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RESEARCH REPORT FOR THE PARTIAL FULLFILMENT OF THE  
MASTERS OF MANAGEMENT IN PUBLIC POLICY DEGREE

**TITLE:**

*“The potential of the proposed minimum wage policy on  
income inequality and employment”.*

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## ABSTRACT

This research investigated the potential of the proposed national minimum wage on income inequality and employment. According to the International Labour Organisation (ILO), the purpose of minimum wages is to ensure wages are able to cover the basic needs of workers and their families, taking into account relevant economic factors (Gilad, 2016). In South Africa, a national minimum wage is also being explored as a tool to reduce inequality and transform the inherited apartheid wage structure (Gilad, 2016). The study used a qualitative research methodology and deduced based on the data obtained that indeed South Africa can introduce the national minimum wage but needs to be cautious of the level at which it sets the minima. Secondly the research deduced that minimum wage will have positive effects on income inequality and minimal effects on employment provided that it is set at a right level.

## DECLARATION ON PLAGIARISM

I confirm that this report is my own unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Management (in the field of Public Policy) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

**Signature:**

**Date:**

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**Asanda Mgaga**

## **DEDICATION**

This research is dedicated to my mother, Linda Mgaga. Your love for us is not questionable and thank you for the sacrifices you made in ensuring that we receive the best education all three of us (Sazi and Bibyana) despite your socioeconomic status as a single parent. Siyabulela and love you maNtshela, Mdlelanga....uThixo abenenceba kuwe maxesha onke.

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“Owaqala esemncinane, ukukhonza uThixo wakhe uya vuya yena”.

Completing this research was not easy, I was in a hiatus for the greater part of last year due to unforeseen circumstances. My sincere gratitude to God Almighty for making it possible that I finally submitted.

I also wish to express my sincere appreciation and gratitude to the following:

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## ABBREVIATIONS

ANC	African National Congress
BCEA	Basic Conditions of Employment Equity Act
COSATU	Congress of South African Trade Unions

DA	Democratic Alliance
DOL	Department of Labour
ECC	Employment Conditions Committee
EFF	Economic Freedom Fighters
ILO	International Labour Organisation
NEDLAC	National Economic Development and Labour Council
NMW	National Minimum Wage
SONA	State of the National Address

# CHAPTER 1

## INTRODUCTION AND RESEARCH PROBLEM

### 1. INTRODUCTION

The proliferative nature of inequality in South Africa takes many forms and shapes, this is evident in the income distribution and poverty marginalization in the country (Wits Student Paper, 2014). In South Africa people with access to wealth experience the country as a developed modern economy, whilst the poorest still struggle to access the basic services (Wits Student Paper, 2014). In this context of high inequality, the idea that South Africa has ‘two economies’ can seem intuitively correct, and has informed approaches that there is structural disconnection between the two economies (Wits Student Paper, 2014). In South Africa inequality of household consumption, measured by the Gini coefficient on disposable income, increased from about 0.67 in 1993 to around 0.69 in 2011, one of the highest levels in the world (World Bank, 2014). The Gini coefficient ranges between zero and one. The higher, or closer to one, a country’s Gini coefficient is, the greater the level of inequality in that country (Donnelly, 2014).

The National Development Plan (NDP) sets the ambitious goal of reducing inequality and unemployment. It targets cutting the Gini coefficient to 0.60 by 2030 by raising employment and the share of income of the two poorest quintiles of the income distribution from 6 percent to 10 percent (Donnelly, 2014). One of the proposed mechanism in support of the NDP targets is the introduction of the proposed minimum wage as stated in the African National Congress (ANC) manifesto. The ANC manifesto under the pillar of promoting equality and decent work place, in the next five years under the current term of government plans to investigate the modality for the introduction of a national minimum wage as one of the key mechanisms to reduce income inequality (ANC; 2014).

The research will first seek to explore the potential of the proposed minimum wage policy on income inequality and employment. Secondly the research will define the research problem, research objectives and research questions. In addressing the research questions documents analysis will be used as a research methodology (Wits Student Paper, 2014). This will be supplemented by literature review on this policy discourse. Lastly the research will provide findings and recommendations to the research questions and propose a way forward (Wits Student Paper, 2014).

## **1.2 PROBLEM STATEMENT**

Minimum wages have played a central role in reducing inequality in countries as diverse as Indonesia, the UK and Brazil . Traditionally seen as a means to ensure workers earn enough to meet their basic needs, more attention over the last two decades has been given to minimum wages as a means to help create a more equitable society. Wage differential is the main source of inequality in South Africa, responsible for about 56% of inequality. Unemployment is responsible for approximately 35% and differences in remittances and investment income make up the remainder. On average, the top 10% of wage earners take home 24 times more than the bottom 10%, while the top 5% earn almost 50 times more than the bottom 5%, up from 30 times in 2010. Disturbingly, inequality has increased since the fall of apartheid (Seeking, 2015).

Given this, altering the wage distribution in South Africa through increasing wages for the working poor could have a dramatic impact (Seeking; 2015). International experiences offer us imperfect but valuable insights into the potential role of a national minimum wage, set at an appropriate level. To fully exploit the potential of minimum wages requires careful policy design, and in South Africa the following questions begin to emerge, (a) what is the potential impact of the national minimum wage policy on income inequality and employment? (b) How is the composition of labour environment in South Africa and (c) identify pros and cons of the implementation modalities?

### **1.3 PURPOSE OF THE STUDY**

The purpose of this study is to examine the potential of the proposed national minimum wage on income inequality and employment. Furthermore, this study attempts to understand the South African labour environment and the implementation modalities of the national minimum wage.

### **1.4 RESEARCH OBJECTIVES**

The primary objective of the study is:

- To determine the potential effects of the proposed minimum wage in reducing income inequality and employment

Secondary objective is:

- To identify pros and cons in the implementation modalities of the national minimum wage.

### **1.5 RESEARCH QUESTIONS**

#### **1.5.1 Primary research question**

The research will attempt to answer the primary research question stated below as:

- What effects will the proposed national minimum wage have on income inequality and employment?

#### **1.5.2 Secondary research questions will be as follows:**

- What are the potential challenges in implementing the national minimum wage?
- What sectors (bargaining councils or sectorial determination) will the national minimum wage cover?
- The level at which the minimum wage should be set in order to address income inequality and employment.

## **1.6 FIELD OF STUDY**

My research is conducted under the academic field of macroeconomics using Policy Networks (PN) as a framework. According to Borzel (1997) who defines policy networks as a set of stable relationships which are of non-hierarchical and interdependent nature linking a variety of actors, who share common interests with regard to a policy and who exchange resources to pursue these shared interests acknowledging that co-operation is the best way to achieve common goals (Borzel: 1997 and Wits Student Paper, 2014). The framework setting in this policy network is that of vertical politics in horizontal governance (Wits Student Paper, 2014). The reason why I used Policy Networks in my research is because there has been a concerted effort between the current government (horizontal governance), political parties (vertical politics), private sector and organised labour in addressing income inequality in the country through the proposed introduction of the minimum wage policy based on shared interest in the networks (Wits Student Paper, 2014). In the proposed minimum wage policy the institutions in the policy network are the political parties, Organised Labour, Government and Private Sector (Wits Student Paper, 2014).

## **1.7 RESEARCH METHODOLOGY**

The study will employ a qualitative research approach as a framework of study. Qualitative research is a form of enquiry that helps us understand and explain the meaning of social phenomena with as little disruption of the natural settings as possible (Wanger, Kawulich and Garner: 2012). Qualitative research is especially effective in obtaining culturally specific information about the values, opinions, behaviours, and social contexts of particular populations (Wanger, Kawulich and Garner: 2012). According to Van Maanem (1979,p.520) it is an umbrella phrase covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning of naturally occurring form of research (Welman, Kauger, Mitchell; 2008). The national minimum wage

has been a widely debated matter by various institutions for and against the implementation.

Employing qualitative research design will assist in getting the opinions, views and feelings from identified institutions and persons.

## **1.8 RESEARCH OUTLINE**

The research report has been structured into six chapters as discussed below:

### **Chapter One: Introduction**

Chapter one outlines the background and provides context to the research problem. The chapter also comprises of problem statement, objectives of the study, research questions and research aims. It also incorporates research methodology approach the study undertook.

### **Chapter Two: Literature Review**

This chapter reviews relevant literature on the concept of minimum wage and income inequality and employment. It first focuses on the theory of minimum wage and the economics of the minimum wage and subsequently explores the concept of the national minimum wage within the South African context including wage setting mechanisms. Furthermore the chapter explores national minimum wage and its effect on income inequality and employment in developing countries.

### **Chapter Three: Research Methodology and Research Design**

This chapter outlines the research methodology employed in the process of collecting data. It further presents the research design, the analysis of data the reliability and validity issues.

### **Chapter Four: Data Presentation**

This chapter presents the data gathered through interviews, questionnaires and observations.

### **Chapter 5: Discussions of Findings**

This chapter discusses the findings of research obtained through data collection as explained in the previous chapter. These findings are in accordance with the research questions and objectives.

#### Chapter 6: Conclusion, Limitations of Study and Recommendations

This chapter draws conclusion of the research findings, provides limitation of the study. Furthermore it proposes other areas of future research and concludes with recommendations.

### 1.9 Conclusion

This chapter is to introduce the research aims, objectives and research methodology. Furthermore it also introduce the research problem and research approach. The next chapter will focus on the literature.



## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The literature on minimum wages is enormous, this chapter will review various journal articles and published research documents on the economic theory of the minimum wage, definition of the minimum wage, income inequality and employment in developing countries as well as the outlook of the minimum wage (settings) in the South African context. In assisting the research aims, a review on international experience e.g. Brazil will also be looked at with emphasis on inequality and employment since the commencement of the national minimum wage.

#### **2.2 Theory of the minimum wage**

Although there are several International Labour Organization (ILO) legal instruments on minimum wages, none provide a definition of what a minimum wage is. The ILO's Committee of Experts, however, has defined the minimum wage as 'the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract' (ILO, 2014). Relevant ILO instruments recognize that minimum wages can be set either by statute, decision of a competent authority, decisions of wage boards or councils, labour courts or tribunals, or by giving the force of law to provisions of collective agreements is (Belser, Rani & ILO, 2015).

Historically minimum wages were first introduced in New Zealand and Australia towards the end of the 19<sup>th</sup> Century. The United Kingdom introduced its first minimum wage policy in 1909 and most developing countries followed suit thereafter.

Among the emerging economies, both Brazil and China have continued with their strategies of reducing inequality and increasing the purchasing power of low-paid

workers through minimum wages, although China temporarily froze its rates in 2009 thereafter . In Brazil, between 1996 and 2009, the minimum wage increased by 83 per cent in real (inflation-adjusted) terms. At the same time, austerity policies have led to severe cuts in minimum wages in Greece, where the level has been cut by more than 20 per cent thereafter. Overall, however, deeper trends suggest that minimum wages are not just reclaiming their role as a central institution of labour and social policies in industrialized countries, but are also increasingly seen as a modern instrument of social cohesion and aggregate demand growth in emerging parts of the world (Belser,Rani & ILO, 2015) .

Arguments for and against a national minimum wage are usually based on economics (Cottle, ILO 2015). But economics itself is also a reflection of class interests and thus we find that the bosses, political parties and governments, conservative academics and even certain trade unions oppose the introduction of a NMW. Even where there is agreement to fix a national minimum wage some (like the government and business) want to maintain a low wage economy. Thus in most circumstances it is often those in well off positions who earn high incomes who are opposed to a NMW and are resistant to accept such measures that redistribute national income. Thus supporters of a NMW argue that for every worker and their family to be able to maintain a certain “minimum living standard” there has to be state intervention as the free market is not only resistant but also cannot achieve these broader national goals (Cottle& ILO, 2015).

The primary goal of a NMW is to protect the most vulnerable section of workers from gross exploitation. The ILO developed six criteria, to be taken into account in determining the level of minimum wages, namely:

The needs of workers and their families are taken into consideration.

The general level of wages in the country is considered.

The cost of living and changes therein is considered

Social security benefits are looked into.

Relative living standards of other social group and economic factors, including the requirements for economic development, levels of productivity and the level of employment (Cottle & ILO, 2015).

### **2.3 The Economics of the Minimum Wage**

Most economists would likely agree that high minimum wages reduce employment opportunities for young and unskilled workers (Law, 1998). Most would probably also agree that high minimum wages do not necessarily raise the incomes of the poorest members of society (Law, 1998). Yet, in spite of this consensus about the economics of minimum wages, the minimum wage continues to be touted by politicians and policy-makers as an effective way to help the poor (Law,1998). This is puzzling, since the adverse economic impacts of the minimum wage have been extensively documented (Law, 1998). This view is further supported by Neumark, 2015, who also suggests that minimum wage has gained momentum among policymakers as a way to alleviate rising wage and income inequality (Neumark, 2015). Much of the debate over this policy centers on whether raising the minimum wage causes job loss, as well as the potential magnitude of those losses (Neumark, 2015). Recent research shows conflicting evidence on both sides of the issue. In general, the evidence suggests that it is appropriate to weigh the cost of potential job losses from a higher minimum wage against the benefits of wage increases for other workers (Neumark, 2015). The standard neoclassical model of labour demand and labour supply came to dominate perceptions about the effects of minimum wages (Belser and Rani Chapter 5; ILO 2015). In the simple version of the model with an upward-sloping labour supply curve that intersects with a downward-sloping demand curve, any attempt to raise wages through legislation leads to the conclusion that the minimum wage decreases employment (unless the higher wage costs are passed on to workers through lower non-wage benefits). In Neumark's words 'a minimum wage mandates a movement up the labour demand curve, towards higher wages and lower employment (Belser and Rani Chapter 5; ILO 2015).

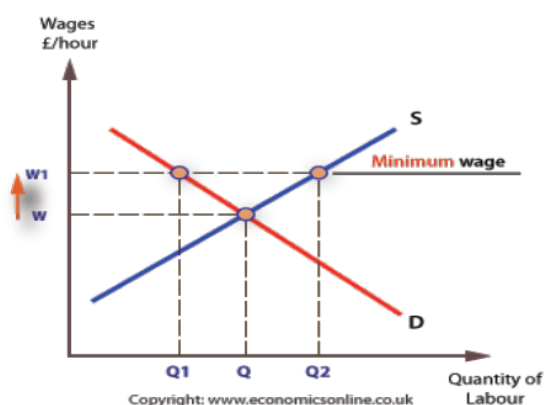
### 2.3.1 Neoclassical Model

The employment effect of the minimum wages, especially, is one of the most studied topics in all of economics. The debate in minimum wage theory manifests as a contestation between two poles, broadly termed the institutionalist and neo-classical economists.

The neoclassical approach to economics is centered on the presupposed efficient functioning of the market. The neoclassical model indicates that the most important influence on these connections, prices, can be logically explained as results of shifts in supply and/or demand, and that actors in the market, according to these constraints and influences, will always act in an efficient and productive manner. Labour supposedly also operates in a competitive market based on supply and demand, functioning like the market for any consumer good. At a certain price, the quantity of labour supplied by labourers and the quantity of labour demand by employers will reach equilibrium (Old Mutual, Student Paper, 2015). Mandated minimum wages are therefore treated as any other price floor (indicated by  $w_1$  on the graph). Figure 1, below is the neoclassical model.

Figure 1: Neoclassical Model

Figure 1: The Neoclassical Minimum Wage Market (Economics Online, n.d.)



According Old Mutual, Student Paper (2015) the minimum wage laws, such a price floor inevitably result in unemployment the difference between  $Q_2$ , the amount of people willing to work at the higher wage  $w_1$ , and  $Q_1$ , the amount of people that firms are willing to hire at the higher wage  $w_1$  (Old Mutual, Student Paper, 2015). At such a minimum wage price the aggregate supply of labour therefore exceeds the aggregate demand for it (Old Mutual, Student Paper, 2015). Consequently, it can be deduced from this model that those adversely affected by the shortage of employment will be those in the low-skill labour market (Old Mutual, Student Paper, 2015). Although some workers might receive the higher wage, other workers will be laid off, or will work fewer hours (Old Mutual, Student Paper, 2015). If the quantity of labour refers to employment, then the wage gains of those who keep their jobs must be traded off against the wage losses of those who lose their jobs (Old Mutual, Student Paper, 2015).

Various contentions have been made by numerous scholars and the one that I agree with is that of Kaufman (2010). His contention is that traditional neoclassical

economic price theory assumes away the most important and difficult part of the economic problem- its social and human character (Old Mutual, Student Paper, 2015). This is especially the case with its core competitive market model that to this day is the principal tool used in analysing the minimum wage (Old Mutual, Student Paper, 2015). Institutionalists are therefore critical of the mechanistic, generic assumptions that the neoclassical approach follows so religiously (Old Mutual, Student Paper, 2015). They advocate that the competitive model and neoclassical price theory in general, although contributing to certain useful insights, also bypass the fundamental determinant of whether a country is rich or poor, and its people satisfied or discontented (Old Mutual, Student Paper, 2015).

#### **2.4 National Minimum Wage: South African Context**

In South Africa clarions calls have been made by various **political institutions** and organised labour for South Africa to have a coherent minimum wage policy (Wits Student Paper, 2014). In 2014, a national minimum wage was placed on the policy agenda in South Africa (Seekings and Nattrass; 2015). Two years earlier, in 2012, the Central Executive Committee of the Congress of South African Trade Unions (COSATU) had discussed a widely distributed ‘concept paper’ on the introduction of a national minimum wage written by its ‘strategist’ Neil Coleman (Coleman, 2012a). Under pressure to accommodate its trade union allies in the run-up to the elections in May 2014, the governing African National Congress (ANC) included in its election manifesto under the pillar of promoting equality and decent work place, plans to investigate the modality for the introduction of a national minimum wage as one of the key mechanisms to reduce income inequality (ANC, 2014).

In the President’s State of the Nation Address in July 2014, he announced that there is a need to explore minimum wages in the context of the triple challenges of unemployment, poverty and inequality. He went further in stating that: **“Given the impact of the untenable labour relations environment on the economy, it is critical for social partners to meet and deliberate on the violent nature and duration of the strikes. The social partners will also need to deliberate on wage inequality. On our side as Government we will during this term investigate the possibility of a national minimum wage as one of the key mechanisms to reduce the income inequality. Deputy President Cyril Ramaphosa will convene**

**the social partners' dialogue, within the ambit of NEDLAC**" (SONA, pg. 12, 2014). To quantify the President's speech in hindsight, in June 2015 at the opening of the National Economic Development and Labour Council (NEDLAC) workshop of international minimum wage experience in which parties (labour, business and government) agreed on the broad acceptance on the need to introduce a national minimum wage (Donnelly 2015). The parties had determined that a national minimum wage "shall be the legal floor for a defined period of time, guaranteed by law, below which no employee may be paid in South Africa (Donnelly; 2015).

