REPORT

NATIONAL MINIMUM WAGE PARITY

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BACKGROUND AND INTRODUCTION

1. Lawyers for Human Rights, representing the One Wage Campaign ("OWC"), requested Dr Gilad Isaacs to prepare a report in respect of national minimum wage parity for domestic workers, farm workers and expanded public works programme ("EPWP") workers (as defined in the NMW Act). In the opinion of the authors, increases in the legislated national minimum wage ("NMW"), as per Schedule 1 of the National Minimum Wage Act ("NMW Act"), of domestic workers, farm workers, and EPWP workers, should be effected to achieve parity with the overall NMW level.

2. Dr Gilad Isaacs, the primary author, is the Co-director of the Institute for Economic Justice ("IEJ"). He is an economist based at the University of the Witwatersrand, where he also coordinates the National Minimum Wage Research Initiative ("NMW-RI") and lectures. Isaacs has a PhD and MSc in economics from SOAS, University of London, and a MA in political economy from New York University ("NYU").

3. Pamela Choga, a contributor to the submission, is a researcher at the IEJ. Choga holds a LLB degree and Master of Laws in International Economic Law, both from Wits University. She previously worked as a legal researcher at SECTION27.

4. The NMW-RI is a research project within the University of the Witwatersrand. The NMW-RI was instrumental in the successful implementation of a NMW in South Africa. The NMW-RI provided extensive academic research in support of a carefully-crafted NMW. This was done through six research reports, seven policy briefs and three submissions to parliament. The NMW-RI also identified critical weaknesses in the legislative framework governing labour standards, including improvements that need to be made to the NMW and ways that the NMW and BCEA Acts can be leveraged to improve the wages and conditions of workers. This research was drawn upon by constituencies within the National Economic Development and Labour Council ("NEDLAC") NMW negotiations. The Deputy President's Expert Panel, amongst others, made findings very similar to the key arguments proposed by the NMW-RI.

5. The IEJ is an economic policy think tank that builds off and institutionalises work undertaken by the NMW-RI. The IEJ's core objective is to provide policy makers and progressive social forces in Africa with access to rigorous economic analysis, and well thought through policy options, as a basis for advancing systemic change.

6. The opinion expressed here is that there is no compelling evidence in favour of maintaining the wages of domestic workers, farm workers and EPWP workers at a lower level than the overall NMW. Given the current position of these workers there are compelling reasons to ensure that their wages and working conditions continually improve.

THE PURPOSE OF THE NMW

7. Minimum wages are a common labour-market policy tool with over 90% of International Labour Organization (ILO) member states having some form of minimum wage system.

8. Minimum wages, according to the ILO's resolution No. 135, are "one element in a policy designed to overcome poverty and to ensure the satisfaction of the needs of all workers and their families". Further, the "fundamental purpose of minimum wage fixing should be to give wage earners necessary social protection".[1] More recently the ILO has stressed the importance of "*adequate* protection in accordance with the Decent Work Agenda" and noted that for a minimum wage to be "meaningful" it must "be set at a level that covers the needs of workers and their families, while taking into account economic factors".[2] Minimum wages are also seen as a means through which to reduce inequality and encourage labour productivity.

9. The NMW Act notes the need to "eradicate poverty and inequality". Such emphasis on the NMW as a tool to tackle poverty and inequality was present throughout the negotiation and drafting processes. This was articulated as early as the Ekurhuleni Declaration[3] made on 4 November 2014.

10. In Section 7, the NMW Act further requires the Commission to "promote" the "alleviation of poverty" and the "reduction of wage differentials and inequality" when reviewing the NMW level and recommending adjustments. In the same section, the NMW Act also requires the Commission to "consider" a range of other economic factors.

11. The inclusion of reducing inequality as an explicit purpose of the NMW is relatively unusual internationally – with most focus internationally tending to be on fair wages and poverty alleviation – and speaks to the obscene levels of wage inequality in South Africa. Wage inequality is the biggest driver of income inequality in South Africa.[4]

12. Any adjustments to the level of the NMW must therefore – in our view, the view of the NMW Act, and the international consensus – be made with poverty and inequality at the forefront. Various economic factors must be considered, but the state has numerous levers at its disposal to ensure moderate inflation, economic growth, employment creation, etc. This is not the stated purpose of the NMW. In this context, these other considerations are most relevant to the extent to which they would impact on poverty and inequality. For example, if a NMW increase caused excessive inflation or eroded the real value of wages, including those at the NMW level, to such

[1] ILO, 'Minimum Wage Systems', International Labour Conference, 103rd Session, 2014 (International Labour Organisation, 2014).
[2] ILO, 'Resolution Concerning the Recurrent Discussion on Social Protection (Labour Protection)' (International Labour Office, 2015).
[3] NEDLAC, 'Ekurhuleni Declaration' (National Economic Development and Labour Council, 4 November 2014).
[4] Murray Leibbrandt, Arden Finn, and Ingrid Woolard, 'Describing and Decomposing Post-Apartheid Income Inequality in South Africa', *Development Southern Africa* 29, no. 1 (2012): 19–34.

an extent that poverty and inequality worsened, then this would obviously be counterproductive to achieving the stated objectives. This paradigmatic approach, adopted here, is, ultimately, the same order of priorities that informed the setting of the NMW in the first place.

TIERING: LOCAL AND INTERNATIONAL CONTEXT

13. The farm, domestic, and EPWP sectors were, prior to the introduction of the NMW, ultra-low wage sectors with very low statutory minimum wages.[5] While the latest wage data is not publicly available, these workers presumably – including because of the lower NMW level – continue to earn very low wages.

14. The initial "tiering" (an overall level with lower associated tiers) of the NMW, for domestic and farm workers, was originally proposed by Organised Labour ("Labour") within the NEDLAC process and by the NMW-RI. The Deputy Presidents' Expert Advisory Panel (the "Expert Panel") adopted this approach. The panel proposed the lower level for farm workers based on "the vulnerability of this sector to disemployment effects, and the evidence that previous increases in the minimum wage level have resulted in job losses".[6] The Expert Panel did not give a reason for the domestic work sector tier but presumably it was because of the large difference between the existing level of the sectoral determination and the level of the overall NMW and caution around potential adverse effects. Labour proposed a tiering system because it was concerned that Organised Business ("Business") and Government would use these ultra-low wage sectors as an excuse to set a lower level for the overall NMW, thereby "dragging down" the overall level.

15. The argument for low wages under the EPWP was that it is intended to close the social security gap, rather than offer proper employment, as most of the targeted demographic do not qualify for social welfare.[7] When the programme began, labour was originally opposed to such low wage levels but compromised as EPWP work opportunities were supposed to be supplemented by a training component that would give workers a better chance to transition to a permanent job.[8] This has not been the case.

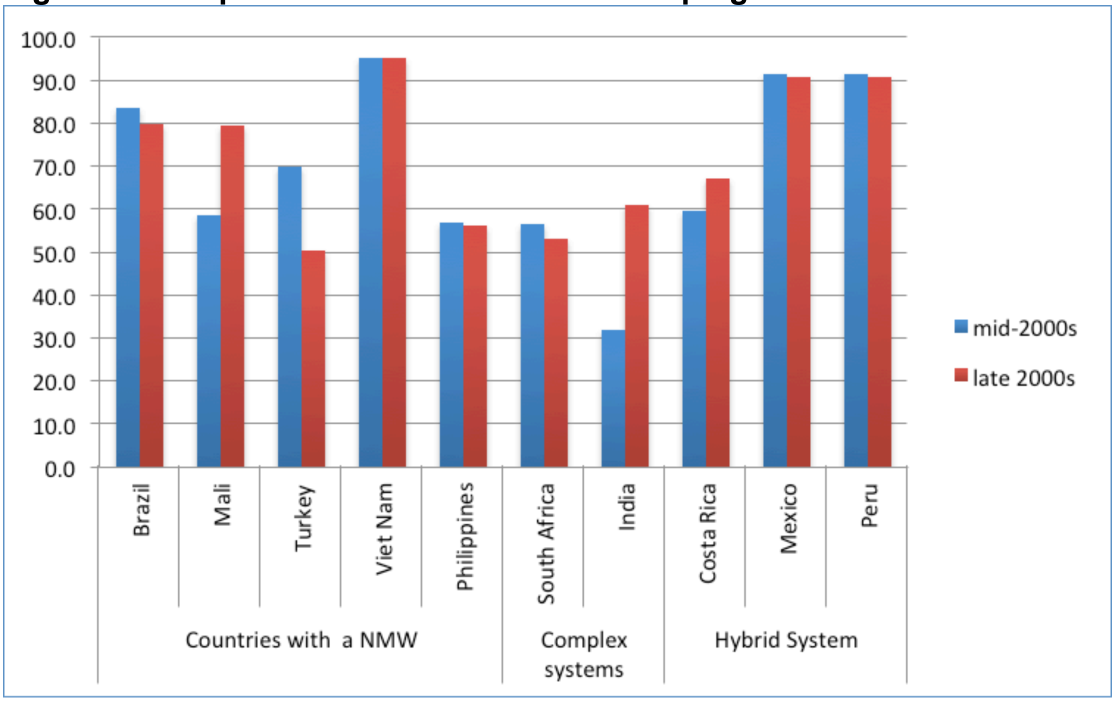
16. A unitary national minimum wage is the ILO's preferred system. A unitary national minimum wage covers all workers, is easier to enforce, and does

[5] It is acknowledged that EPWP is not really a "sector". It is also acknowledged that prior to the NMW different mechanisms applied to the setting of wages for farm and domestic workers, and EPWP workers.
[6] Expert Panel, 'A National Minimum Wage for South Africa', Recommendations on policy and implementation: National Minimum Wage Panel report to the Deputy President, 2016, 63.
[7] Mayibongwe Maqhina, 'Debate over Minimum Wage for EPWP Workers | IOL Business Report', *Business Report*, 12 February 2017, Online edition, https://www.iol.co.za/business-report/debate-over-minimum-wage-for-epwp-workers-7723203.
[8] Melanie Samson, 'When Public Works Programmes Create "Second Economy" Conditions: Part Two: Policy and Political Choices', accessed 17 October 2019, https://www.academia.edu/1353730/When_public_works_programmes_createsecond_economyconditions_part_two_policy_and_political_choices.

not set lower minima for sectors with high proportions of vulnerable workers (as has been shown to occur under differentiated systems). Further, a national minimum wage can be set to take account of broad policy objectives such as reducing inequality, and economy-wide economic impacts rather than only narrow sectoral considerations. Figure 1, shows levels of compliance comparing NMW systems, complex sectorally or geographically differentiated systems, and hybrid systems.

17. In Figure 1, the rate of compliance is relatively high among countries with simple and more broadly applicable minimum wages, compared to those with complex sectoral wage systems. Vietnam for instance has a compliance rate of approximately 95% between the two periods (mid-2000s and late 2000s) whilst low levels of compliance were observed in South Africa and India, countries with complex minimum wage systems during the same period. The compliance rate is also relatively high amongst countries with hybrid systems.

Figure 1: Compliance rate in selected developing countries



Source: Rani et al. (2013)

18. Internationally, domestic and farm sectors are sometimes either excluded from the NMW or have a lower wage level set. This is however, relatively rare. As discussed below this pertains to only approximately one eighth of minimum wage regimes. The ILO strongly advances phasing these tiers out as soon as possible.

