ABSTRACT

It is a historical fact that the democratic South Africa inherited the country with the triple challenges of unemployment, poverty and inequality. Majority of blacks became the victims of such inheritance and they often demonstrate their discontent via protests which for the last decade painted South Africa as a theatre of social unrests. A national minimum wage is believed to be amongst the solutions to close the gap of inequalities, with the view that minimum wages will move the poor workers out of poverty and improve their standards of living. It is within this context the purpose of this paper is to determine the impact of minimum wage on employment in South Africa. The theoretical framework adopted in this paper is the general equilibrium approach. From the analysis, the paper argues that though the imposition of minimum wages is likely to improve the living conditions of the poor worker, by moving them out of poverty, they may however pose a threat of job losses in a sense that employers are likely to respond by reducing or retrenching workers to cover for the high costs of labour. The paper therefore concludes that the imposition of minimum wages in the labour market requires a critical analysis, not a blanket approach as this may result in job losses, and thus widen poverty and inequality. Given that majority of the poor people in South Africa are either self-employed or in informal sector, of which the minimum wage legislation doesn’t cover, this sadly implies that the majority of the poor working class are likely not to benefit any prospects of minimum wage imposed. The paper therefore recommends that any minimum wage legislation should be designed in such a way that it also protects and benefit those who are in informal sectors. More importantly, government must enhance its mechanisms to ensure that employers comply with the imposed minimum wage legislation.

Keywords: Minimum Wage; Employment; Poverty; Inequality; South Africa.

1. Introduction

High unemployment, poverty and inequality in the contemporary South Africa have ignited a wide range of debates and policy positions proposed by government, trade unions and policy makers. Amongst this, a national minimum wage took the centre stage to cure the ills of poverty and unequal distribution of wealth and income. As a result, a number of labour protests in various sectors of the economy particularly in the mining sector aroused and this led to the unfortunate Marikana genocide where by 34 miners lost their lives. This is because minimum wages are believed to be one of the popular ways of addressing poverty and redistribution of income to the poor working households associated with low wages (Card & Kruger, 1995). This notion is also advanced by a number of scholars which include amongst others; Bhorat & Leibbrandt (1996); Hertz (2005); Fields & Kanbur (2007) and World Bank (2008). However, some scholars reject minimum wage outright, arguing that it causes unemployment which ultimately leads to poverty (Neumark, Cunningham & Siga, 2006; Baker, 2007; & Betcherman, 2014). Trade unions, on the other hand advocate that higher wages raise the incomes of the working poor and thus lead to poverty reduction. The World Bank (2008) similarly states that an increase in minimum wages leads to a reduction in poverty and inequality and increased demand for goods and services which in turn fuels economic growth of the country.

According to the International Labour Organisation (ILO) (2011) after independence, many African countries introduced some form of minimum wage legislations, 37 out of 55 had a minimum wage policy framework by 2008. However, very few of these African States have tested the economic and labour impact of such legislations. Fields & Kanbur (2007) posit that the introduction of minimum wages in an economy with high levels of unemployment seem to
be a bold policy option for addressing low incomes and poverty among the poor working class. It is however worth noting that much is misunderstood about minimum wages especially in South Africa. This is because trade unions, in particular the Congress of South African Trade Unions (COSATU) often advocate for a minimum wage in certain sectors of the economy and claim that it won’t have adverse effects on employment (COSATU, 2013). Employers on the other hand believe that minimum wages should be abolished completely with the view that the labour market must be allowed to set its own wages through the market forces of demand and supply (Fields & Kanbur, 2007).

As cited in Freeman (1996) minimum wage policies may create ‘winners and losers’, the latter being those that potentially lose their jobs. Therefore, perspectives of minimum wages represent the opposite ends of a spectrum of opinions and debates about the best policy stances of setting minimum wages in various sectors of the economy. It is within this context that this paper aims to analyse the impact of setting a minimum wage on employment in South Africa. For this purpose, the general equilibrium analysis is employed. To this end, the paper seeks to provide clarity on the topic of minimum wages by contextualizing and detailing the theoretical and empirical perspectives of minimum wages and how they affect the labour markets in various parts of the world.