#### 2.4.1 Identified Institutions in the Policy Discourse

Political Institutions are defined as organisations which create, enforce, and apply laws; that mediate conflict; make (governmental) policy on the economy and social systems; and otherwise provide representation for the populous (Wits Student Paper, 2014). The following political institutions and labour federation are key in the introduction of the minimum wage policy (Wits Student Paper, 2014). Table 1 below identifies political institution and their role in this policy discourse.

Table 1: Institutions in the policy discourse

NAME OF INSTITUTION	INTEREST	REPRESENTATION	OUTCOMES
<b>Organised Labour:</b> Congress of South African Trade Unions (COSATU)	A coherent wage and income policy to address income inequality.	Represent the majority of the Labour Market and affiliate unions.	A minimum wage policy.
<b>Political Parties:</b> ANC, DA and EFF	Winning of voters/members into their	The ANC represents the majority of the South African voters, they are the current	Political Power and influence

	political parties The EFF is a new political party that wants to win voters and members and be the official opposition party.	government.	
<b>Government:</b> Department of Labour	Coherent wage and income policy	Represent the entire Labour Market	Stability and Labour Peace in country
<b>Private Sector:</b> Business	Sustainability of their business	Employer of the labour market and represent shareholder interest	Profit equity and sustainability

Table1: Wits Student Paper

Below are the views expressed by the identified institution on the national minimum wage policy.

#### **(a) Organised Labour : COSATU**

In the context of organised labour, this research will share the views of the Congress of South African Trade Union (Cosatu), as it's the biggest trade union in South Africa currently with 2, 200 million members (Rebosa; 2014).

In June 2015, Cosatu made formal presentation in Parliament to the Portfolio Committee on Labour in which it highlighted the following challenges:



South Africa does not have a coherent wage policy;

The apartheid wage structure is not fundamentally altered: majority of black workers, particularly in the private sector, continue to live in poverty;

Minimum wages in sectoral determinations, and many bargaining council agreements are way below the Minimum Living Level about R4500 to R5500 pm (Cosatu, 2015).

In mitigating these challenges, the Congress of South African Trade Union made the following proposal to circumvent the challenges alluded to above. It's "*calling for a national wage, social protection, & economic policy to address inherited inequality & poverty in the labour market*" and proposes these 4 pillars (Cosatu, 2015). Proposes 4 pillars: Adoption of a legislated national minimum wage;

New Collective bargaining strategies to reconfigure the wage structure, based on comprehensive centralised bargaining; A campaign for comprehensive social protection; This package should connect to appropriate economic strategies aimed at promoting industrialisation and decent work (Cosatu, 2015).

### **(b) Private Sector: NEDLAC**

In the context of private sector, this research will share the views of the National Economic Development and Labour Council (NEDLAC) on the national minimum wage. The National Economic Development and Labour Council is the vehicle by which government, labour, business and community organizations seek to cooperate, through problem-solving and negotiation, on economic, labour and development issues, and related challenges facing the country (Nedlac, 2016). An engagement process with social partners was developed by Nedlac and illustrated in figure 2:

Figure 2: NEDLAC Engagement Process



Nedlac engagement process: figure ;2

Through the engagement process with social partners, two technical task teams have been established to directly undertake engagements (Cosatu, 2015):

- Wage Inequality Technical Task Team (Cosatu,2015)
- Labour Relations Technical Task Team (Cosatu, 2015)

The task teams comprises of representatives of each of the social partners and their work is guided by a detailed terms of reference (Cosatu, 2015). The terms of reference of the Wage Inequality Technical Task Team requires it to engage on the following:

The modalities of introducing a national minimum wage in South Africa, including consideration of:

- Relevant international experience in the introduction of a national minimum wage.
- Maximising the beneficial impact of a national minimum wage in the context of poverty, inequality and unemployment and to understand the impact it may have in order to manage potential risks

- The existing legal and institutional arrangement for minimum wage setting (BCEA, bargaining councils, other bargaining fora); what new legislative, and other institutional arrangements would be required to introduce a national minimum wage; and what impact the introduction of a national minimum wage will have on existing sectoral determinations and collective wage agreements (Nedlac, 2015).
- The architecture of a national minimum wage including possible exclusions, while recognising the need for a national minimum wage to be as comprehensive as possible
- Ensuring that the impact of introducing a national minimum wage is not undermined, or delayed unnecessarily and to consider whether any phase-in processes would be appropriate
- The body that will be responsible for determining a national minimum wage
- The mechanism for setting and determining increases to the national minimum wage
- Enforcement of the national minimum wage and measures to ensure compliance and monitor the impact
- Innovative measures to promote employer cooperation in the implementation of a national minimum wage
- Measures to reduce pay differentials, including between the highest and lowest paid, while maximising job creation efforts
- Measures to achieve the elimination of poverty and inequality
- Support the urgent finalisation of a policy on a comprehensive social security system (Nedlac, 2015).

According to Nedlac (2015), the Wage and Inequality Task Team has met on four (4) occasions since June 2015, and has also convened a workshop with the International Labour Organisation (ILO). The task team is currently focusing on:

- Finalising the definition of the national minimum wage (Cosatu, 2015).
- Based on evidence, developing the social and economic determinants of the national minimum wage in line with combatting inequality; and

promoting economic growth, poverty alleviation and employment objectives (Cosatu, 2015).

- Considering whether the national minimum wage, in its application, will provide for sector-specific or other exclusions, phase-ins, phase-outs or exemptions, and in which areas, depending on the level (Cosatu, 2015).
- Considering the appropriate legal and institutional arrangements, and the body and/or mechanism that would be responsible for determining and reviewing the national minimum wage, including the regularity of reviews, and the capacity and structure of the Employment Conditions Commission (ECC) to determine the national minimum wage (Cosatu, 2015).
- Determining how to optimise compliance and enforcement efforts (Cosatu, 2015).

### **(c) Political Parties**

In the context of political parties, this research will share the views of the Economic Freedom Fighters (EFF) and the Democratic Allies (DA) as they are the main opposition to the ruling government of the National African Congress (ANC) on the national minimum wage.

The **Economic Freedom Fighters** tabled a motion for debate and resolution in parliament in which they requested the Parliament to set the national minimum wage at R 4 500.00 both for public and private sectors (EFF, 2015). According to EFF (2015), the EFF believes that the introduction of national minimum wage will stimulate economic activity in South Africa, create jobs, reduce inequalities and deal decisively with poverty (EFF, 2015). Subsequent to an unsuccessful motion the EFF promises not to retreat on its war for the introduction of national minimum wage for all workers both in public and private sector (EFF, 2015).

The Democratic Alliance (DA) is not against the idea of a national minimum wage. It wants the national minimum wage be sector specific to curb job losses in marginal industries such as textiles and steel as well as those where rapid increases will lead to job losses such as agriculture, security services and domestic work and that sectoral wage must be set by an independent Minimum Wage Commission (Times

Newspaper, 2015). The Democratic Alliance further suggest that the minimum wage must exempt the students, the youth and interns from minimum wages as well as workers applying for jobs in small and micro enterprises in order to help people with no experience get their first job (Times Newspaper, 2015), indicating that if you don't, minimum wages will lock out those who don't have experience (Times Newspaper, 2015).

One can deduce that in principle the political parties both accept the need to have a national minimum wage, the disagreement in views are the implementation modalities thereof and both are proposing a committee/commission to investigate the feasibility of introducing minimum wage.

## **2.5 WAGE SETTING MECHANISMS IN SOUTH AFRICA**

South Africa (SA) does not have a coherent national minimum wage (Cosatu, 2015). Unlike many other countries, the minimum wage in South Africa is different for each sector (ILO; 2015). The framework for minimum wage regulation in South Africa is set by the Labour Relations Act (no 66 of 1995) and the Basic Conditions of Employment Act (no 75 of 1997, as amended). These Acts establish two main mechanisms for wage determination, namely;

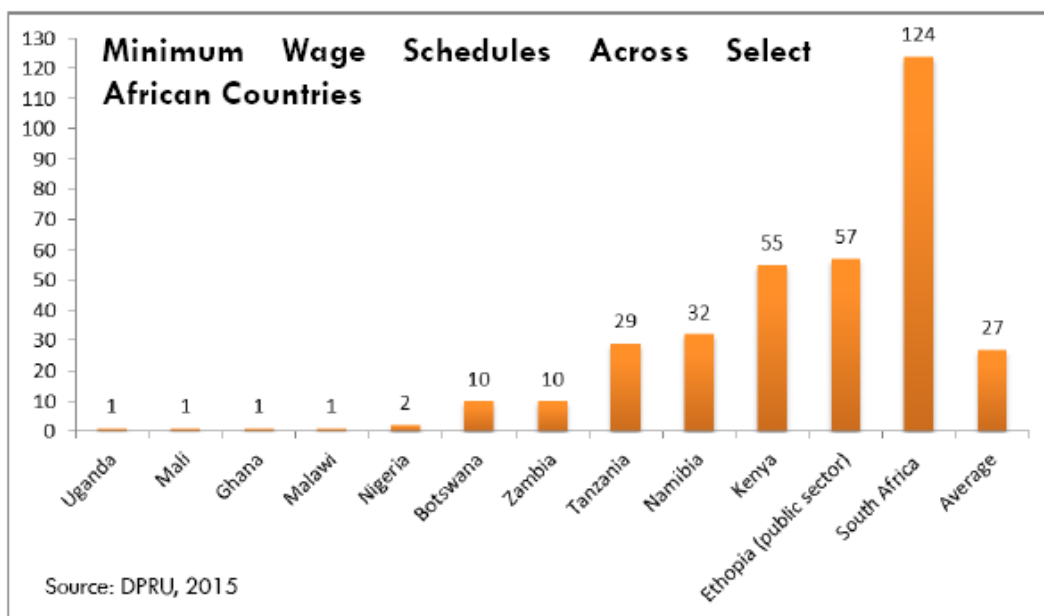
- Collective bargaining including through statutory institutions (bargaining councils)
- Sectorial determinations that are published by the Minister of Labour and that set minimum wages for a sector and/or area (DoL, 2015).

