Conditions Commission (ECC), which sets SA's existing sectoral minimum wages. Ironically, the ECC originally commissioned UCT to conduct the official NMW research for government and Nedlac.

## **Difference is in the technique**

The main reason for the different conclusions reached by Wits and UCT is that they use completely different economic modelling techniques.

Wits' models produce so few job losses because they assume that firms will adjust to higher minimum wages in many ways, including by raising their productivity through organisational efficiency and increased effort by workers, reducing the wages of higher earners, and by small price increases.

Also central to the Wits research is the understanding that the rise in wages will spur greater consumer spending and increased output and higher GDP growth. This will counteract the negative pressures on employment levels.

Put differently, "the overall number of workers projected to benefit from the policy far exceeds the relatively small number of workers that may lose their jobs as a result".

## **Prevailing business conditions**

However, neither Wits nor UCT's research takes explicit account of prevailing business conditions in SA, though Bhorat does note in his report that "we would expect the response from employers to be much more sensitive during an economic downturn or recession".

Stats SA's Quarterly Labour Force Survey shows that the economy shed a total of 473,000 jobs in the first half of 2016. With growth slowing to a crawl, business confidence at record lows and profitability in SA's primary and secondary sectors under immense pressure, it would be hard to think of a worse time for SA to experiment with a national minimum wage.

"Given prevailing economic conditions and high levels of unemployment we are naturally very concerned that the national minimum wage should be set at a level that does not discourage employment or [encourage] informalisation," says Busa CEO Khanyisile Kweyama.

"An unsustainably high NMW will increase the cost of doing business and ultimately prejudice the unemployed, workers, entrepreneurs and even consumers," she adds. "A minimum wage that is pegged too low will have a negative effect on social development. The challenge lies in finding the optimal balance."

Source: *Financial Mail* via I-Net Bridge