19. Rani et al. at the ILO argue that excluding high numbers of low-paid workers and other vulnerable sectors has proven to be ineffective at reducing poverty and limiting inequality.[9]

Domestic workers

20. Approximately 12.5% of countries with NMW systems exclude domestic workers. For example, domestic workers are excluded in Japan, Korea, Egypt, Nepal, China (HK), Thailand, and Lebanon.[10]

21. Other countries, such as the United Kingdom, exclude only those helpers that live with employers and receive accommodation and food allowances and participate in family activities – such as au pairs. According to the UK Low Pay Commission Report (2015) such an arrangement is not beneficial to stay-in au pairs, and these workers are exploited and substantially underpaid. The Report recommended the UK Government review its exception policy for people who work and live as part of the family.[11]

22. In a small minority of cases, domestic workers' wages are set at a lower level. In Argentina, for example, five different determinations for domestic workers have been set depending on live-in/live-out condition and occupation (maid, butler, cook, etc.).[12]

23. The international norms it that domestic workers are not excluded nor set at a lower level.

Farm workers

24. With respect to the agricultural sector, again only one eighth of countries have excluded the sector, for example, in Argentina, Nigeria, Thailand, Pakistan, Bolivia, Syria, and Lebanon; particular types of farm workers are excluded in the USA, Canada, and Yemen; and a tiered-system has been created in Burkina Faso, Togo, Chad, and Morocco.[13]

25. The international norms it that farm workers are not excluded nor set at a lower level.

Public works schemes

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[9] Uma Rani, Patrick Belser, and Setareh Ranjbar, 'Role of Minimum Wages in Rebalancing the Economy', *World of Work Report* 2013, no. 1 (1 May 2013): 45–74, https://doi.org/10.1002/wow3.37.

[10] Elena Konopelko, 'Exclusions and Exemptions from a National Minimum Wage System', Policy Brief, National Minimum Wage Research Initiative (University of the Witwatersrand, April 2016).

[11] Konopelko.

[12] Konopelko.

[13] Konopelko.

26. It is exceptionally rare to exclude workers in public employment schemes. The only examples found in the literature are workers in public employment schemes in Trinidad and Tobago and the UK.[14]

Avoid tiering

27. Salaries in excluded sectors have been shown to grow significantly slower than salaries in national-minimum-wage-covered sectors (based on examples of Pakistan, Thailand, Vietnam, and Philippines). As such income differences and sectoral wage gaps grow, and the national minimum wage fails as a poverty reduction policy.[15]

28. Tiering or excluding of these sectors is, therefore, not recommended by the ILO as it creates a fragmented system that is harder to enforce and discriminates against these low-wage workers which are disproportionately women.

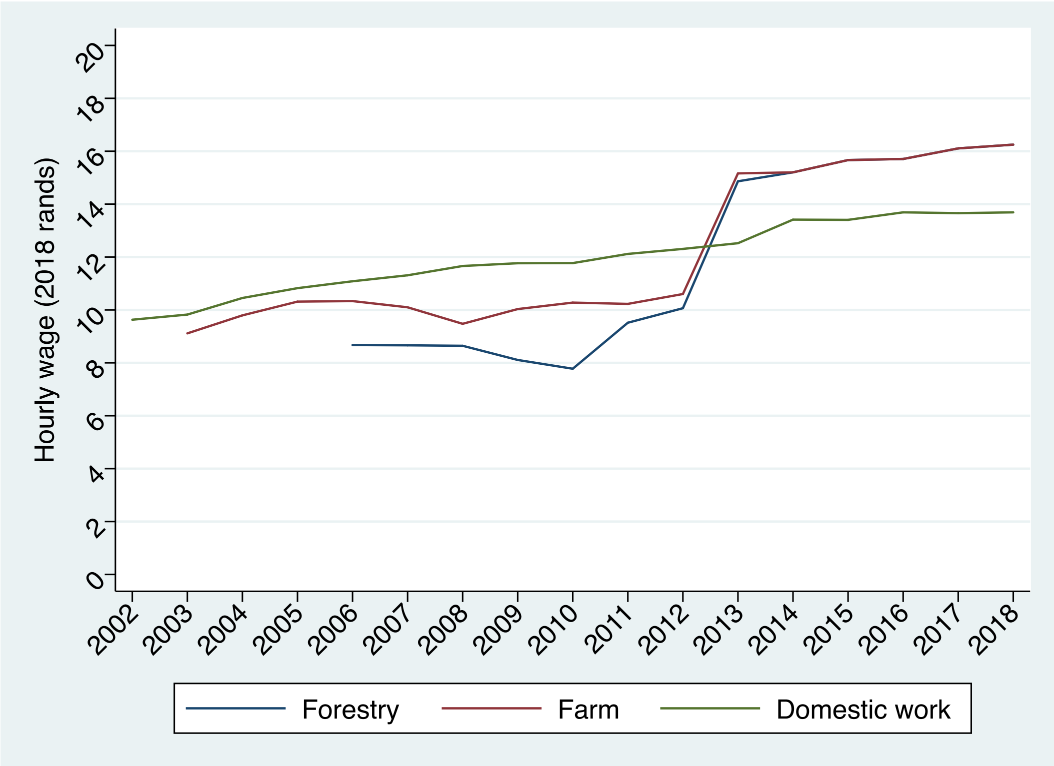
29. The global trend is to have fewer and fewer exclusions and exemptions. Where tiering has occurred it is recommended that it is phased out as early as possible. For instance, in 2008 the Chilean government announced the phasing-out of differentiated treatment for domestic workers over three years, by gradually increasing the minimum wage for domestic workers from 75% of the national minimum wage to 100%. Since 2011, Chile has successfully equalised the general and domestic workers' national minimum wage. Similarly, Portugal, Guatemala, Bolivia, and Paraguay have all phased out their differentiated systems in recent years.[16]

LEGISLATED SECTORAL MINIMUM WAGE TRENDS

30. The real value of farm work and domestic work legislated minimum wages, via sectoral determinations ("SDs") is given in Figure 2.[17]

[14] Konopelko.
[15] Konopelko.
[16] Konopelko.
[17] Farm workers in the NMW Act also include forestry workers. Forestry workers were previously subject to their own SD. The stipulated minimum wage level of the farm and foresty workers were different until 2014.

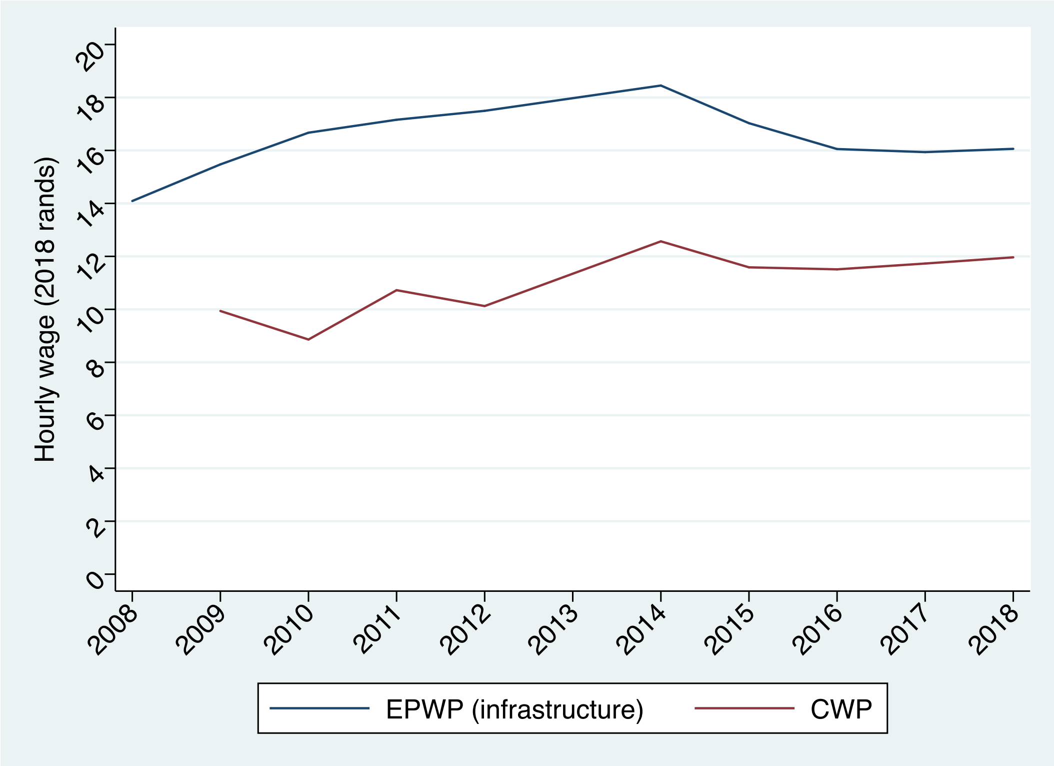
Figure 2 Real value of hourly minimum wage (2002 – 2018) (2018 rands)



Source: various sectoral determinations, own calculations

31. The real value of the average daily wage for two EPWP categories is given in Figure 3. Note, these are not minimum wages but real average daily wages as reported in the EPWP Quarterly Reports.

Figure 3 Real value of average hourly earnings (2008 – 2018) (2018 rands)



Source: various EPWP reports, own calculations

32. Three points are worth noting. First, in real terms these wages were low. Second, for farm workers, barring the increases of 2013, growth in the real value of the minimum wage was erratic and, at times, negative. For domestic workers, growth was larger and more regular. Third, and most important, the level set for these sectors under the NMW Act is not a particularly huge jump from their existing legislated minimum levels. This is important context.

33. For farm work, the SD level for 1 March 2018 to 28 February 2019 – instituted prior to the adoption of the NMW Act – was set at R16.25. Usual practice would have been to increase the level again as of 1 March 2019. Usual practice, would mean an increase of CPI + 1% or +2%.[18] This would have been 5.1% or 6.1%.[19] This means the farm worker SD level would have probably increased to R17.08 or R17.31 by 1 March 2019. Instead the increase as of 1 January 2019 was to R18, or a 10.8% increase. While a nominal increase of 10.8% compared to 6.1% seems like a lot, the 10.8% increase is not completely out of sync with historic increases. Even excluding the approximately 51% increase in 2013, the average nominal increase between 2003 and 2018 was 7.15%, including 2013 it was 10.09%. In 2009 it was 12.88% and in 2004, 2005, 2012, and 2017 it was between 8% and 10%.

[18] CPI excluding owners' equivalent rent as released by Statistic South Africa six weeks prior to the increment date.

[19] Stats SA, 'Consumer Price Index: January 2019', Statistical Release, P0141 (Statistics South Africa, 20 February 2019), http://www.statssa.gov.za/publications/P0141/P0141January2019.pdf.

34. For domestic work, the SD level, as of 1 December 2018 was R13.69 (Area A, more than 27 hours worked). This was only a 4.9% nominal increase over the previous level of R13.05, one of the lowest increases ever. The average nominal increase has been 7.86%. The 9.57% increase from R13.69 to R15 is thus within the historic range. The level for workers in the sector working less than 27 hours a week in Area A was already over R15 at R16.03.

35. For EPWP, outrageously, the NMW Act did not mean an increase. The minimum level for EPWP workers was already R88 per day (as of 1 November 2017), equivalent to the R11 per hour stipulated in the NMW Act (the EPWP Ministerial Determination stipulates a maximum 8 hour workday). Between 2008 and 2018, the average nominal increase for EPWP infrastructure and CWP workers was 6.5% and 5.1% respectively, broadly in line with inflation.

NECESSARY INCREASES

36. The above indicates that bringing the farm work NMW wage level to parity does not, in context, represent an unprecedented shock to the economy. This is shown in Table 1 below for two scenarios – immediate parity, and parity by 2021.