Wage regulation in South Africa therefore takes place through collective bargaining and through direct regulation of wages for vulnerable workers via the sectorial determinations (DoL; 2015). Bargaining Councils (BC's) only cover about 2,4 million workers; and Sectorial Determinations (SD's) 3.5 million out of 10,8 million formal sector workers (Cosatu, 2014). Multiple, low, minimum wages: Some set through Collective Bargaining, including 47 Bargaining Councils (BC's); some by government

through 11 sectoral determinations (SD's); and some through agreements at company level (Cosatu, 2014).

There are 124 minimum wage schedules in SA (Cosatu, 2015). Figure 3, below is a bar diagram that illustrates minimum wage schedules across selected African countries.

Figure 3: Minimum Wage Schedule

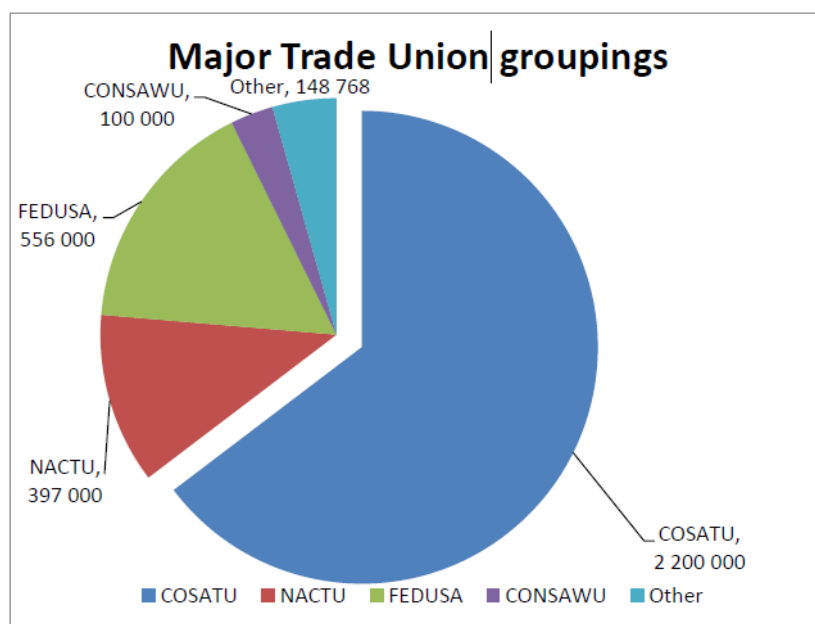


SA has the highest number of minimum wage schedules compared to other African countries (Cosatu, 2015). This has implications for compliance and enforcement (Cosatu, 2015).

### 2.5.1 Collective Bargaining

The most common form of deciding upon wage increments is by collective agreements or when unions negotiate with employers on behalf of their members. Figure 4, the chart below depicts trade union groupings in SA, with COSATU being the largest (Sbp; 2015).

Figure 4: Trade Unions



Source: SAIRR (2013)

The figure above shows that Cosatu is the biggest affiliate in the country with more than two million members. They are a recognised trade union that has the power to influence policy direction and decision.

### 2.5.2 Sectoral Determination

Sectoral determination, wages are set as part of overall conditions of service in identified sectors or areas (rebosa, 2014). These conditions are published in

subordinate legislation called 'sectoral determinations'. Thereafter the Minister has the power to review and increase these minimum wages at regular intervals (rebosa, 2014). Currently, the sectors benefitting from a minimum wage through sectoral determination in SA include the following:

- **Domestic workers, wholesale and retail, Farm workers, Forestry, Hospitality, Taxi, Contract cleaning, Civil engineering sector, Private security sector.**

Bhorat (2014) notes that statutory minimum wages in South Africa, vary not only by sector, but also in some cases by occupation and location, thus resulting in a total of more than 36 different minimum wages in the country (rebosa, 2014). Figure 6, below shows minimum wages as determined by the Labour Department in 2015, for the sectoral determination.

Figure 5: Sectoral Determination



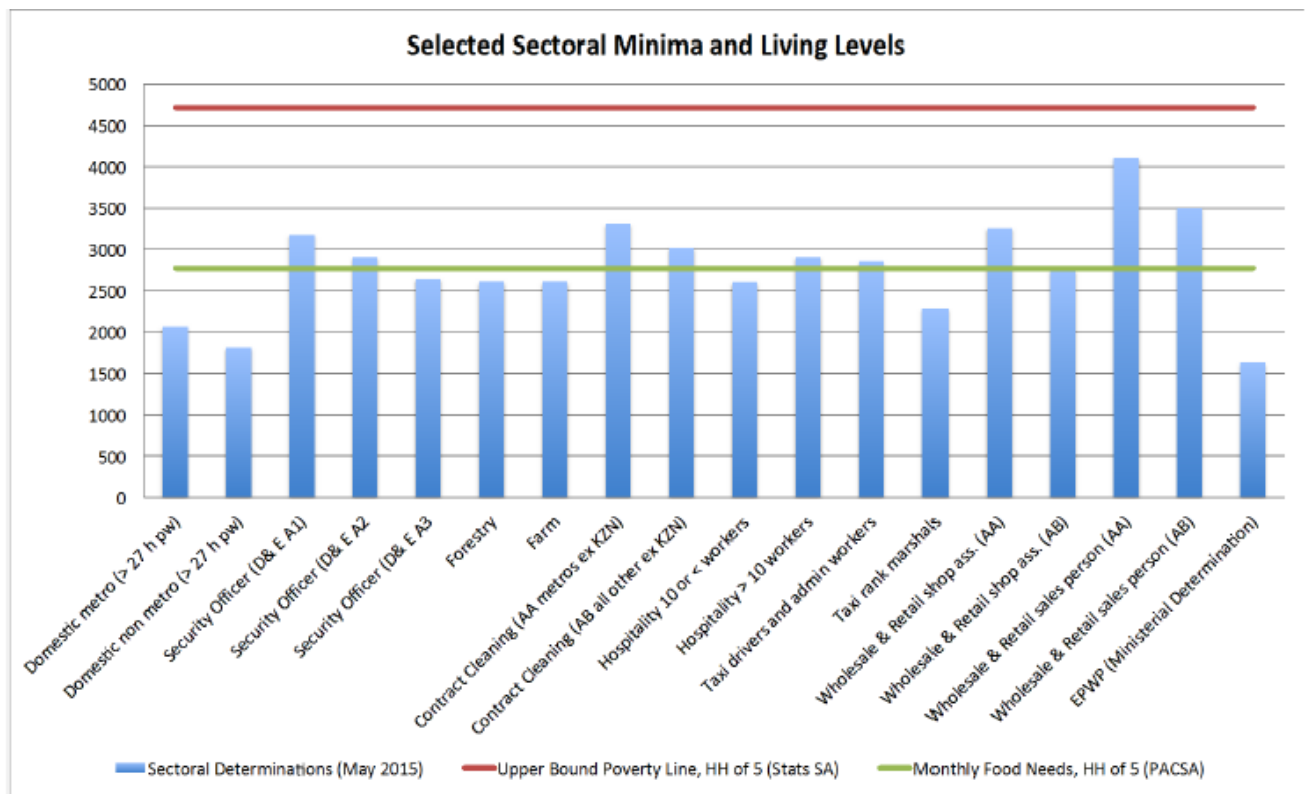
# Sectoral Determination Minimum wages

Source: Jane Barrett, Cosatu, 2015

Sector	Min ph	Min pd (9 hour day)	Min pm	Increase date
1. Domestic metro (above 27 hours pw)	10.95	98.55	2065.47	1 Dec 2015
Domestic non metro (above 27 hours pw)	9.30	83.70	1812.57	
2. Security Officer Grades D& E Area 1	15.25	-	3172.00	1 Sept 2015
Security Officer Grades D& E Area 2	13.95	-	2901.00	
Security Officer Grades D& E Area 3	12.68	-	2637.00	
3. Forestry	13.37	120.32	2606.78	1 March 2016
4. Farm	13.37	120.32	2606.78	1 March 2016
5. Contract Cleaning Area A metros ex KZN	16.98	152.82	3308.55	1 Jan 2016
Contract Cleaning Area B all other ex KZN	15.47	139.23	3014.33	
6. Hospitality 10 or < workers	13.34	120.06	2601.88	1 July 2015
Hospitality > 10 workers	14.87	133.83	2900.08	
7. Taxi drivers and admin workers	13.68	123.12	2847.01	1 July 2015
Taxi rank marshals	10.94	98.46	2275.81	
8. Wholesale & Retail shop ass. Area A	16.67	750.05	3249.98	1 Feb 2016
Wholesale & Retail shop ass. Area B	14.09	634.32	2748.51	
Wholesale & Retail sales person Area A	21.04	946.70	4102.04	
Wholesale & Retail sales person Area B	17.92	806.15	3493.08	
9. EPWP (Ministerial Determination)	9.34	75.10	1625.00	1 Nov 2015

The figure above (5) shows the amount determined by the Department of Labour on how much workers must be paid in the sectorial I determination. One can deduce that workers are paid differently in the sectorial, there is no standard amount across the board.