Apart from section 1, the remainder of the paper is structured as follows; section 2, outlines South Africa’s minimum wage legislation. Section 3 reviews the theoretical and empirical arguments of minimum wages. Section 4 analyses the challenges of poverty and inequality in South Africa. Section 5 determines the impact of minimum wage using the general equilibrium approach. Lastly, section 6 present conclusion and recommendations of the paper.

### 2. Minimum Wages in South Africa: A Legislative Framework

The Basic Conditions of Employment Act 75 of 1997 defines a minimum wage as a wage rate, prescribed by law so that poorly paid, vulnerable workers are paid at that adjusted level. The minimum wage is therefore a wage floor established by the regulators in the labour market below which no payment should be made by the employers (Matjeke, 2010). The policy of minimum wage therefore compels employers to increase wages paid to all low-wage workers. The framework for minimum wages in South Africa is set in terms of the Labour Relations Act (LRA) 66 of 1995 and the Basic Conditions of Employment Act (BCEA) 75 of 1997. The LRA provides a framework within which employees, their employers and trade unions can bargain collectively to determine wages and other conditions of employment. The aim of the BCEA is to ensure that investigations of minimum wages are approached within the framework of the Act and that they promote the wage regulating function of collective bargaining arrangements. According to the Department of Labour, (2014), these Acts are established on the basis of two main mechanisms for wage determinations, thus:

- Collective bargaining through bargaining councils.
- Sectoral determinations that are published by the Minister of Labour and that set minimum wages for a sector.

As stipulated in the BCEA no 75 of 1997, a collective bargaining process about wages, the negotiations should include the following points of references:

- What other workers are getting?
- Changes in the cost of living of workers.
- The employer’s ability to pay the suggested wage rate.
- Productivity of workers.

The LRA of 1995 creates a voluntary system that promotes centralized bargaining while extending collective bargaining rights to almost all employees. It established private sector bargaining councils as well as public service bargaining councils for civil servants. The BCEA of 1997 on the other hand sets a minimum floor of rights for all employed individuals in the South African labour market and allows for the Minister of Labour to create Sectoral Determinations (SDs) that dictate the conditions of employment, including minimum wages, for vulnerable workers in a specific sector (Department of Labour, 2014). The Employment Conditions Commission (ECC) is required by the Department of Labour to take into account the possibility of job losses when setting minimum wages. The LRA creates a voluntary system that promotes centralised bargaining while extending collective bargaining rights to almost all employees. The BCEA allows the Minister of Labour...
to create sectoral determination that dictates the 
conditions of employment, including minimum 
wages in specific sectors. According to Benjamin, 
Bhorat and Cheadle, (2010), the bargaining council’s 
framework in South Africa is faced with challenges 
of effectiveness and its ability represent and cover a 
wide range of workers, the other challenge involves 
the compliance by employers. In this case, the 
government should introduce laws and regulations 
which forces employers to comply with minimum 
wage agreements. This is because some employers 
might be too reluctant to pay their workers minimum 
wages as stipulated or agreed up on in the imposed 
minimum wage legislation. However, the bargaining 
council framework, through which some sectoral 
wages are determined, faces some of the same 
challenges as its predecessor law in terms of its 
effectiveness and ability to represent and cover a wide 
spectrum of workers and businesses, enforce 
compliance (Cassim, Jourdan & Pillay, 2014). In 2013, 
the Department of Labour (2014) reported that there 
are 47 bargaining councils in South Africa spanning 
the clothing industry to civil engineering. The 
SDs, were first introduced in 1999 with the contract 
cleaning sector, cover a range of sectors including 
wholesale and retail, domestic workers, farm workers 
and private security, amongst others. In total, there 
are 124 different wage schedules legislated through 
SDs that apply across various sectors, areas and 
occupations. Compared to other Brazil Russia India 
and China (BRICS) and African countries, this is a 
high number of minimum wage rates, contributing to 
the wage system’s complexity and making it difficult 
to enforce. (Department of Labour, 2014).

Though a minimum wage might have an impact on 
poverty and inequality, it is however important to 
note that if it is not enforced by the government, 
firms might be reluctant to comply with the minimum 
wage legislations. This was also cited in Bhorat 
(2011), when he argues that South Africa, like many 
other developing countries experiences high rates 
of minimum wage non-compliance. Concerns over 
the economic effects of minimum wage laws, have 
largely overshadowed the discussion of compliance 
and enforcement. Table 1 below demonstrates the 
level of non-compliance by various sectors of South 
Africa’s economy.