Table 1 Farm workers: nominal increases necessary to achieve parity

	2018	Nominal increase 2018/2019	2019	Nominal increase 2019/20	2020	Nominal increase 2020/21	2021
SD increased by CPI + 1%	R16.25	5.10%	R17.08				
SD increased by CPI + 2%	R16.25	6.10%	R17.24				
Current NMW level and partity in 2020	R16.25	10.77%	R18.00	19.44%	R21.50		
Current NMW level and parity in 2021	R16.25	10.77%	R18.00	13.89%	R20.50	12.20%	R23.00

Assuming inflation for 2019 and 2020 at 4.4% and 5.1% respectively and an approximate CPI + 3% increase to the overall NMW.

37. The jump for domestic work and EPWP in percentage terms is considerably larger, as shown in Table 2 and Table 3. The only precedent for such large increases is the 2013 farm and forestry worker increases. However, it should be recalled that this is occurring off a very low base and the increase in nominal terms is not particularly large.

Table 2 Domestic workers: nominal increases necessary to achieve parity

	2018	Nominal increase 2018/2019	2019	Nominal increase 2019/20	2020	Nominal increase 2020/21	2021
SD increased by CPI + 1%	R13.69	5.10%	R14.39				
SD increased by CPI + 2%	R13.69	6.10%	R14.53				
Current NMW level and partity in 2020	R13.69	9.57%	R15.00	43.33%	R21.50		
Current NMW level and parity in 2021	R13.69	9.57%	R15.00	26.67%	R19.00	21.05%	R23.00

Assuming inflation for 2019 and 2020 at 4.4% and 5.1% respectively and an approximately CPI + 3% increase to the overall NMW.

Table 3 EPWP workers: nominal increases necessary to achieve parity

	2018	Nominal increase 2018/2019	2019	Nominal increase 2019/20	2020	Nominal increase 2020/21	2021
MD increased by CPI + 1%	R11.00	5.10%	R11.56				
MD increased by CPI + 2%	R11.00	6.10%	R11.67				
Current NMW level and partity in 2020	R11.00	0.00%	R11.00	95.45%	R21.50		
Current NMW level and parity in 2021	R11.00	0.00%	R11.00	45.45%	R16.00	43.75%	R23.00

Assuming inflation for 2019 and 2020 at 4.4% and 5.1% respectively and an approximately CPI + 3% increase to the overall NMW.

DATA METHODOLOGY

38. The following analysis uses the Labour Market Dynamics in South Africa ("LMDSA") 2017 survey that is published by Statistics South Africa ("StatsSA"). The LMDSA takes data collected through the Quarterly Labour Force Survey ("QLFS") and averages it to cover the calendar year. The raw

data was downloaded from Datafirst[20] and cleaned according to the method outlined by Finn.[21] This means the data may differ slightly from that found in StatsSA own publications.

39. All data here are deflated to represent December 2018 rands, just before the NMW would have come into effect.

40. As discussed in detail by Finn,[22] there is evidence to suggest that wages in the QLFS may be reported lower than they actually are in reality (under-reported). Finn applies a 40% increase to wage levels as a proxy for under-reporting. This has two implications. First, wages may be higher than reported and so the jump between existing wage levels and the NMW level may be smaller than it appears. Second, poverty headcounts, as well as the depth of poverty, may be lower than reported.

POVERTY AND WORKING POVERTY – FARM AND DOMESTIC WORK

41. When considering the level at which wages should be set, and hence the achievement of parity for these sectors, it is important to understand the vulnerability of these sectors.

42. Table 4 and Table 5 below shows the percentage of workers in the sectors which earn below various poverty thresholds: StatsSA upper-bound poverty line, individual and household of four; Budlender et al. upper-bound poverty line, individual and household of four;[23] and working-poor line.[24] We show this data for all workers in Table 4 and then in Table 5 for full-time workers (derived as per Finn[25]). This is because poverty lines reveal the monthly income needed to be above that level and it is worthwhile knowing how many full-time workers still sit below those lines despite working full time.

Table 4 Percentage of all workers below poverty measures (December 2018 rands)

Povery line measure	Poverty line level	Economy average	Agriculture	Domestic services
Stats SA - individual	R1 205	13.2%	13.7%	26.4%

[20] https://www.datafirst.uct.ac.za/dataportal/index.php/catalog/727/get_microdata
[21] Arden Finn, 'A National Minimum Wage in the Context of the South Africa Labour Market', Working Paper Series, National Minimum Wage Research Initiative (University of the Witwatersrand, 2015).
[22] Finn.
[23] The Budlender et al. poverty line was developed by SALDRU at the University of Cape Town. It is considered a more accurate line than the StatsSA line. A detailed comparison can be found in the original paper.
[24] The working-poor line is the wage level it would take, on average, to ensure wage earners in poor households earn enough to raise themselves and their dependents above the poverty line. It takes account of dependency ratios as well as other sources of income. It uses the Budlender et al. poverty line. Full information can be found in Finn (2015).
[25] Finn, 'A National Minimum Wage in the Context of the South Africa Labour Market'.

SALDRU - individual	R1 589	17.3%	17.0%	38.8%
Stats SA - family of 4	R4 819	58.9%	88.8%	95.6%
SALDRU - family of 4	R6 358	65.9%	92.4%	97.2%

Source: Budlender et al. (2015), Stats SA (2018), Finn (2015), own calculations

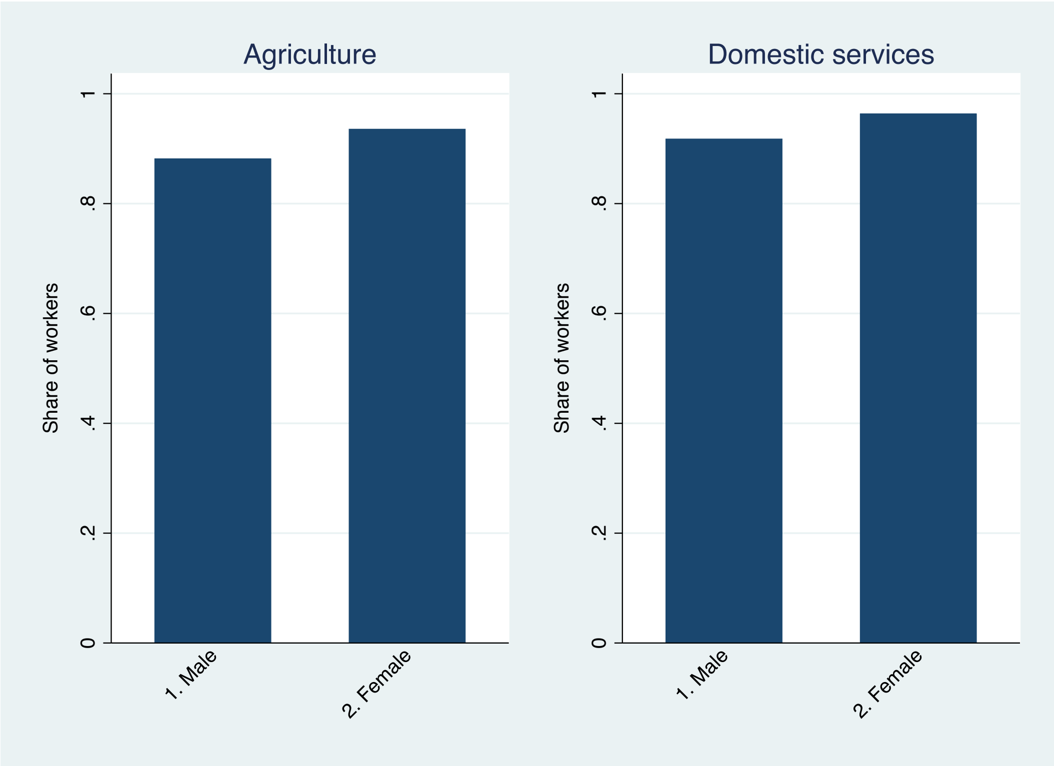
Table 5 Percentage of full-time workers below poverty measures (December 2018 rands)

Povery line measure	Poverty line level	Economy average	Agriculture	Domestic services
Stats SA - individual	R1 205	9.3	10.8	15.3
SALDRU - individual	R1 589	12.6	13.8	25.6
Stats SA - family of 4	R4 819	55.2	88.4	94.4
SALDRU - family of 4	R6 358	92.9	92.2	96.8
Working-poor line	R5 126	57.2	89.4	95.3

Source: Budlender et al. (2015), Stats SA (2018), Finn (2015), own calculations

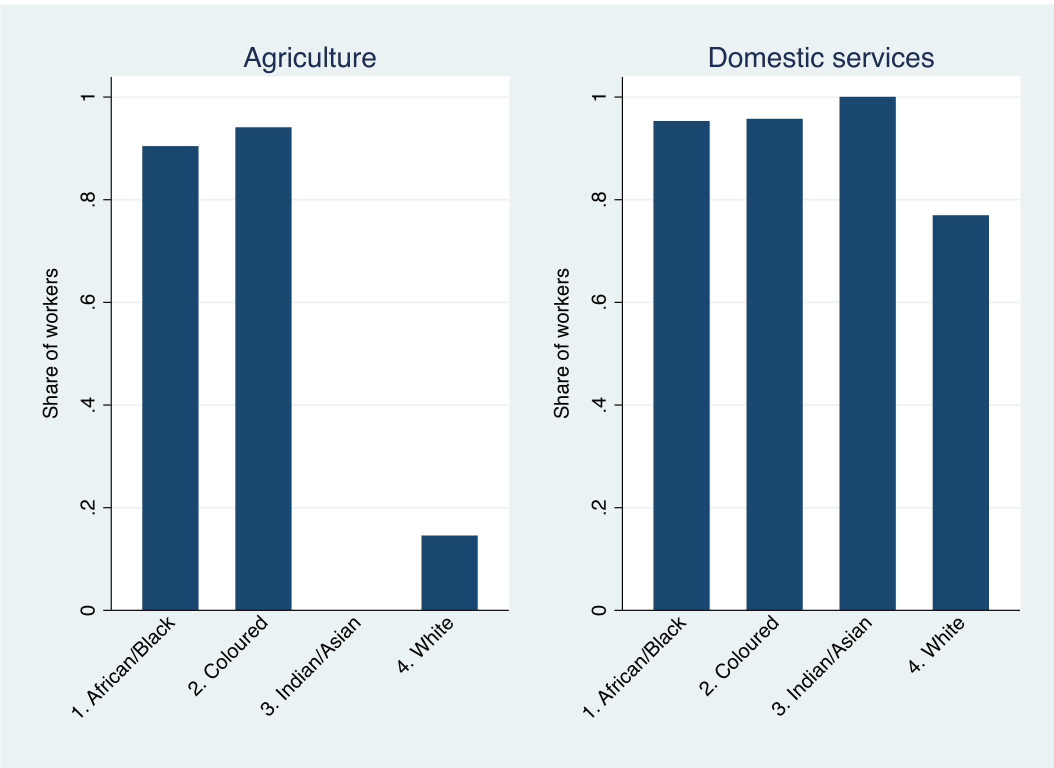
43. We observe in the tables that in general the poverty headcount in these sectors is well above the economy-wide average. We see also that poverty is most pronounced amongst domestic workers. Startlingly, just under 90% of agricultural workers and just over 95% of domestic workers earn below the working-poverty line. This is further broken down by race and gender in Figure 4 and Figure 5. As we see, women are more likely to be part of the working poor than men. We also see that white people are the least likely to be working poor, although even the majority of whites working in domestic services earn below the working-poor line.