Figure 6, below illustrates Living Levels in selected sectoral minima.



Source: Gilad Isaacs Wits NMW Research Initiative

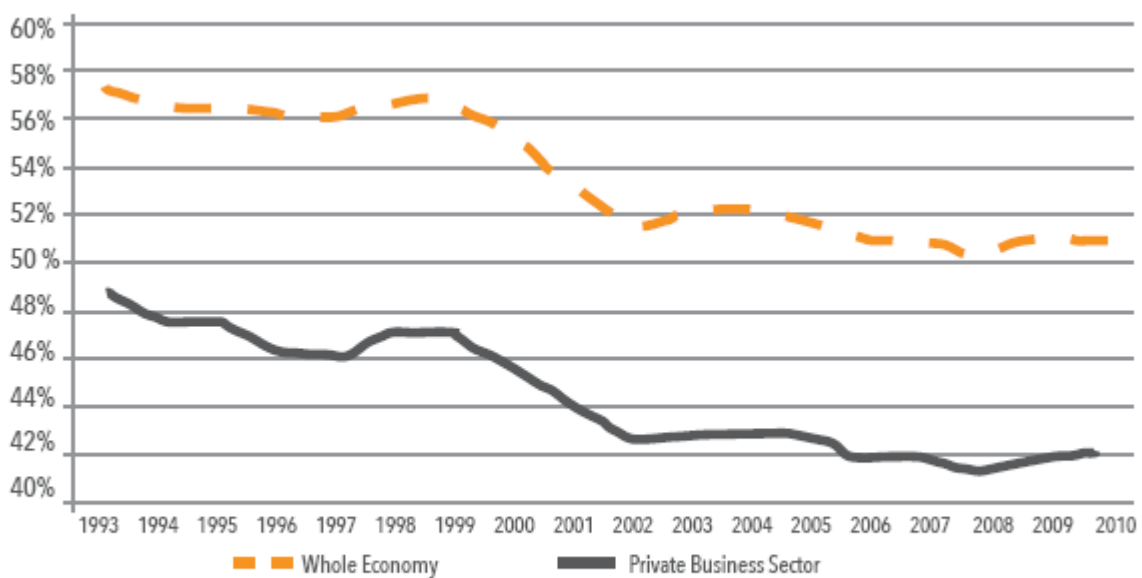
As depicted in the table and bar diagram above, we can deduce that workers covered by the sectoral determination minima, cannot escape poverty. These workers earn less than what is proposed as the national minimum wage of R4, 500 – R5, 000 by both Cosatu and EFF. It is therefore crucial that the national minimum wage of South Africa should be set at the right level and the question that the this research will also attempt to answer is what is the right level?.

## 2.6 SYNOPSIS OF INCOME INEQUALITY IN SOUTH AFRICA

The post-1994 period in the South African economy is characterized, perhaps most powerfully, by the fact that the economy recorded one of its longest periods of positive economic growth in the country’s history (LRS; 2015). From 1993 until 2013, South Africa’s GDP growth rate averaged 3.2 % reaching an all-time high of 7.6 % in 1996. Until the last quarter in 2008 South Africa had seventeen years of positive economic growth (LRS.2015). Despite this positive economic growth, the country has the *most unequal income distribution* in the world with a Gini coefficient of 0.69

in 2013, an increase from 0.64 in 1995 just one year after apartheid officially ended (LRS; 2015). South Africa's Gini coefficient was also much higher than countries such as Brazil at 0.54, India at 0.33, China at 0.47 and Russia at 0.42, a country deemed to be on a high level of human development by the UN (LRS; 2015). The figure below shows wage share of GDP in South Africa from 1993-2010.

**Figure 7: Wage Share of GDP in South Africa 1993-2010 (LRS, 2015)**



Source: AIDC (2014)

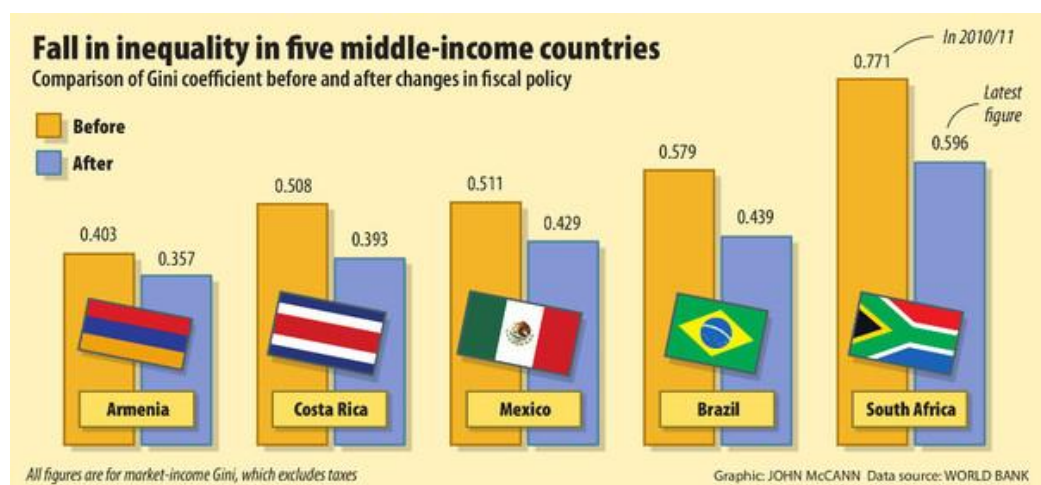
Figure 7 shows that the labour share of GDP compared to profit dropped over an 18 year period from 57% to 51% between 1993 and 2012. In other words, ***less of the total wealth generated through economic growth is going to workers and more is going the upper classes*** (LRS, 2015).

Furthermore, a Labour Research Service study on the wage gap of some 90 listed companies shows that there was on average a 40 year wage gap between directors and workers in 1994 (LRS; 2015). The wage gap in 2014 has increased to an average of 200 years between directors and workers (LRS; 2015). South African

Census 2011 showed while the income of black households had increased by nearly 170% in the last decade, they still earned the least (LRS; 2015). Results from the Census 2011 further suggests that income of white South African households is six times higher than black ones (LRS; 2015). The average annual income for blacks is R60, 613 while for their white counterparts it is R365, 134 (LRS; 2015).

The comparison of the gini coefficient index in the middle income countries in 2010/11 shows that South Africa decreased from 0.77 to 0.59. Figure 8, shows the comparison in middle income countries.

**Figure 8: INCOME INEQUALITY IN MIDDLE-INCOME COUNTRIES**



Source: World Bank

This decrease for South Africa as depicted above and according to the World Bank is largely due to government intervention on reducing poverty and inequality (Donnelly, 2014). The government through its adopted policy framework the National Development Plan (NDP), sets to reduce inequality and unemployment. It targets cutting the Gini coefficient to 0.60 by 2030 and raising employment and the share of income of the two poorest quintiles of the income distribution from 6 percent to 10 percent (National Development Plan, 2014). Based on the empirical evidence and literature, one can deduce that the gap between the reach and the poor in South Africa continues to grow as shown in the income inequality.

## 2.7 EFFECTS OF THE NATIONAL MINIMUM WAGE ON EMPLOYMENT

Despite the decades of research and hundreds of papers on the topic, the debate about the impact of minimum wages on employment in advanced economies is still raging (Broecke, Forti, Vandeweyer, 2015). While the effect of minimum wages on employment has been heavily researched in the developed world, much less is known about their impact in emerging economies (Broecke, Forti, Vandeweyer, 2015). There is very little empirical evidence available to show the impact of minimum wages in developing countries and its effectiveness in meeting its social justice or poverty alleviation role (Alata and Cameron 2003). Yet there are important reasons to believe that the impact of minimum wages might be different in such settings (Broecke, Forti, Vandeweyer, 2015).

On the one hand, larger effects might be expected due to the fact that minimum wages in emerging economies are often set at a very high level (Herr and Kazandziska, 2011; World Bank, 2008) or because a greater proportion of the workforce is unskilled and earning at or near the minimum wage (Cunningham, 2007). In addition, and particularly in Latin American and Caribbean (LAC) countries, minimum wages frequently have an impact higher up the income distribution because they have tended to be used as an index for wage adjustments more generally, with wages and benefits expressed in multiples of the minimum wage (Maloney and Mendez, 2004). Labour market conditions in developing countries differ dramatically from those in industrialised countries; “They are typically more segmented, filled with less educated labour, characterized by a high ratio of male-to-female workers, and dominated by small and informal firms. Changes in minimum wages in a developing country can potentially lead to significant heterogeneous effects on a large fraction of the labour force” (Carpio and Nguyen and Wang, 2012).