Minimum wage regulations in South Africa are 
currently enforced by labor inspectors who conduct 
workplace inspections and serve employers with 
penalties for violations of stipulated employment 
conditions listed within SDs. Information on the 
penalties for non-compliance with the minimum 
wage law reveals that greater levels of underpayment 
attract larger penalties, overall the fines are small 
compared to the degree to which employers underpay 
their workers, (Cassim, Jourdan & Pillay, 2014). From 
Table 1 below, the evidence suggests that compliance 
levels in the identified sectors are generally low. This 
implies that government policies on enforcement of 
minimum wages are not effectively enforced.

3. THEORETICAL AND EMPIRICAL 
PERSPECTIVES OF MINIMUM WAGES

The minimum wage debates usually centre around 
the costs and benefits of imposing the minimum 
wage in the economy. Studies conducted in various 
parts of the world on the impact of minimum wages 
have produced mixed results and spurred debates 
that stretch as far back as the 19th century. For 
instance, Stigler (1946) cited in Bhorat, Kanbur and 
Mayet (2012), argues that in a competitive market, 
the relationship between minimum wages and 
employment is a negative one. The work of Stigler 
(1946) opened doors to a new stream of literature 
on minimum wages which led to the controversial 
debates about the effects of imposing minimum 
wages in the economy, with some scholars arguing 
that there is an inverse relationship between

<table>
<thead>
<tr>
<th>Worker Category</th>
<th>Percentage of Workers earning below the minimum wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>0.65</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.75</td>
</tr>
<tr>
<td>Domestic Workers</td>
<td>0.40</td>
</tr>
<tr>
<td>Private Security</td>
<td>0.65</td>
</tr>
<tr>
<td>Wholesale and Retail</td>
<td>0.47</td>
</tr>
<tr>
<td>Taxi</td>
<td>0.38</td>
</tr>
<tr>
<td>Hospitality</td>
<td>0.37</td>
</tr>
<tr>
<td>Contract cleaners</td>
<td>0.56</td>
</tr>
<tr>
<td>Average</td>
<td>0.53</td>
</tr>
</tbody>
</table>

minimum wages and employment and others arguing that there is no trade-off between the two.

A number of scholars including Grindling & Terrel (2006), Baker (2007) and Betcherman (2014) cited various reasons against the imposition of minimum wages in the labour market. Baker (2007) argues that minimum wages usually lead to high prices of goods and services in the economy, in a sense that firms pass the high costs of labour to the consumers by charging higher prices. Betcherman (2014) argues that larger employment losses are associated with larger minimum wage increases and that the primary losers are workers with lower skills who earn below the minimum wage. Grindling and Trerrel (2006) investigated employment effects of an increase in minimum wages in Costa Rica over the period of 1988 to 2000. Their results show that a 10% increase in the minimum wage leads to a decline in employment and hours worked by at least 0.6 -1.09% respectively. Neumark and Wascher (2007) mentioned that though few studies found positive effects of minimum wages, majority of studies found a negative impact, particularly when the effects of minimum wages are analysed in the aggregate as opposed to specific sectors of the economy. In Latin America, Cunningham (2007) argues that the imposition of a minimum wage does not help formal workers who are poor. He states that some workers affected by the minimum wage already earn above the initial minimum wage. Neumark, Cunningham and Siga (2006) found that higher minimum wage in Colombia had a negative effect on employment and hours worked of workers. Cited in Fields and Kanbur (2007), Shapiro and Stiglitz (1984:438) suggest that efficiency wage offers a justification for minimum wage. Efficiency wages causes workers to improve their productivity levels and enables firms to attract quality workers. Fields & Kanbur (2007) found that in Brazil, higher minimum wages in the 1990's led to 32% in the reduction in income inequality. Similarly, Matjeke (2010:6) argues that minimum wages compel employers to utilise their workers productively, in a sense that they will be paying them at a higher wage rate, and thus obliges them to establish effective recruitment and training programs to equip their workers.