Figure 4 Share of full-time workers below working-poor line by gender



Source: Working-poor line as per Finn (2015), Stats SA (2018), own calculations

Figure 5 Share of full-time workers below working poor line by race



Source: Working-poor line as per Finn (2015), Stats SA (2018), own calculations

44. Combined, agriculture and domestic service comprises 22.8% of the total full-time working poor.

45. It is clear that these sectors have high levels of poverty and compromise a large number of working poor. For the NMW to play an effective role in reducing poverty, the Commission should therefore be particularly cognisant of the need to raise wages in these sectors.

WORKING HOURS AND OTHER CONDITIONS OF EMPLOYMENT – FARM AND DOMESTIC WORK

46. Other pertinent considerations are the hours worked and other conditions of employment in these sectors.

47. Working hours are particularly important because employers may respond to increased minimum wages by a reduction in the number of hours worked. There is some evidence to suggest this has occurred in the South Africa context (see below). This is not necessarily a bad thing because decreased hours could mean more leisure time or the time to pursue other income-generating activities.

48. Statistics South Africa classifies "excessive hours" as a "week in which more than 48 hours are worked".[26]

49. Hours worked are particularly long in agriculture. Agricultural workers, work on average, just under 46 hours a week. This is the third highest, after retail and transport. A full 27.5% of agricultural workers work excessive hours. An increase in hourly wages in agriculture that reduces the number of hours worked would therefore benefit employed workers, so long as their monthly earnings remain the same or increase.

50. Domestic workers, on average, work shorter hours, 34 hours per week, and only 10% are classified as working excessive hours. However, the same logic applies.

51. Another critical variable is the extent to which these sectors are unionised. This is because unionised sectors are able to bargaining for higher wages irrespective of the level of the NMW.

52. These sectors have the lowest rate of unionisation by far. Only a little of 6% of agricultural workers say they belong to a trade union, and just over 0.5% of domestic workers![27] This makes sense given the dispersed nature of the work place and the historic nature of labour relations. What this indicates is that the NMW is a vital wage setting mechanism in these sectors.

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[26] Stats SA, 'Labour Market Dynamics in South Africa 2017' (Statistics South Africa, 2017), 62.
[27] Stats SA, 'Labour Market Dynamics in South Africa 2017'.

53. These sectors are disadvantaged in a number of other ways with the lowest levels of medical aid and pension benefits. Barring construction workers, they also have the lowest access to paid leave. Raising the NMW would therefore also make up for the lack of other benefits received. Similarly, they have the least regular annual increases. While it is possible that they receive other forms of in-kind benefits, e.g. accommodation and food, the employer is already allowed, under the relevant sectoral determinations, to deduct up to 10% of the wage in lieu of this.[28] Such benefits are also notoriously unreliable and depend on the goodwill of particular employers. Increasing the wage level is therefore a far more reliable means of achieving increased overall income (in cash and in kind).

INEQUALITY – FARM AND DOMESTIC WORK

54. As noted, the NMW Act is targeted at reducing the extreme level of inequality present in South Africa. The South African Gini coefficient – the most commonly cited measure of inequality, which ranges from 0 (perfect equality) to 1 (perfect inequality) – has hovered around 0.66; by many accounts the highest in the world. Income inequality is driven by differences between earners: wage differentials account for 62% of inequality while the presence of zero earners (the unemployed) accounts for 38%.[29] When differentiating by income source – wages, social grants, remittances, and investment income – the relative contribution of wage income to overall inequality in South Africa was just over 90% in 2012, highlighting the centrality of wage earnings to measures of inequality.[30]

55. Two measures of inequality are useful to our discussion here. The first pertains to the personal distribution of income – how income between earners is divided along the income distribution. The second is the functional distribution of income – how national income in the economy is split between wages and profits.

56. The levels of inequality within a sector gives us a sense of the ability for funds to be redistributed within that sector – from high to low-income earners, or from profits to wages. We can also compare inequality across sectors in order to see whether high-income earners or business owners are doing comparatively well or badly.

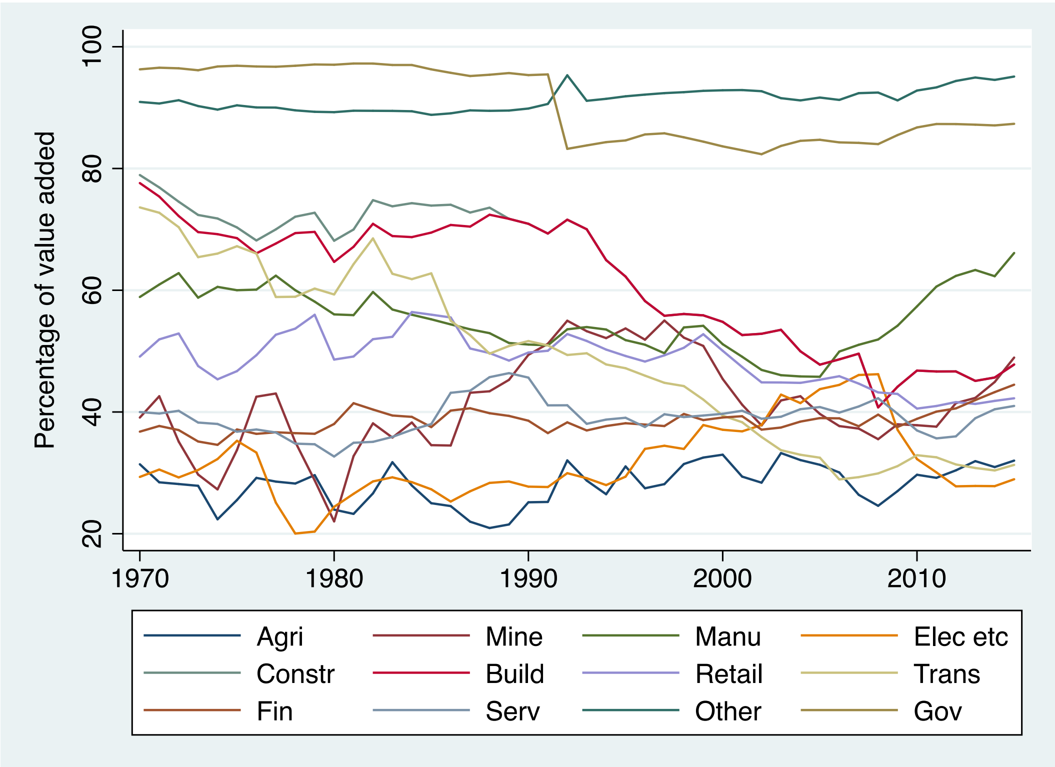
57. Such comparisons are only fully possible with regards to farm workers as both measures of inequality are distinguishable within the data. For domestic workers the data does not allow us to compare the wages of domestic workers to the wages of their employers; there is also no logical

[28] Sectoral Determination 7: Domestic Workers, Part B.
[29] Leibbrandt, Finn, and Woolard, 'Describing and Decomposing Post-Apartheid Income Inequality in South Africa'.
[30] Investment income is far more unequally distributed than wage income see Reza C. Daniels, Arden Finn, and Sibongile Musundwa, 'Wealth in the National Income Dynamics Study Wave 2', Working Paper (SALDRU, 2012), http://www.saldru.uct.ac.za/home/index.php?/component/option,com_docman/Itemid,32/. but because wage income is a far larger share of income, its relative contribution to inequality is also much greater.

division between wages and profits. The issue of EPWP is taken up separately below.

58. Figure 6 shows the wage share – the percentage of value added going to wages as opposed to profit – for 15 different sectors in the economy between 1970 and 2015. What we see is that agriculture has, for the majority of years, had the lowest wage share. Between 1994 and 2015, the wage share in agriculture averaged at 30%. For the economy as a whole this was 51.5%. Owners of agricultural production therefore garnered 70% of value added.

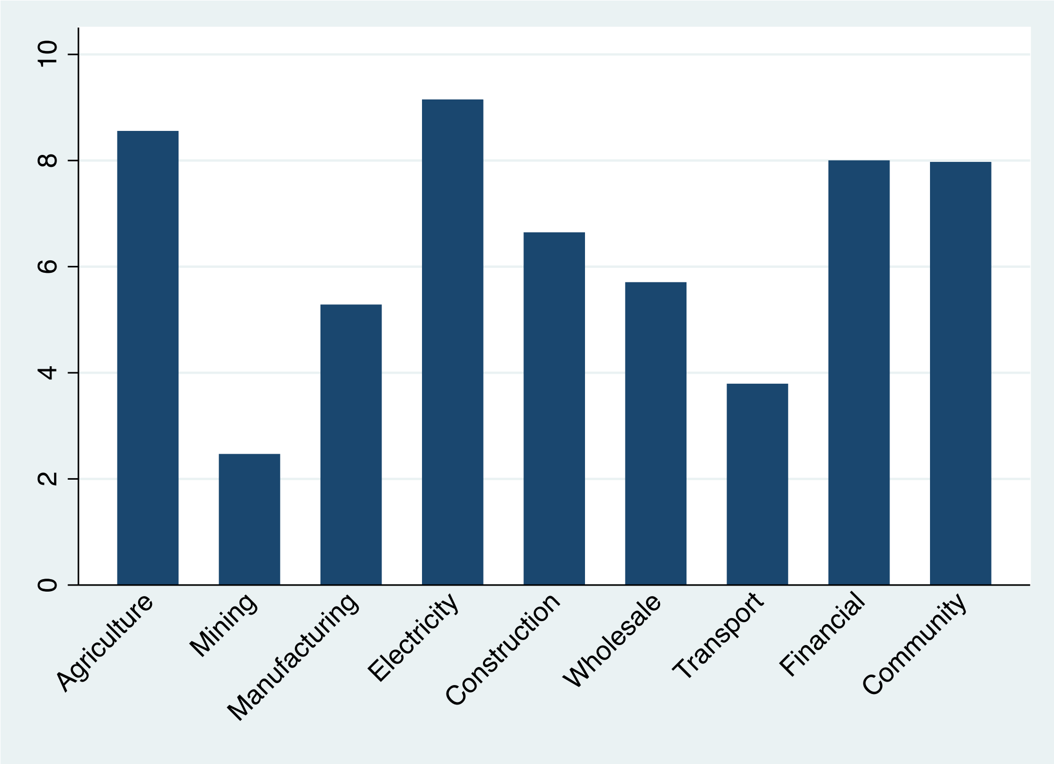
Figure 6 Wage share for different sectors (1970 – 2015)



Source: Quantec (2016)

59. Figure 7 shows the wage ratio between hourly earnings by managers and unskilled workers ("elementary workers") in nine sectors. We see that in agriculture the average hourly wages of managers are over 8.5 times higher than the average hourly wages of unskilled workers. This is the highest in any sector bar electricity, gas and water supply. We also know, as discussed below, that one mechanism of adjustment to higher minimum wages is the redistribution of income between higher and lower earners within the firm.

Figure 7 Wage ratios between managers and unskilled workers



Source: Stats SA (2018), own calculations

60. This difference is even more stark when considering gender. Due to women's lower earnings the ratio between managers and unskilled women farm workers is 9.2.