However, there are also many reasons to expect the minimum wage to have very little impact on employment in emerging economies (Carpio and Nguyen and Wang, 2012). One reason is that, in environments characterised by high levels of inflation, it may be very difficult to increase the real value of the minimum wage (Lustig and McLeod, 1997).

Another, and possibly more important, reason is that the level of compliance with the minimum wage is frequently very low in these countries (Bhorat and Stanwix, 2013).

This may be because the minimum wage is either set too high or too low (Saget, 2008; Lee and Sobeck, 2012; Rani *et al.*, 2013), the system is too complex (Cunningham, 2007; Rani *et al.*, 2013), there are no legislated fines/punishments for non-compliance, or the minimum wage is simply not enforced, possibly due to a lack of resources (Kristensen and Cunningham, 2006). One reason why the minimum wage might be difficult to enforce in emerging economies is the existence of a large informal sector. In such contexts, increases in the minimum wage may have no effect on overall employment because a fall in formal sector employment may simply be compensated by a rise in informal sector employment as displaced workers migrate from one sector to the other (Broecke, Forti, Vandeweyer, 2015).

The minimum wage is more binding in the informal sector than the formal sector (Cunningham, 2007). With regards to the supply of labour, the minimum wage is regarded a “fair wage” in both sectors. On the demand side, employers in the informal sector will tend to use the minimum wage as a proxy for a “fair wage” in attempt to attract labour and reduce labour turnover (Rikhotso, 2015). Evidence has been seen to firmly allude to the fact that an increase in minimum wages tends to have a positive effect on wages, and thus reduces poverty and inequality; however it also carries a small negative impact on employment among the workers that the legislation targets (Rikhotso, 2015). The effect will have the most impact on low-wage workers, low skilled workers and the youth (Rikhotso, 2015). The extent of the effect depends on the proportion of wage earners affected by a certain minimum wage (Belser, 2012).

The neoclassical model makes distinction in employment of skilled and unskilled labour in which a higher minimum wage is predicted to result in lower employment of unskilled labour, while the employment of skilled labour might actually increase if skills are complementary to capital equipment (the idea being that skilled workers are needed to operate machines and computers) says Belser, Rani & ILO 2015. Belser and Rani further suggests that because different industries operate with different levels of labour, skill and capital intensities, the minimum wage will tend to push up total costs and prices in different ways across industries. This can lead to

cross- industry effects, whereby the minimum wage can hurt employment in labor-intensive industries, and increase employment in sectors that produce goods that are substitutes. While the neoclassical model does not predict that the minimum wage will reduce employment in all industries (Neumark and Wascher, 2008), overall it states unambiguously that minimum wages hurt employment of at least some groups of workers (Belser and Rani Chapter 5; ILO 2015) .

### 2.7.1 Unemployment in South Africa

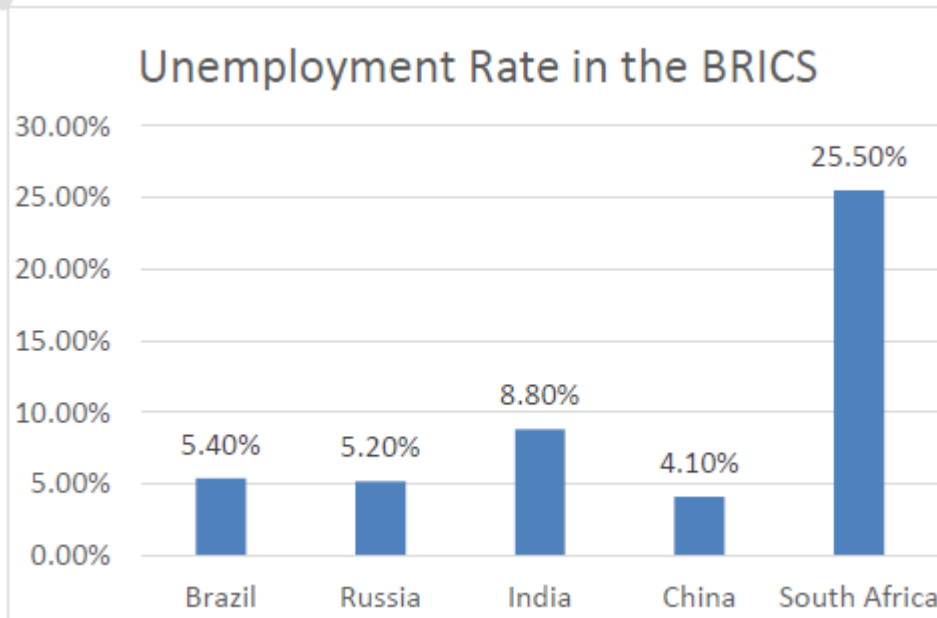
In the South Africa context employment and unemployment are concomitant by their nature, and play a key role in this policy discourse. You cannot turn a blind eye when introducing the national minimum wage without understanding the unemployment environment and the possible effect (negative/positive) that will be derived thereof.

South Africa's rising unemployment is the biggest problem facing South Africa and its social stability (Rebosa, 2014). According to the World Economic Forum's Global Risk 2014 report, South Africa has the third highest unemployment rate in the world for people between the ages of 15 to 24 and estimates that more than 50% of young South Africans between 15 and 24 are unemployed (Rebosa, 2014) . Only Greece and Spain have higher unemployment in this age range (Rebosa, 2014). Recent statistics released by Stats SA (July, 2014) show that joblessness in South Africa has reached its highest level since 2008, a rate of 25.5% under the strict definition of unemployment in the second quarter of 2014 (Rebosa, 2014). The number of unemployed persons increased by 87 000 over the second quarter of 2014 to 5.2 million, while the absorption rate was virtually unchanged (Rebosa, 2014). Taking into account the expanded definition, which includes people who have given up looking for jobs, unemployment has risen to 8.2million (35%).While the statistics show that more people are in fact being employed than before, the unemployment rate has risen because the available labour force has grown more rapidly than the rate at which people have found employment (Rebosa, 2014). The biggest job losses at both a quarterly and an annual rate were in the manufacturing and agriculture industries (Rebosa, 2014). Stats SA notes education as an important determinant of unemployment (Rebosa, 2014). With regard to skilled workers, the report shows that in the first quarter of 2014, approximately 25% of South African workers were in a

skilled occupation (managers, professionals, technicians) an increase from 21% in 1994 (Rebosa, 2014). However, a higher percentage (46%) were still in semi-skilled occupations (clerks, craft and related trades, machine operators) in 2014, a slight decrease from 47% in 1994; and 29% were in low-skilled occupations (elementary jobs and domestic work), down from 32% in 1994 (Rebosa, 2014). In determining a national minimum wage, a comparison of unemployment rate for the BRICS is illuminating, as depicted below.

Figure 9: Unemployment in Brics





Source: SBP

The figure above shows that the BRICS partners all have unemployment rates in the low single figure range, with South Africa being an outlier by far at 25.5% (Rebosa, 2014). The causes of unemployment varies from country to country but the overall similarity is the unskilled workforce.

## 2.8 INTERNATIONAL COMPARISON : BRICS COUNTRIES (BRAZIL, INDIA, CHINA & SA).

Throughout the world, millions of workers earn the minimum wage, making it a potentially powerful tool to reduce or contain inequality in the lower half of the wage distribution and to reduce gender pay gaps, as women tend to be over-represented among low-paid workers (Belser and Rani, 2015). Among the emerging economies, both Brazil and China have continued with their strategies of reducing inequality and increasing the purchasing power of low-paid workers through minimum wages, although China temporarily froze its rates in 2009 (Belser and Rani, 2015). In Brazil, between 1996 and 2009, the minimum wage increased by 83 per cent in real (inflation-adjusted) terms (Belser and Rani Chapter 5; ILO 2015) . At the same time, austerity policies have led to severe cuts in minimum wages in Greece, where the level has been cut by more than 20 per cent (Belser and Rani,2015). Overall,

however, deeper trends suggest that minimum wages are not just reclaiming their role as a central institution of labour and social policies in industrialized countries, but are also increasingly seen as a modern instrument of social cohesion and aggregate demand growth in emerging parts of the world (Belser and Rani, 2015).

### **2.8.1 BRAZIL**

The Brazilian minimum wage was adopted in 1940, by President Getúlio Vargas only for urban workers (Berg, 2009). The Brazilian minimum wage sets the floor for wages and serves as an important benchmark for the evolution of national earnings and also for pensions and various social benefits (Berg, 2009). Since the early 2000s, and particularly during the last four years, Brazil succeeded in lowering poverty and inequality levels (Berg, 2009). The Gini index dropped from 0.56 in 2000 to 0.53 in 2007, and the number of workers whose incomes were below the poverty line fell from 23% in 1999 to 14% in 2006 (Berg, 2009). During the same period, the Brazilian minimum wage rose significantly in real terms, after having fallen and stagnated for about 15 years (Berg, 2009). Below is the graph on Real minimum wage and income distribution curve.