According to Baker (2007) minimum wages are important because they ensure that workers are not paid at a level that is below the standard of living and thereby ensuring workers' basic needs are satisfied. Lee (1999) cited in Matjeke (2010) states that the main reason given in favour of minimum wages is that it protects vulnerable low wage workers from exploitation. Similarly, Freeman (1996) argues that the main aim of a minimum wage is to redistribute earnings to low paid workers and thus lift them out of poverty. Hence, he reiterates that the goal of the minimum wage legislation is to redistribute earnings to low paid workers and thus lift the working poor out of poverty. South Africa’s large numbers of working poor and the elements of labour market discrimination inherited from the past are strong arguments in support of minimum wages in this country (Freeman, 1996). The International Labour Organization (2013) however found that minimum wages have had small or no effects on employment in developed countries, but concludes that in most developing countries, the effects on employment depends on the economic context, the level of the minimum wage, extent of enforcement and compliance and the challenges in the labour market. Though the empirical evidence shows a trade-off between minimum wages and employment, there are, however some scholars who challenged the notion of a tradeoff between minimum wages and employment. For instance, the findings of Card and Krueger (1995) in the United States illustrate that both wages and employment improved after the introduction of minimum wages in various sectors of the economy.

From the preceding theoretical and empirical arguments, it is can be noted that it is difficult to precisely predict the effects of a minimum wage on employment and wages. The overall effect therefore depends on a number of factor which include amongst others, the degree of competition in the labour market, the structure of a minimum wage legislation and the degree of enforcement of the legislation.

4. The Problem of Poverty and Inequality in South Africa

For one to understand what actually sparks the debates about minimum wages in certain sectors of the South African economy, it is perhaps important to reflect on why these debates arise at all. What leads workers and trade unions to mobilise and seek minimum wages across sectors in the economy? To reflect on this question, it is imperative to detail a brief background on the problem of poverty and distribution of income in South Africa. There is increasing evidence that the democratic South Africa led by the African National Congress (ANC) inherited the government faced with the triple quandaries of
unemployment, poverty and inequality, which is amongst the highest in the world. The majority of black South Africans became or are still the victims of such inheritance, and they usually demonstrate their anger and discontent via protests which for the past decade painted South Africa as a theatre of social unrests. Various policies ranging from Reconstruction and Development Programme (RDP) to Accelerated and Shared Growth Initiative South Africa (ASGISA) to the currently implemented National Development Plan (NDP) have been proposed and implemented to address these social ills. However, the crisis still persists in the contemporary South Africa, unemployment rate is around 27% which is the highest ever since the dispensation of democracy in 1994. The economic growth is growing at an average of 1-2% than the much desired 5% annual growth (Statistics South Africa, 2015). Politicians and policy makers usually blame the historical injustices for the current challenges confronting South Africa. Table 2 below expresses the trends of income distribution between the rich and the poor in South Africa.

Table 2: Gini coefficient: Income inequality in South Africa.

<table>
<thead>
<tr>
<th>Year</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>0.80</td>
</tr>
<tr>
<td>1995</td>
<td>0.58</td>
</tr>
<tr>
<td>2000</td>
<td>0.59</td>
</tr>
<tr>
<td>2006</td>
<td>0.68</td>
</tr>
<tr>
<td>2013</td>
<td>0.70</td>
</tr>
</tbody>
</table>

Source: Statistics South Africa (2015)

The Gini Coefficient measures the inequality and distribution of income among citizens of the country (between the rich and poor). If the coefficient is zero, which indicates perfect equality, implying that everyone has the same income, if the coefficient is 1, it means that only one person has the income and all others have none (Black, Calitz & Steenekamp, 2012). Table 2 shows that the South Africa’s Gini Coefficient has been increasing since the dispensation of democracy and this implies that the gap between the poor and rich in terms of income distribution has increased by over 0.10%. According to Statistics South Africa (2015), South Africa’s Gini Coefficient is at 0.74% which is the highest in the world. Given South Africa’s historical injustices that majority of people, particularly blacks were discriminated against and excluded in the labour market, many blacks were earning below a fair living wage and that resulted in a huge gap between the poor and the rich in terms of wealth and income distribution, hence South Africa has one of the highest inequalities in the world (Bhorat, Kanbur & Mayet, 2012). To reverse these inequalities, trade unions, government and employers are often caught in a dilemma about which minimum wage policy stance to implement. With all these challenges, one would agree with Masipa (2014), who noted that, ‘There seems like there is little or no connection at all between what the policy says and its actual implementation’.