61. Increasingly it is recognised that issues of growth and distribution should not be separated in order to understand and model the macroeconomy.[31] Recent research led by the IMF[32] finds a strong link between growth and distribution, drawing on a growing body of evidence on why inequality might be harmful for an economy.[33] The United Nations Conference on Trade and

[31] Atif Mian and Amir Sufi, *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent It from Happening Again* (University Of Chicago Press, 2014); for heterogeneous agent models see, for example, Per Krusell and Anthony A. Smith, 'Quantitative Macroeconomic Models with Heterogeneous Agents', in *Advances in Economics and Econometrics*, ed. Richard Blundell, Whitney K. Newey, and Torsten Persson (Cambridge: Cambridge University Press, 2006), 298–340, http://cco.cambridge.org/extract?id=ccol0521871522_CCOL0521871522A008; and for overview in a range of neoclassical models Giuseppe Bertola, Reto Foellmi, and Josef Zweimüller, *Income Distribution in Macroeconomic Models* (Princeton University Press, 2014).
[32] Era Dabla-Norris, Kalpana Kochhar, and Nujin Suphaphiphat, *Causes and Consequences of Income Inequality : A Global Perspective* (International Monetary Fund, 2015).
[33] Philippe Aghion, Eve Caroli, and Cecilia García-Peñalosa, 'Inequality and Economic Growth: The Perspective of the New Growth Theories', *Journal of Economic Literature* 37, no. 4 (1 December 1999): 1615–60; Oded Galor and Omer Moav, 'From Physical to Human Capital Accumulation: Inequality and the Process of Development', *Review of Economic Studies* 71, no. 4 (October 2004): 1001–26, http://restud.oxfordjournals.org/content/by/year; François Bourguignon and Sébastien Dessus, 'Equity and Development: Political Economy Considerations', in *No Growth without Equity?: Inequality, Interests, and Competition in Mexico*

Development's (UNCTAD) recent Trade and Development 2019 shows that falling wage shares have been a critical economic problem in recent decades.[34] This indicates that policies that decrease inequality can be an important spur for economic growth. This is true of both the personal and functional distribution of income.

EXPANDED PUBLIC WORKS PROGRAMME

62. The EPWP poses a number of unique challenges. The EPWP was started in 2004 under the Department of Public Works ("DPW"). It is a means of using public works programmes to reduce unemployment and "provide poverty and income relief through temporary work".[35] The EPWP is not a means of providing long-term employment opportunities but is a short term measure which aims to create many jobs in response to the high unemployment rate in South Africa.[36]

63. The EPWP is a national programme but largely implemented by the provinces and municipalities which identify labour-intensive opportunities across different sectors.[37] EPWP participants are employed in the following sectors: government-funded infrastructure projects (infrastructure sector); the non-state sector which provides wage subsidies to support non-profit organisations (NPOs) in their community development initiatives; public environment and culture projects funded by various government departments including the Department of Environmental Affairs and the Department of Forestry (the environmental and cultural sector); and the social sector supports public social programmes such as early childhood development.[38]

64. The EPWP identified women, people with disabilities and unemployed youth as priorities in order to incorporate marginalised groups in community.[39] The

(Washington DC: World Bank Publications, 2009); Daron Acemoglu, 'Thoughts on Inequality and the Financial Crisis', (7 January 2011), http://economics.mit.edu/files/6348; Jonathan David Ostry and Andrew Berg, 'Inequality and Unsustainable Growth: Two Sides of the Same Coin?', IMF Staff Discussion Notes (International Monetary Fund, 2011), https://ideas.repec.org/p/imf/imfsdn/11-08.html; Jonathan David Ostry, Andrew Berg, and Charalambos G. Tsangarides, 'Redistribution, Inequality, and Growth', IMF Staff Discussion Note (International Monetary Fund, 17 February 2014).

[34] UNCTAD, 'Trade and Development Report 2019' (Geneva, Switzerland: United Nations Conference on Trade and Development, 2019).

[35] DPW, 'EPWP Recruitment Guidelines' (28 June 2018), accessed 17 October 2019, http://www.epwp.gov.za/documents/Final_Recruitment_Guidelines-2018-05-23.pdf.

[36] Miriam Altman et al., 'Framework for Evaluating the Expanded Public Works Programme' (HSRC, April 2004), https://www.gtac.gov.za/Researchdocs/Framework%20for%20Evaluating%20the%20Expanded%20Public%20Works%20Program.pdf.

[37] Daniel McLaren, 'Realising the Right to Decent Work in South Africa' (Studies in Poverty and Inequality Institute, January 2018), 39–40.

[38] Detailed information on sectors available on http://www.epwp.gov.za/.

[39] All EPWP implementing bodies must endeavour to meet the prevailing demographic targets namely: 55% women, 55% youth and 2% persons with disabilities. This is according to the EPWP Recruitment Guidelines. Available at http://www.epwp.gov.za/.

EPWP is also set up as a way to train and up skill workers so as to improve their chances of getting long term employment.[40]

65. The EPWP creates what are called “work opportunities” which are defined as paid work created for an individual on an EPWP project for any period of time.[41] The same person can be employed at different times on different projects, but not concurrently, and each period of employment will be counted as a work opportunity. The length of time spent on a project varies. Based on the information from the quarterly reports, a work opportunity in the infrastructure sector has an average duration of four months and in the environment and culture sector an average duration of six months.[42] It is not clear what the average duration of time spent on a project is for the other sectors.

Stipulate wage levels

66. The minimum wage level, previously set through MDs was given above. However, average daily wages vary considerably from this. These are shown in Table 6.

Table 6 Daily Minimum Wages in EPWP Sectors

YEAR (April – September)	2014	2015	2016	2017	2018
Prescribed daily minimum wage for EPWP in MD		**75.10**	**78.86**	**83.59**	**88.00**
Average wage p/d infrastructure sector	120.49	116.26	116.51	121.81	128.48
Average wage p/d environment and culture sector	109.00	108.83	111.46	116.23	123.10
Average wage p/d social sector	79.60	100.52	92.71	102.82	117.49
Average wage p/d non-state sector: community work programme	82.07	79.10	83.54	89.66	95.71
Average wage p/d non-state sector: non-profit organisations	71.17	76.00	80.02	85.00	90.00

Source: Expanded Public Works Programme (EPWP) Quarterly Reports and Moretlwe (2015)[43]

[40] Melanie Samson, ‘When Public Works Programmes Create "Second Economy" Conditions: Part Two: Policy and Political Choices’, accessed 17 October 2019, https://www.academia.edu/1353730/When_public_works_programmes_createsecond_economyconditions_part_two_policy_and_political_choices.
[41] DPW, ‘EPWP Recruitment Guidelines’ (28 June 2018), accessed 17 October 2019, http://www.epwp.gov.za/documents/Final_Recruitment_Guidelines-2018-05-23.pdf.
[42] Expanded Public Works Programme (EPWP) Quarterly Report: Report for the period 1 April – 30 September financial year 2017/18 Annexures A – E (Department Public Works) 27 October 2017. Available at http://www.epwp.gov.za/.
[43] Reports available at http://www.epwp.gov.za/m&ereports.html.

67. Besides for the very low levels, we see that sectors dominated by men – for example, infrastructure – receive higher hourly wages than those dominated by women – for example, community work programme.

Poverty

68. A critical way to measure poverty amongst EPWP would be via the household survey data. Unfortunately, participation in the EPWP is not a given variable in the standard available LMDSA dataset. We are currently waiting on the raw data from StatsSA as it does appear, from secondary sources, that this coding exists.

69. Poverty analysis can also be done through taking the daily wage and multiplying it by 5 days and 4.33 weeks per month. This gives the following levels for 2018, compared with the five poverty line measures given above. As seen in Table 7 the average EPWP worker (sitting between R1 900 and R2 800) earns, at most, just over half of the working-poverty line level (R5 126).

Table 7 EPWP average monthly wages vs. poverty lines (2018)

Sector	Average monthly wage
Legislated minimum	R1 905
Infastructure	R2 782
Environment and culture	R2 665
Social sector	R2 544
Community works	R2 072
Non-profit	R1 949

Povery line measure	Poverty line level
Stats SA - individual	R1 205
SALDRU - individual	R1 589
Stats SA - family of 4	R4 819
SALDRU - family of 4	R6 358
Working-poor line	R5 126

Work conditions

70. Many EPWP work opportunities involve cleaning, the maintenance of public works, such as roads and public schools, and care work; the programme employs mostly women. The nature of the work is very precarious, with no job security, very low wages and no benefits. Workers are not unionised and cannot access secured credit due to low wages and lack of adequate contracts. Should a particular project under the programme be halted due to lack of budget, workers are let go immediately without certainty as to when they will commence the work again.[44]

71. Health and safety risks on the job are not covered – there are no standardised health and safety precautions for the workers, sometimes they get protective gear and other times they do not. The number of days worked

[44] Mondli S. Hlatshwayo, 'The Expanded Public Works Programme: Perspectives of Direct Beneficiaries', *The Journal for Transdisciplinary Research in Southern Africa* 13, no. 1 (12 September 2017): 8, https://doi.org/10.4102/td.v13i1.439.

is not consistent, with some working only two days a week.[45] Therefore the job is not only precarious but irregular.

72. Part of the agenda of the EPWP is intended to train workers to enhance their employability and assimilated them into permanent employment. The DPW admitted to Parliament in March 2019 that it has limited funds to train all participants under this programme.[46] According to the EPWP 2018/2019 report, the 2018/2019 year saw 403 778 "person-years" of work created but only 11 101 "person-years" of training. Additionally, research conducted indicates that the EPWP has been used by municipalities to avoid employing permanent workers for the same job.[47]

Inequality

73. Inequality in the EPWP sector is manifest in two ways, both of which could be, at least partially, addressed via increasing the NMW level to parity with the overall NMW level.

74. First, wages for EPWP are a small fraction of those in public, and even private, sector employment. As per paragraph 67, we are waiting on comprehensive data in this regard.

75. Second, EPWP workers have expressed discontent about the fact that they work side-by-side, doing the same tasks, with permanently employed state workers who have decent wages and benefits.[48] Hlatshwayo conducted a series of interviews with EPWP workers in 2016/17 and one EPWP worker under the "clean city" campaign in Germinston stated:

> As I'm saying that we work here we don't have benefits but there are people who work here doing the work we are doing. They have benefits but at the end of the day you find that people who work hard it's us. Other workers who look after schools tend to have better wages and benefits, but those employed under EPWP have none of that. The people who work here at school don't do any work at all; we are the ones who work.[49]

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[45] Hlatshwayo.
[46] Parliamentary Monitoring Group "EPWP Phase III job creation: Public Works briefing, with Deputy Minister" (05 March 2019). Available at https://pmg.org.za/committee-meeting/28022/. Only 42 761 work opportunities had training out of the 845 162 work opportunities reported at the end of the third quarter of 2018/19. This is according to the "Presentation to Public Works Portfolio Committee on Expanded Public Works Programme (EPWP) progress 5th March 2019".
[47] Melanie Samson, 'When Public Works Programmes Create "Second Economy" Conditions: Part Two: Policy and Political Choices', accessed 17 October 2019, https://www.academia.edu/1353730/When_public_works_programmes_createsecond_economyconditions_part_two_policy_and_political_choices. This research was conducted in 2002 and 2003 for the Municipal Services Project and the South African Municipal Workers Union as part of a broader research project on the restructuring of waste management services, but it revealed that Public Works Programmes (PWP's) were used to provide street cleaning services in parts of both Galeshewe township in Sol Plaatje and Soweto township in Johannesburg.
[48] Hlatshwayo, 'The Expanded Public Works Programme', 5.
[49] Hlatshwayo, 5.