Figure 10: Real Minimum Wage in Brazil

### Real minimum wage and income distribution curve, 1995-2007



**Source:** Prepared by ILO based on DIEESE (*Departamento Intersindical de Estadísticas y Estudios Socioeconómicos*) and IBGE (*Instituto Brasileiro de Geografia e Estatística*) (PNAD)  
a/ Minimum wage data for the Municipality of Sao Paulo

Brazil’s national minimum wage is currently set at (BRL) 724.00 per month converted to rands its R 3024.68 , and is adjusted annually by an act of Parliament based on criteria set out in the act according to the Small Business Project (Rebosa; 2014.) The criteria allows for above inflation adjustments as it adjusts minimum wages to CPI plus GDP growth of two years previous (Rebosa, 2014) and each state may not set levels lower than the federal minimum (Rebosa, 2014). Since 2008 there is a formula that defines the guidelines of the increase of the minimum wage (Manzano, 2015). The formula is:

Inflation rate of the previous year

+

GDP growth rate of two years ago

Following the success of minimum wage (increase thereof), critics raised a myriad of issues as a result of the increase , highlughtihng that it will give rise to:

- increase in inflation rates.
- rise in unemployment.
- increase in the fiscal deficit (on account the social security system).
- increase of labour informality .

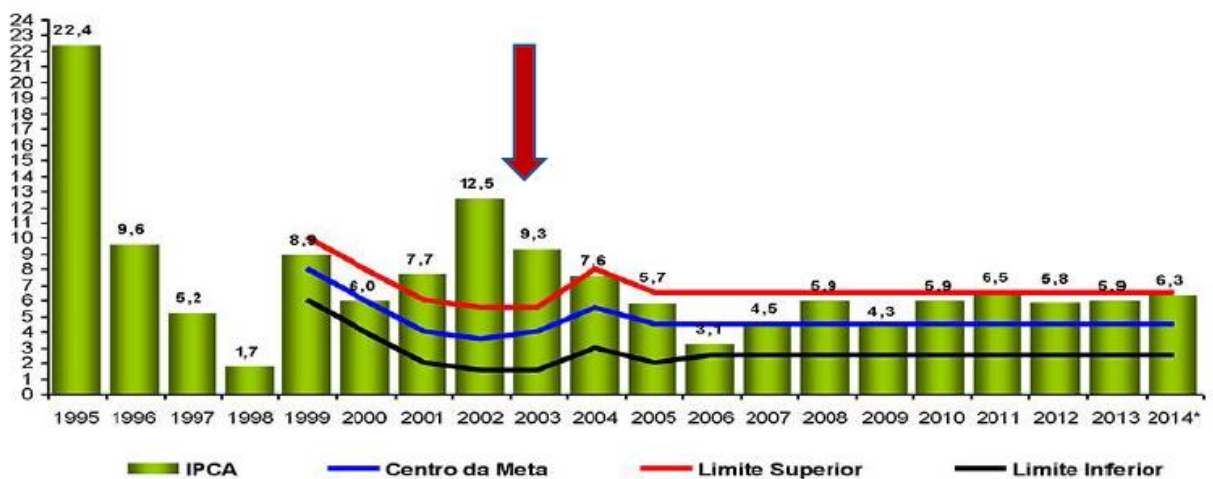
- decline in unionisation ( Manazano, 2015).

In responding to a myriad of issues raised by the the the critics, Manzano, 2015 answers some of the issues in the following:

(a) Inflation rate

The inflation rate is still high but under control according to (Manzano, 2015).

Figure 11: Inflation in Brazil



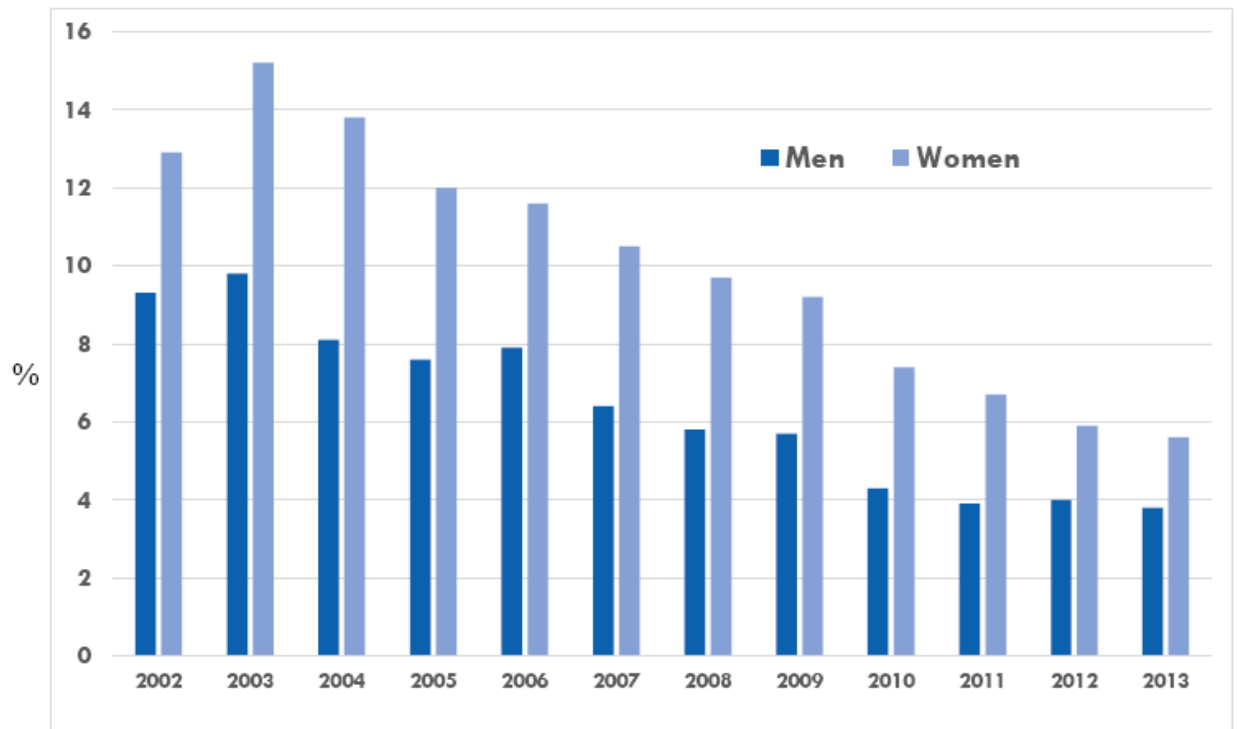
Source: Workshop on International Minimum Wage: NEDLAC

Brazil managed to keep inflation under contro; from 2005 to 2014 and has not attected the minimum wage set by the country. Pre 2004 the inflation rate was high in 2002 it was sitting at 12.5 and reduced to 9.3 in 2003 and kept in reducing yesr after year as illustrated in the figure above.

(b) Unemployment

Unemployment fell as depicted in the graph below

Figure 12; Unemployment in Brazil



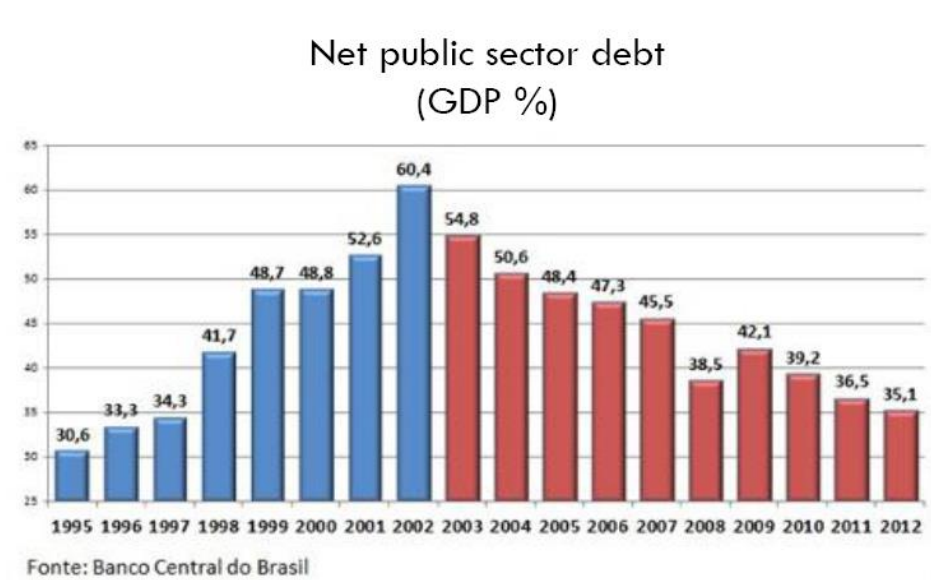
Source: Workshop on International Minimum Wage: NEDLAC

Since the introduction of the minimum wage, unemployment levels in Brazil kept on reducing. The year 2003 saw high levels of unemployment at 14.5% for females and 9.5% for men. These levels kept on dropping year after year after 2003.

### (c) Fiscal Deficit

According to Mananzo, the fiscal deficit didn't come as depicted in the graph below.