5. The Impact of Minimum Wages in The Labour Market

As indicated, the paper aims to determine the impact of setting a minimum wage on employment using the general equilibrium analysis. The paper adopted the Fields and Kanbur (2007) theoretical model to analyse the impact of minimum wages on employment in South Africa. The model of this paper is developed under various assumptions. Firstly, the paper assumes that the minimum wages is enforced and applied in all sectors of the economy equally. Secondly, the paper assumes that workers are homogenous irrespective of their skills and occupation. Thirdly, the paper assumes that the entire population participates in the labour market, that is, everyone is either employed or unemployed. Fourthly, the paper assumes that minimum wage is the only factor that affects the wage rate of workers. The figure below demonstrates the possible effects of imposing a minimum wage in the labour market.

Figure 1: The imposition of a minimum wage in the labour market.

In Figure 1, the Demand (DL) and Supply (SL) are used to demonstrate the demand and supply of workers in the labour market. The demand and
supply curves represent employers and workers respectively. Before the imposition of the minimum wage in the labour market, workers were earning WF wage and the level of employment was at LF; the equilibrium point therefore denotes the agreement between workers and employer’s prior imposition of minimum wages. The introduction of minimum wage (WM) above the prior wage (WF) reduced the demand of workers by employers. As a result, the demand for workers decreased from LF to LD, and that implies that labour supplied exceeds labour demanded by employers. This therefore implies that if a minimum wage is imposed, employers are likely to respond by reducing the number of workers employed to cover the costs of an increased wage and thus leading to unemployment, which is the difference between LS and LD. Suppose the wage was at (WX), this implies that there will be excess demand for workers in the economy. Thus indicate that at a lower wage rate (WX), employers are willing to employ more workers (LS), as opposed to higher wage rate (WM). The downward sloping demand curve also demonstrates an inverse relationship between wages and the demand for labour. This is also supported by the law of demand which indicates that the higher the price of the product, the lower the quantity demanded for that product and vice versa (Mohr & Associates, 2015). It is however worth noting that the analysis of this paper is partial simply because it only concentrates on a single market and ignores the effects that changes in one market can have on other markets. In reality, firms employ a variety of different types of factors of production, including capital, land and various different types of labour according to their skills and expertise.

6. CONCLUSION AND RECOMMENDATIONS

The purpose of this paper was to determine the impact of a minimum wage on employment in South Africa using the general equilibrium approach. This is because the question around minimum wages is important as it is usually instituted with the view that it will take the poor working class out of poverty. Though this is the mostly shared view, particularly amongst workers and trade unions, the analysis of this paper shows that the poverty-reduction effects of imposing minimum wages in the labour market are very limited. The paper demonstrates that gains associated with minimum wages are likely to be eroded simply because employers usual respond to minimum wages by retrenching workers to cover the costs of higher wages demanded by workers, and thus putting the retrenched workers in poverty. It is however, worth noting that the analysis of this paper is partial in a sense that it is not sector specific and that workers are assumed to have the same probability of becoming unemployed and also earn the same wage. This calls for a need to enhance the limitation of this paper by further investigating the impact of minimum wages on employment in various sectors of the South African economy. The preceding analysis and conclusion may positively contribute to the existing body of knowledge and assist policy makers and trade unions to able to identify sectors in which minimum wages must be enforced. There is however no easy way around it, this demands a critical analysis as it may lead to devastating effects of job losses which ultimately leads to poverty for the poor working class who are already on the receiving end of the economy. Though this is the area that needs further research, it is nonetheless important to point out that in South Africa, a large share of the poor workers is either self-employed or in informal sectors, of which the minimum wage legislation doesn’t cover, thus implying that the poor workers are likely not to benefit from any minimum wage implemented. As indicated, it is difficult to precisely predict the effects of a minimum wage on employment and wages. The overall effect therefore depends on a number of factors which include amongst others, the degree of competition in the labour market, the structure of a minimum wage legislation and the degree of enforcement of the legislation.

REFERENCES