76. In an earlier study that looked at workers providing street cleaning services in Sol Plaatje and Soweto, workers who worked alongside employees of Pikitup Waste Management would be paid far less than municipal workers. One worker noted:

> We know that the government gives us R 800 which we get at R 400 fortnightly. But those people [employed by Pikitup] are getting a thousand and a couple. Ordinary people are getting a thousand and a couple.[50]

77. With no viable transition into permanent jobs, many workers were aware that the programme did not improve their chances of finding permanent employment. Similar studies conducted on the EPWP programme show that EPWP workers are aware that they were receiving far less, but have little bargaining power due to the temporary nature of the work.[51]

78. The minimum wage for full time municipal workers, according to the South African Local Government Bargaining Council ("SALGBC") is R 7 360.86 per month (as of December 2018). Salaries below R 9 000 increased by 7.5%.[52]

Two-tier workforce

79. It is clear from the above that the EPWP has rightly been criticised for creating a two-tier labour system in the public sector. This allows the government to employ some in permanent positions with benefits, security and decent wages, and the EPWP to be a pool of casual, insecure, cheap labour.

80. In some instances EPWP has enabled municipalities and SOEs to hire less permanent workers. For example, in the study above, the short-term low wage labour "facilitated the maintenance of a hiring freeze, and allowed labour shortages in the Pikitup depot to be filled by cheaper, less well-protected, non-unionised, short-term workers".[53]

81. In short, it is quite frankly a disgrace that EPWP workers are excluded from the NMW.

Fiscal implication

82. The impact of an increase in EPWP wages is unique in that it is the public, not private, sector that would be shouldering the increased cost. South Africa finds itself in difficult fiscal terrain. The three biggest fiscal challenges faced are: unsustainable debt held by SOEs, and Eskom in particular; and

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[50] Samson.
[51] Samson.
[52] South African Local Government Bargaining Council, *Salary and Wage Collective Agreement 2018 - 2021* Circular 6/2018 para 7.2.
[53] Samson.

the crisis within SARS that undermines revenue raising capacity; and sluggish economic growth that weights negatively on tax revenue. Contrary to much public rhetoric, South Africa's debt-to-GDP ratio (excluding the contingent liabilities) is almost exactly the emerging market average and its net asset position strong. Despite this, the National Treasury has announced a phase of accelerated austerity that will surely undermine economic growth with disastrous consequences.

83. The Commission may be tempted to situate its recommendation regarding EPWP within the current fiscal approach set by National Treasury. This would be a mistake on a number of levels. First, the NMW Act does not instruct the Commission to consider the particular policy framework of one government department, nor to consider "fiscal sustainability" in general, something of a specialist field. Second, as noted above, it is false to consider austerity as the only choice open to government at present. In fact, as the international evidence makes abundantly clear,[54] what is required is a large state-led stimulus. Third, additional fiscal expenditure on low-wage workers who spend all their income – effectively a form of social transfer – has been shown to have extremely positive impacts on poverty, and is likely to stimulate economic growth.[55] Fourth, the fiscal implications of increasing the EPWP NMW level is not insurmountably large. In this regard, the former DDG of Treasury, Andrew Donaldson wrote in May 2017:

> It has been recommended that the EPWP and similar programmes, such as the Community Work Programme, should be exempt from the minimum wage. This is morally cynical and institutionally impractical. If there is a socially agreed-on minimum wage, then the government must lead by example.
>
> It is mistakenly thought that the minimum wage would be "unaffordable" for EPWP projects — in fact, current levels of EPWP participation are still well below what they should be, and the costs of phasing in compliance with a R20 an hour minimum wage by 2019 are modest. This would send a clear message of the government's intent to respect the new standard.

Granted the fiscal picture has changed somewhat, but the point remains.

84. It is unreasonably difficult to determine the actual amount spent on EPWP wages each year. Most pertinently this is because some EPWP expenses of the DPW are not wage expenses for EPWP workers, and other departments also contribute funds towards EPWP projects.

85. Using the latest data on the EPWP (2018/19 financial year), Table 8 shows that the total cost of EPWP workers' wages was approximately R10.9 billion. Assuming the average daily wage was increased from R117.40 to R180 (the 2019 level of the overall NMW), and assuming that all other factors such as

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[54] UNCTAD, 'Trade and Development Report 2019'.
[55] UNCTAD.

the length of projects remained the same, the total cost would have been R16.7 billion, an increase of just under R6 billion.

Table 8 Actual and estimate cost of EPWP workers' wages (2018)

Actual total wages paid out to EPWP workers	**Average daily wage rate**	**Estimated cost with daily wage rate of R180**
R10 903 336 148	R117	R16 717 210 448

Source: Expanded Public Works Programme Report (QTR 4): Report for the period 1 April – 31 March of financial year 2018/19, own calculations.

86. In the context of the fiscus this is not a lot of money. Although it is not the primary concern of the Commission the money could come from a number of sources. Tax revenue is an obvious candidate. Tax breaks on pension funds and medical aid for higher-income earners are more than 10 times this amount. A VAT rate of 25% on luxury items has been estimated to raise up to R 9.6 billion.[56] This is just two examples. Another option would be to leverage the Unemployment Insurance Fund ("UIF"), which has also been tapped for a funding source for a work-seekers grant or guaranteed work scheme. The UIF currently holds a surplus of at least R 138 billion.[57]

EVIDENCE ON THE ECONOMIC IMPACTS OF MINIMUM WAGES

87. An increase to the NMW in general, and the achievement of parity for the sectors under discussion, will have an impact on other economic variables. We explore this question via a summary of the existing local and international evidence, including *ex-post* econometric studies, which estimate the impact of an increase in minimum wages that has already occurred, and statistical models, which project what the future impact may be.

Ex-post evidence

88. Minimum wages have directly reduced inequality in the formal and informal sectors across Latin America, and in Indonesia, Russia, China, India and Europe.

89. In the developed world, the United States ("US") and United Kingdom ("UK") offer two relevant contrasting examples. Numerous studies show that the erosion in the real value of the NMW in the US in the 1980s and 1990s was a leading cause of the rise in inequality, with evidence that the inequality-

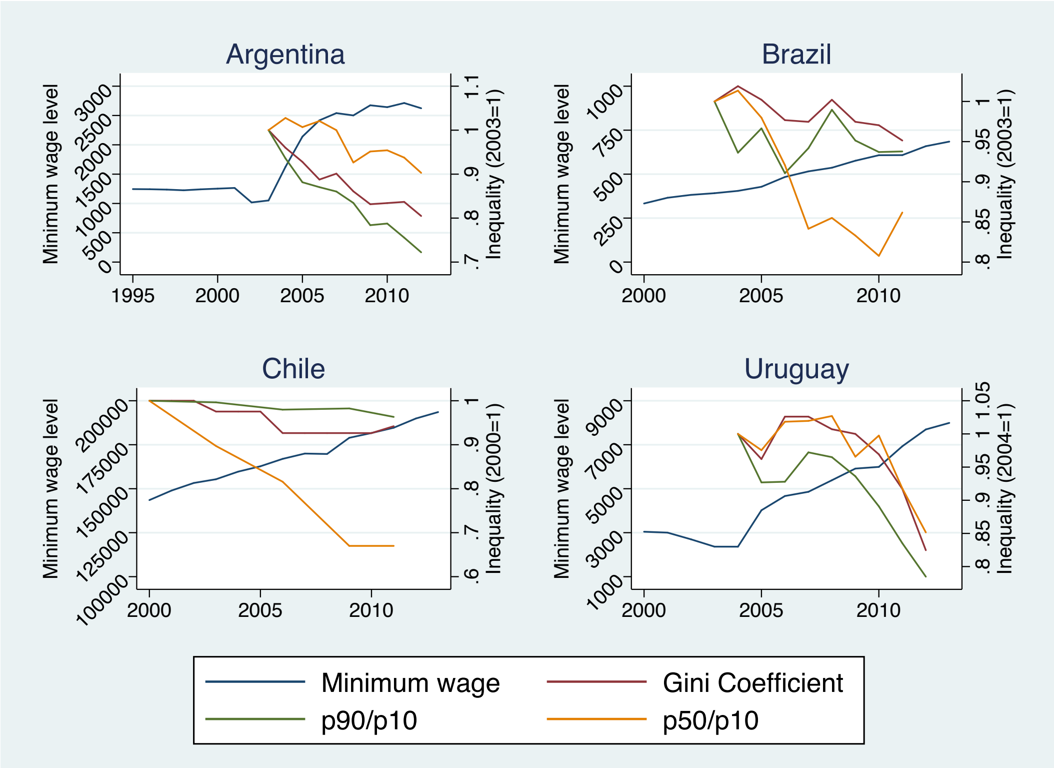
[56] IEJ (2018) *Mitigating the impact of the VAT increase: can zero-rating help?*
[57] Figure cited at the Jobs Colloquium by Neva Magketla. Department of Labour Unemployment Insurance Fund (UIF) Annual Report 2017/18 states that reserves (net assets) in 2016/17 were R133.3 billion, and total assets managed by the PIC were R138,95 billion, indicating that in 2017/18 the surplus will certainly be over R140 billion.

inducing effects were worse for women than men.[58] By contrast, the introduction of a NMW in the UK in 1999 explains 50% of the reduction of wage inequality at the bottom half of the wage distribution between 1998 and 2010.[59]

90. In the developing world, large increases in the real value of Latin American NMWs in the 2000s offer an instructive example. A comparative analysis by Maurizio and Vazquez[60] of Argentina, Brazil, Chile, and Uruguay found positive effects of minimum wages on full-time salaried workers in all four countries between 2003 and 2012. In Figure 8 we see that the ratios of earnings between low- and middle-income wage earners (p50/p10) fell dramatically, as did the Gini coefficients, in tandem with large increases to minimum wages; the p90/p10 ratio also falls but less dramatically in Brazil and Chile. In Brazil and Argentina, where minimum wages rose by 130% and 200%, respectively, minimum wages explain 85% and 32% of the decline in their respective Gini coefficients.[61] In Chile, where the minimum wage rose less dramatically, the fall in the Gini coefficient was much more muted (dropping by just 6%). No negative employment effects were observed.

[58] David S. Lee, 'Wage Inequality in the United States during the 1980s: Rising Dispersion or Falling Minimum Wage?', *Quarterly Journal of Economics* 114, no. 3 (August 1999): 977–1023, http://qje.oxfordjournals.org/content/by/year; John DiNardo, Nicole M. Fortin, and Thomas Lemieux, 'Labor Market Institutions and the Distribution of Wages, 1973-1992: A Semiparametric Approach', *Econometrica*, 1996; David H. Autor, Alan Manning, and Christopher L. Smith, 'The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment†' 8, no. 1 (January 2016): 58–99.
[59] Richard Dickens, Alan Manning, and Tim Butcher, 'Minimum Wages and Wage Inequality: Some Theory and an Application to the UK', Working Paper Series (Department of Economics, University of Sussex, 2012), https://ideas.repec.org/p/sus/susewp/4512.html.
[60] 'Los Impactos Distributivos Del Salario Mínimo En América Latina . Los Casos de Argentina , Brasil , Chile y Uruguay', 2015.
[61] Roxana Maurizio, 'The Consequences of Minimum Wages on Inequality. Evidence for Latin America', in *National Minimum Wage Symposium and Policy Round Table* (Johannesburg: University of the Witwatersrand, 2016).

Figure 8 National minimum wages and inequality in four Latin American countries (2000-2012)



Source: Maurizio (2016)

91. The ability of the minimum wages to affect the incidence of poverty depends on the composition of the labour market and the proportion of minimum-wage earners living in poor households. Scepticism over minimum wages as an anti-poverty instrument is influenced by studies of advanced countries, where most of the poor (the jobless and pensioners) are not part of the labour market.[62] As minimum wages and poverty lines are much closer together in developing countries and there is a large working-poor, the impact on poverty reduction can be more significant. In their classic work on minimum wages in developing countries, Lustig and McLeod[63] use cross-national evidence from twenty-two developing countries and find higher minimum wages are associated with lower levels of poverty. They observe that minimum wages are better predictors of change in the incidence of poverty than average wages. This is confirmed by developing-

[62] Jill Rubery, 'Pay Equity, Minimum Wage and Equality at Work', ILO Working Paper (International Labour Organization, 2003), https://ideas.repec.org/p/ilo/ilowps/366872.html.
[63] 'Minimum Wages and Poverty in Developing Countries : Some Empirical Evidence', Paper (Brookings Institution - Working Papers, 1996), https://ideas.repec.org/p/fth/brooki/125.html.

country case studies in Honduras,[64] India,[65] Thailand and the Philippines,[66] and Nicaragua[67] amongst others. Whether minimum wages are poverty-reducing also depends on where poverty lines sit in relation to the wage distribution and which parts of the wage distribution are most affected by minimum wages.

92. Despite this positive impact on poverty, we should not fetishize the (somewhat arbitrary) poverty lines. The point is whether minimum wages raise wages for the lowest earning workers, not whether they move them one cent above or below a particular line.

93. Regarding the impact on employment, in the international literature the aggregate effect on employment is shown to be marginally negative or neutral, and often statistically undetectable. As Schmidtt notes: "The weight of that evidence points to little or no employment response to modest increases in the minimum wage."[68] This is confirmed in a review of the seven most recent meta-analyses (studies synthesising the large body of existing empirical research). A 10% rise in minimum wages, where there is an effect at all, leads to somewhere between a 0.003% and 0.7% fall in aggregate employment (the effect, of course, varies across country, population group, industry etc.).[69]

94. The modest effects on employment are because firms and economies adjust to higher minimum wages in a number of ways. The most important channels of adjustment are productivity increases due to organisational efficiency and increased effort by workers ('efficiency wages'), reductions in wages of higher earners (wage compression), and small price increases. In addition, the boost to aggregate demand from higher wages can counteract negative pressures on employment levels; while raising wages may place pressure on individual businesses it can be beneficial to businesses overall.

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[64] T. H. Gindling and Katherine Terrell, 'Minimum Wages, Globalization, and Poverty in Honduras', *World Development* 38, no. 6 (2010): 908–18.
[65] Patrick Belser and Uma Rani, 'Minimum Wages and Inequality', in *Labour Markets, Institutions and Inequality: Building Just Societies in the 21st Century* (Cheltenham, UK: Edward Elgar Pub, 2015).
[66] Catherine Saget, 'Is the Minimum Wage an Effective Tool to Promote Decent Work and Reduce Poverty? The Experience of Selected Developing Countries', Working paper, *Employment Paper*, vol. 13 (Geneva: ILO, 2001).
[67] Enrique Alaniz, T. H. Gindling, and Katherine Terrell, 'The Impact of Minimum Wages on Wages, Work and Poverty in Nicaragua', *Labour Economics*, Labour markets in developing countries, 18, Supplement 1 (December 2011): S45–59, https://doi.org/10.1016/j.labeco.2011.06.010; see also Carlos A. Arango and Angélica Pachón, 'Minimum Wages in Colombia: Holding the Middle With a Bite on the Poor', Borradores de Economia (Banco de la Republica de Colombia, 2004), https://ideas.repec.org/p/bdr/borrec/280.html.
[68] 'Why Does the Minimum Wage Have No Discernible Effect on Employment?' (Center for Economic and Policy Research, 2013), 2, Availability Note: Information provided in collaboration with the RePEc Project: http://repec.org.
[69] see Gilad Isaacs, 'A National Minimum Wage for South Africa', Summary Report, National Minimum Wage Research Initiative (University of the Witwatersrand, 2016).

The level at which the NMW is set will strongly influence the manner in which firms and the economy adjust.

95. There is limited research on the impact of minimum wages in South Africa, with six sectoral determinations studied.

96. In retail, taxi, and private security, the institution of a minimum wage had no statistically significant impact on employment.[70] Hourly wages rose in all sectors while hours worked fell marginally in retail and private security. Overall, workers were better off in retail and private security, with taxi workers left in a similar position.

97. Regarding agriculture and forestry, research has shown some decline in employment in the former but no impact on the latter.[71] For agriculture the most important research is by Bhorat, Kanbur and Stanwix.[72] This shows a fall in employment and in hours work. It also shows average wages and non-wage benefits, as measured by having a written contract, increased substantially (average wages increasing by approximately 30%). Overall workers were equally well off or better off.

98. Regarding the employment impact estimation in this (and some other) studies, there are severely methodological difficulties particularly relevant in the case of agriculture. The method used by Bhorat et al. is to compare changes in employment in agriculture over the period of the institution of a minimum wage, with changes in employment for a "control group" comprised of "occupations such as: street vendors, packers, construction workers, manufacturing and transport labourers, and elementary machine operators". This method has been used in important minimum wage research, e.g. by Card and Krueger who's seminal research comparing fast-food workers in New Jersey and Pennsylvania shifted minimum wage research forever.[73]

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[70] 'The Impact of Sectoral Minimum Wage Laws on Employment, Wages, and Hours of Work in South Africa', Working Paper (Cornell University, Department of Applied Economics and Management, 2013), https://ideas.repec.org/p/ags/cudawp/180096.html; 'Estimating the Impact of Minimum Wages on Employment, Wages and Non-Wage Benefits: The Case of Agriculture in South Africa', Working Paper (Cornell University, Department of Applied Economics and Management, 2013), https://ideas.repec.org/p/ags/cudawp/180095.html.

[71] 'The Impact of Sectoral Minimum Wage Laws on Employment, Wages, and Hours of Work in South Africa'; 'Estimating the Impact of Minimum Wages on Employment, Wages and Non-Wage Benefits'; Chris Garbers, 'The Impact of the Agricultural Minimum Wage on Farmworker Employment in South Africa: A Fixed Effects Approach' (University of Stellenbosch, 21 March 2015), https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=CSAE2015&paper_id=363; B. Conradie, 'Wages and Wage Elasticities for Wine and Table Grapes in South Africa', *Agrekon* 44, no. 1 (1 March 2005): 138–56, https://doi.org/10.1080/03031853.2005.9523706.

[72] Bhorat, Kanbur, and Stanwix, 'Estimating the Impact of Minimum Wages on Employment, Wages and Non-Wage Benefits'.

[73] David Card and Alan B. Krueger, 'Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania', Working Paper (National Bureau of Economic Research, October 1993), http://www.nber.org/papers/w4509.

99. The difficulty is that there are a number of agriculture-specific factors that would impact employment. Unlike in Card and Krueger, Bhorat et al. are not comparing geographically distinct workers within the same sector. This calls into question the appropriateness of the methodology for agriculture.

100. First, the minimum wage was instituted overlapping with the 2003/2004 drought. This had many consequences that could have contributed to falling employment in agriculture but not to employment in, for example, construction. This drought resulted in the lowest maize planted in 15 years by a large margin and lower production and exports; rainfall is shown to be a statistically significant factor in determining maize production.[74] By way of analogy, consider a terrorist attack, this may have a devastating impact on tourism but a far weaker impact on retail.

101. Second, processes of technical change in agriculture are distinctly different from other sectors. Agricultural production tends to undergo rapid mechanisation and increases in productivity in particular phases of development which can be labour displacing. Indeed, the trends in productivity and in the employment output ratio in the South African data differ markedly from other sectors.

102. Third, other forms of economic change impact sector differently. The exchange rate and growth in global and local financial speculation on food prices in the early 2000s, may have also had sector-specific consequences.[75] The increase in prices in the early 2000s could have resulted in a rising level of GVA concurrently with a fall in production output.

103. Fourth, other important policy changes also impact sectors differently. In agriculture, South Africa's Producer Support Estimate as a share of gross farm receipts (GFR) fell from 10.7% in 1994 to 1.9% in 2017. This compares with the OECD average of 17.9% in 2017.

104. This is not to argue that it is impossible that the minimum wage did cause a loss of employment in agriculture. However, based on the available evidence, and the fact that certain studies (for example, Murray and van Walbeek, 2007) conflict with this finding, it is not possible to say this was definitively the case.

105. For domestic work, Budlender notes that: "Analysis by several researchers since 2002 has found little or no evidence of any decrease in employment as a result of the introduction of the sectoral determination."[76] Dinkelman and Ranchhod show no negative impact on employment or

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[74] WWF, 'Agriculture: Facts and Trends South Africa', n.d.; James Blignaut, Liza Ueckermann, and James Aronson, 'Agriculture Production's Sensitivity to Changes in Climate in South Africa', *South African Journal of Science* 105, no. 1–2 (February 2009): 61–68.

[75] Wayne Devlin Austin, 'Drought in South Africa: Lessons Lost and/or Learnt from 1990 to 2005' (Master of Science, University of the Witwatersrand, 2018).

[76] Debbie Budlender, 'The Introduction of a Minimum Wage for Domestic Workers in South Africa', November 2013, 26.

hours worked for domestic workers and strong evidence of an increase in wages.[77] Hertz finds a marginal fall in employment, a small decrease in hours worked and an approximate 20% rise in average wages.[78] Bhorat, Kanbur, and Mayet also found no clear evidence of disemployment effects in this sector.[79] They did observe that hours of work were slightly reduced, but the increase to wages outweighed this effect at the aggregate level so that the overall gains were positive.

106. On aggregate, employment in the sectors studied rose over the period studied (DPRU 2010).

Statistical modelling

107. Statistical modelling is a useful way to assess the possible effects of a particular policy, although the results derived rely heavily on the architecture and parameters of the model. Macroeconomic models contain a large series of equations and coefficients. The equations mimic the interrelations between sectors within the economy, such as mining and manufacturing, and variables, such as GDP growth and employment rates. The coefficients within each equation measure the magnitude of the impact of a change in one variable upon another. When one variable is "shocked" (altered) this creates a ripple effect throughout the model economy. The benefit of macroeconomic models is that the consequences for the economy as a whole – rather just one particular sector – can be estimated.

108. Given this, the choice of model is very important. Here we only given findings from Strauss and Isaacs and Adelzadeh and Alvillar.[80] For reason given in Storm and Isaacs,[81] we do not consider computable general equilibrium (CGE) models (used in other research) to be appropriate for modelling the impact of a NMW. In these CGE models economic deterioration is the only possible outcome from minimum wages, whereas in the models discussed below either a positive or negative outcome can occur.

[77] 'Evidence on the Impact of Minimum Wage Laws in an Informal Sector: Domestic Workers in South Africa', SALDRU Working Paper (Southern Africa Labour and Development Research Unit, University of Cape Town, 2010), https://ideas.repec.org/p/ldr/wpaper/44.html.
[78] 'The Effect of Minimum Wages on the Employment and Earnings of South Africa's Domestic Service Workers', Working Paper (University of Cape Town, Development Policy Research Unit, 2005), https://ideas.repec.org/p/ctw/wpaper/05099.html.
[79] Bhorat, Kanbur, and Mayet, 'The Impact of Sectoral Minimum Wage Laws on Employment, Wages, and Hours of Work in South Africa'.
[80] Ilan Strauss and Gilad Isaacs, 'Labour Compensation Growth in the South African Economy: Assessing Its Impact through the Labour Share Using the Global Policy Model', Working Paper Series, National Minimum Wage Research Initiative (University of the Witwatersrand, 2016); Asghar Adelzadeh and Cynthia Alvillar, 'The Impact of a National Minimum Wage on the South Africa Economy', Working Paper Series, National Minimum Wage Research Initiative (University of the Witwatersrand, 2016).
[81] 'Modelling the Impact of a National Minimum Wage in South Africa: Are General Equilibrium Models Fit for Purpose?', Research Brief, National Minimum Wage Research Initiative (University of the Witwatersrand, Johannesburg: CSID, 2016).

109. The critical findings by Strauss and Isaacs[82] is that the South Africa economy is “wage-led”. That is, shifting income from profits to wages has a stimulatory effect on the economy.

110. The most immediate consequence of a rising wage share is a strong consumption effect as income flows to those who have a higher propensity to consume. The increase in the wage share is not due to increases in the employment rate; instead, real labour compensation rises (at a faster rate than productivity growth). Private consumption rises as a share of GDP. Higher demand expands domestic output and thus growth. It is possible that rising input costs could result in falling investment, a worsening current account, rising inflation, and falling employment, thus offsetting the demand stimulus from higher consumption. While some of these variables deteriorate marginally, this is overall not the case in the South African projections. Overall, South Africa’s present economy benefits from a more equal distribution of income (a larger wage share) in line with the recent wave of international evidence on the deleterious consequences of falling wage shares. Increasing minimum wages is one means through which to increase wage shares.

111. Given the extremely low wage share in the agricultural sector, and the higher propensity to consume amongst all low-wage workers, the above supports increases to the NMW wage rates in question.

112. The second statistical modelling exercise by Adelzadeh and Alvillar allows us to directly increase the wages of workers within the economy. This model shows that increasing the NMW over time (by more than inflation) raises average wages and household income. The boost to real wages and household incomes naturally raises household consumption expenditure which stimulates economic output, mostly in the manufacturing and primary sectors. Spurred by rising total output, GDP growth rates rise and productivity increases. The net effects on employment are, in line with the international experience, slightly negative, employment is projected to be up to 0.3% lower with the institution of a national minimum wage. The sectoral impact is mixed; in particular, agriculture sees a small increase in employment, and domestic work a small decrease. The results also show a modest but important decline in inequality and a significant fall in the poverty headcount.

113. This evidence confirms the logical assumption that firms and the economy adjust to higher wage costs through a variety of mechanisms and that higher wages – particularly for low-income households – can spur a positive growth- and output-enhancing demand stimulus.

COMPLEMENTARY POLICY MECHANISMS

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[82] ‘Labour Compensation Growth in the South African Economy: Assessing Its Impact through the Labour Share Using the Global Policy Model’.

114. It is important to recall that the state has available to it a plethora of policy mechanisms, each of which have different purposes. While there is strong evidence that the reduction of poverty and inequality that can be achieved through a NMW has economic benefits, and that the impact on employment is, most often, negligible, we should recall that the state should be using other policies to grow the economy and employment. Such policies should aim to allow sectors to be able to sustain higher wages. Indeed, the path of industrial upgrading that South Africa must target should explicitly aim to achieve this.

115. While this paper cannot hope to cover the full gamut of policy options, we discuss an example of incentives that have been implemented in domestic work, and some options for the agricultural sector.

Domestic work incentives

116. An example of a successful incentive in domestic work is that which took place in France. Konopelko summarises this as follows:

> France provides tax incentives for employers of domestic and temporary workers who formalise their contracts with these employees and comply with minimum wage legislation. Under the incentive, the employer has to register with the URSSAF (Agency for the Collection of Social Security and Family Allowance Contributions) and then use specially provided bank cheques to pay domestic helpers and other temporary assistants. At the end of a tax year, the employer can claim rebates from the state of up to 50% of wages paid (to a maximum of €1,830) (Gudibande and Jacob 2015). Such a system provides incentives for employers to hire domestic helpers officially and pay them salaries at or above the minimum wage. According to the available research, by 2010, over 66% of domestic workers working for individuals were employed legally (ILO 2013). The state costs of running the incentive amounted, in 2012, to €6.3bn (ILO 2013). At the same time, direct benefits to the state from the incentive amounted to €5.1bn in social insurance contributions, VAT, direct taxation and lower unemployment payouts. An additional €3.875bn was gained as indirect benefits (the study identified the reduction in the costs of supporting dependents and minding children as the biggest benefits), bringing the net gain from running this incentive to €2.6bn a year.

Agricultural sector incentives

117. Bizarrely, the South African government eschewed the implementation of incentives to encourage compliance with the NMW, despite the NMW-RI and others raising this repeatedly during the negotiations. Some incentives can help to ensure that business are able to pay the NMW. This could apply in agriculture. Some examples, quoted from Konopelko, are given below.[83]

[83] Elena Konopelko, 'Incentives to Enhance Compliance with a National Minimum Wage in South Africa', Policy Brief, National Minimum Wage Research Initiative (University of the Witwatersrand, March 2016).

118. Tax incentives.

Some governments create tax incentives to motivate businesses to comply with minimum wage laws… Brazil introduced the Simples in order to promote the formalisation of small businesses. According to the programme, small companies were entitled to make a single consolidated tax payment rather than numerous contributions to different funds. They were only eligible for participation in this programme upon compliance with labour legislation and minimum wages laws. By 2012 over 9 million small enterprises had been formalised in Brazil and were paying at least the minimum wages and the rate of formal employment increased by almost 14% (ILO 2014b). Simples also led to a tax relief for small companies whose owners claimed that their effective tax rate was 20% to 50% lower since they entered Super Simples (ILO 2014b). At the same time many businesses who were previously not paying taxes, or observing labour standards, were brought into the tax and regulatory net. This scheme therefore has the triple advantage of benefiting affected workers, assisting small business, and achieving added revenue for the state. Brazil's treasury has benefitted from an additional R$ 267 million in contributions from the 9 million businesses that joined the Super Simples system of taxation (ILO 2014c).

119. Government grants.

Another form of incentive is providing government grants, loans and subsidies to companies on the basis of minimum wage compliance. In Virginia, US, for example, companies that are located in the Virginia Enterprise Zone and pay their employees at least 1.75 times the current minimum wage could in 2014/15 qualify for a grant of up $500 per year per position. Those who are paying twice the minimum wage qualify for up to $800 dollars per year per position for the next five years, starting from 2014/15, provided they are compliant with the legislation and continue paying twice the minimum wage (Virginia Guide to Incentives 2014). Various other US States have similar grant incentive programmes.

Brazil is another example of a country that uses monetary incentives to promote compliance with the national minimum wage. The Brazilian Development Bank (BNDES) offers loans at heavily subsidised rates (the rates were 6.5% versus the market 14.25% in 2015) to companies who comply with minimum wage and labour legislation, environmental legislation, and pay taxes and social contributions among other requirements (Borges 2014; Reuters 2015; WSJ 2015). …

Thailand has a policy similar to that of Brazil of providing access to state loans at a lower interest rate conditional on labour legislation and minimum wage compliance. Japan and the US have incentives that provided access to loans from export/import banks and related agencies based on legislative compliance (OECD 2001). In this latter incentive, both countries aimed at improving compliance with environmental guidelines rather than the minimum wage but such a policy could also be used to motivate businesses to comply with minimum wages.

120. Benefits and cautions.

Generally, the benefit of using grant (and tax) incentives is the opportunity to create a targeted incentive that will result in improved minimum wage compliance. Such incentives are also intuitively very appealing, as they seem to reduce business operating costs and provide a very clear financial benefit of adhering to the legislation. However, these incentives incur costs. They will require increasing the amount of labour inspectors and/or administrative capacity to monitor compliance and the blacklisted non-compliant companies.

Moreover, the provision of grants, loans, or tax cuts could require additional spending from government budgets. However, these funds could also come from development banks and other development finance institutions and may, in the medium and long term, spur productive economic activity and increase the tax intake. Further, if they are linked to a programme of formalisation of enterprises, they have the benefit of bringing more companies and workers into the regulatory net.

In designing such incentives caution should be taken as sometimes monetary motivations may have perverse effects: for instance, providing direct monetary incentives to small businesses at times might motivate businesses to either stay small and not grow (in order to maximize gains on incentives) or can motivate businesses to undertake illegal practices in order to hide the real turnover/staff numbers (in order to capitalize on incentives) (Lawton & Pennycook 2013).

Agricultural sector policy

121. A wealth of other policy options are available to government in order to ensure that the agricultural sector can not only sustain higher wages but grow. Dr Nimrod Zalk, Industrial Development Advisor, in the Department of Trade and Industry, argues that South Africa has the “opportunity to expand the production of high-value agricultural products that are both labour-intensive and export-oriented”[84]. In particular he points to the importance of:

- Long-term certainty and ‘patient capital’ are needed to establish and expand cultivation. Most fundamentally, this requires a pragmatic approach to land reform that ensures certainty of land use rights (not necessarily direct ownership) for investors to commit to the long-term investments. This is in a context where it can take four to five years to

[84] Nimrod Zalk, ‘Hiding in Plain Sight: High-Value Agriculture’s Large-Scale Potential to Grow Jobs and Exports | Econ3x3’, *Econ3x3* (blog), accessed 17 October 2019, https://www.econ3x3.org/article/hiding-plain-sight-high-value-agriculture%E2%80%99s-large-scale-potential-grow-jobs-and-exports.

establish an apple orchard (and even longer for avocados) during which no income is generated.
- The legacy of post-apartheid public underinvestment in irrigation, fertilisers and farm machinery needs to be reversed. This includes a huge increase in currently inadequate agricultural R&D expenditure.
- The cost and quality of rail, port and airfreight need to be addressed. High port charges, inefficiencies and backlogs are a particular constraint.
- Development finance institutions (DFIs) have a critical role to play in providing the patient capital required, particularly for infrastructural investment and emerging black farmers, given the long lead times in establishing orchards.
- Effective regulation of phytosanitary standards is required to fast track the introduction of new varietals, expand access to export markets and ensure the integrity of domestic production.
- This is, in turn, linked to the need for trade diplomacy to facilitate access, both to established high value markets such as the EU and US, and rapidly growing affluent markets in Asia. For example, South Africa has been unable to come close to matching Peruvian or Chilean access to the rapidly growing Chinese market for blueberries despite rising production within South Africa.
- Public support measures need to be closely monitored, including ensuring decent working and social conditions on farms.

122. The point here is not to solve the challenges of agriculture. Rather, it is to stress that a maintenance of an ultra-low wage approach won't get us anywhere anyway. What we need is wage policy that increases incomes, and industrial policy that expands the sector. It would be unfair to expect workers to wait indefinitely for such a wage policy.

CONCLUSION

123. This report has shown the dire situation of workers in the sectors under consideration – low wages and high levels of precarity. It has also shown high levels of inequality. Previously sectorally-set minimum wages have not been able to resolve these. The NMW offers another opportunity. For that to be realised the level of the NMW must be increased for these sectors, and it should reach parity as envisaged in the NMW Act and the prior NEDLAC agreement.

124. In order for the NMW to serve its stated purpose, the general level should increase well above inflation – if it moves in line with inflation and other wages in the economy then it will not reduce poverty or inequality. Therefore the Commission should be recommending an increase of at least CPI + 3%. Bringing the level for farm, domestic and EPWP workers to parity should not be used as an excuse by government to implemented a low increase in the NMW overall.

125. The report has illustrated that there is no conclusive evidence that increasing the levels of these identified sectors will have adverse effects. The decision to implement the tier in the first place was based more on

caution than on certainty as to what the impact would be. While caution is sometimes a valid consideration in policy making, it should not eclipse all other factors.

126. The report has also highlighted that there is considerable evidence that increasing minimum wages has significantly positive benefits on workers' incomes, poverty and inequality, with the possibility of a demand stimulus in the economy.

127. We do not know what will happen after increasing the level. What we do know is that there is no conclusive evidence that the impact would be negative and that there is substantial evidence that these highly-exploited workers stand to benefit significantly from higher wages and parity.