Figure 13: GDP in Brazil



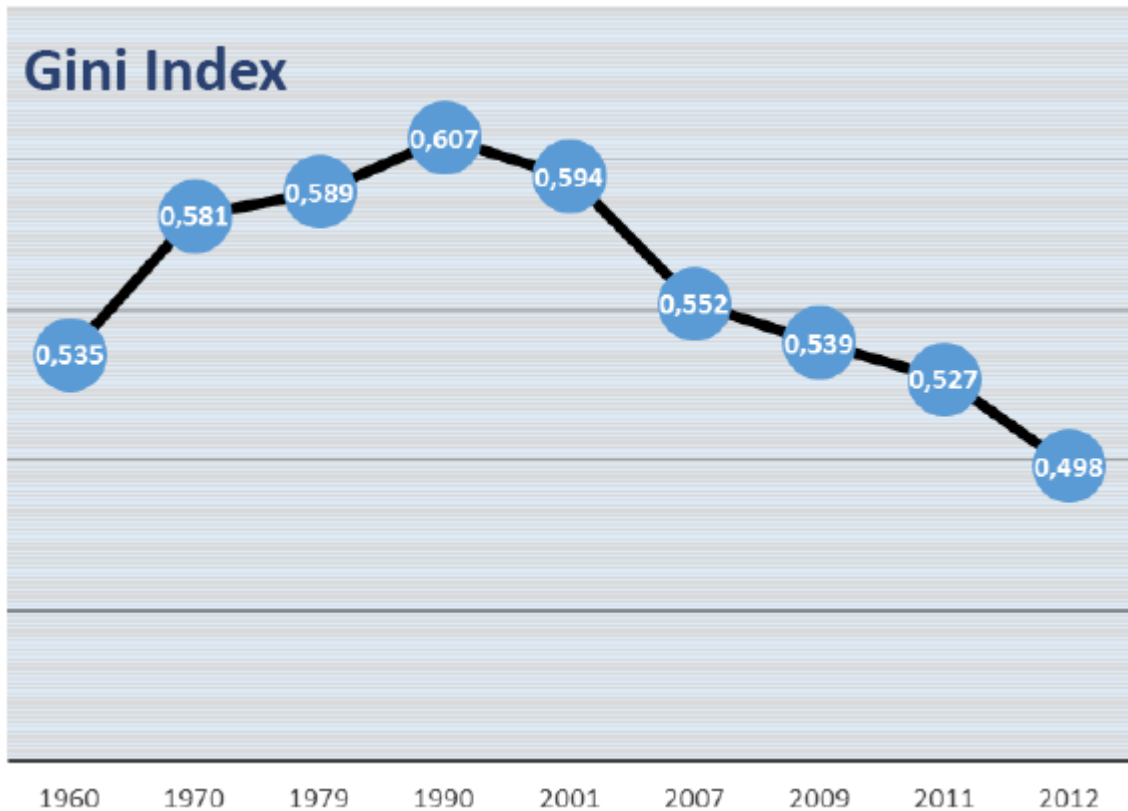
Source: Workshop on International Minimum Wage: NEDLAC

The fiscal deficit in Brazil was recorded as normal and did not come as expected, in 2012 GDP was 35,1% as illustrated in the figure above.

(d) Inequality

Inequality has been reduced since the introduction of the minimum wage as depicted below:

Figure 14: Gini Index in Brazil



Source: Workshop on International Minimum Wage: NEDLAC

Studies by the International Monetary Fund (IMF) , the World Bank and other Brazilian researchers centers point that about 60% of the reduction in inequality was due to the minimum wage rise policy (Cosatu, 2015). Other set of factors had to be taken into consideration as well for such a policy to work. These factors are:

- The Brazilian Labour Justice and the system of punishments and sentences for non-compliance (Cosatu,2015);
- The link between the minimum wage and the social security system (Cosatu,2015).
- Tax relief for micro and small entrepreneurs who formalize their employees- same for domestic employers(Cosatu,2015) .
- The monetary stabilization(Cosatu,2015).
- The commodities boom current account surpluses (Cosatu,2015).
- The fall in the price of manufactured goods (Cosatu,2015).

- The recovery of the investment levels (Cosatu,2015).
- Employment growth moving closer to the full employment (Cosatu,2015).;
- Average rates of GDP growth of 3.5% for several years (Cosatu,2015).
- The support of the social movements and the trade unions (Cosatu,2015).

The recovery of the minimum wage in Brazil has contributed to the reduction of poverty and inequality in the country, improving the living conditions of low-income workers, in addition to pensioners, welfare beneficiaries, and the unemployed with access to unemployment insurance (Berg; 2009).The minimum wage rise policy by itself is not enough to boost the development of a country; but the economic development cycles are much more powerful and capable to promote social justice and well-being when they are accompanied by a responsible, gradual and persistent expansion of the value of the minimum wage (Mananzo, 2015). This will be better achieved if it is built through an agreement among the various social actors in the country (Mananzo; 2015).

### **2.8.2 Russia**

The National Minimum Wage is set at (RUB) 5554 rubles per month converted to rands its R 1259.48 and the national minimum wage covers all employees (Rebosa, 2014). Collective bargaining is structured on three levels, national, regional and company level (Rebosa, 2014). NMW in Russia has not served its original purpose of protecting the lowest earners and has no substantial effect on poverty reduction (Rebosa, 2014). Enforcement of the NMW has been a significant problem in Russia (Rebosa, 2014).



### **2.8.3 India**

India has a list of over 1 200 different minimum wage rates. The system results in a “plethora of statutory minimum wages which vary across jobs within a state and across states in a same job” (Ghose, 1997). The minimum wage is set by the Minimum Wage Acts of parliament (Rebosa, 2014). Since 1991 the national minimum wage is set as a floor but is not binding (Rebosa, 2014). It is up to the “appropriate government” to set minimum wages in selected “employment schedules” under their jurisdiction (Belser & ILO, 2015). The minimum wage varies from 118 rupees (\$2.18) in Bihar to 185 rupees per day in Haryana (the local cost of living included) converted to rands its R27 per day and R42 per day respectively. Compliance is a major challenge, according to ILO estimates, 41% of those entitled to a minimum wage were actually paid less (Belser & ILO, 2015). Non-compliance was particularly high in rural areas and among casual workers in the informal economy (Belser & ILO, 2015). To some extent this may be due to the complexity of the current system (Belser & ILO, 2015). There are not enough studies on the employment effects of minimum wages in India that meet the contemporary standards in terms of methodology (Belser & ILO, 2015).

### **2.8.4 China**

China adopted a minimum wage in 1993, and revised it in 2004 (Belser & ILO, 2015). In 2004, the scope of minimum wages was extended to all enterprises (both private and public), as well as non-enterprise units (NGOs) (Belser & ILO, 2015). The minimum wage covers all workers who have an established employment relationship (Belser & ILO, 2015). The minimum wage is set at Provincial level and there is no national rate (Belser & ILO, 2015). It is up to the Provincial governments to set and adjust the rates for all areas within their jurisdiction (Belser & ILO, 2015). Because each provinces have 3 to 4 different rates, there are around 100 rates in China (Belser & ILO, 2015). Minimum wages are determined by local government (Rebosa, 2014). The Employment Promotion Plan provides for minimum wages to be increased in accordance with local living standards by at least 13% per year to 2014/5 and by no less than 40% of the average local wages. Based on these

policies, minimum wages increased by an average of 12.6% between 2008 and 2012 (Rebosa, 2014).

Minimum wages has contributed to lower inequality, but only to a limited extent (Belser & ILO, 2015). This can be linked to the fact that minimum wages in China are still low and have not kept pace with the more rapid increase in average wages. Among the main beneficiaries have been migrant workers (Belser & ILO, 2015). Results from studies on employment effects are few and mixed, but according to the Ministry of Human Resources and Social Security in China “there is no evidence to indicate that the policy has any direct adverse effect on employment (Belser & ILO, 2015). It is believed that there is room for raising the minimum wage rates continuously” (Belser & ILO, 2015).

## **2.9 Conclusion**

It is evident from the literature above that if minimum wage is set at a right level, it has minimum effects on employment. The national minimum wage increase in Brazil helped to reduce inequity and poverty. Very few companies within the Brics countries adhere to minimum wage compliance hence the very difficulty in enforcing minimum wage.

## CHAPTER 3

### RESEARCH METHODOLOGY & DESIGN

#### 3.1 INTRODUCTION

The research is premised on the interpretive, qualitative inquiry that is interested in how meaning is constructed and how people make sense of their lives and their worlds (Wits student, Mqedlana, 2014). This Chapter will review in detail the research methodology used in this study, the theoretical context, research methods, research design, sampling methods and data collection methods.

#### 3.2 Theoretical Framework

One could associate my research with the **Political systems theory** (Wits Student Paper, 2014). Political systems theory according to Easton (2014) represents a systems-oriented, generic attempt to come to grips with questions pertaining to both the actors involved in the policy process and some of the interactions between these actors, yet it neglects the power dispersion factor (Wits Student Paper, 2014). To summarise the essential aspects, the systems approach starts with the environment, from which its political system receives demands and supports, which direct the decision makers towards appropriate policies (Wits Student Paper, 2014). There has been clarion calls from political parties, labour and business for government to implement the national minimum wage to bridge the income inequality gap and unemployment. This call has necessitated government to start investigating the implementation modalities of the national minimum wage.

#### 3.3 Research Methodology

The researcher used a qualitative method of study and adopted a phenomenological and interpretive approach to the research strategy (Wits student, Mqedlana, 2014). This strategy is appropriate because it describes the meaning of experiences of a phenomenon/concept for various individuals (Wits student, Mqedlana, 2014); it aims to understand people's perceptions, perspectives and understanding of a particular

situation (De Vos, 20015). This view is further supported by Wanger and Creswell who articulate the purpose of phenomenological analysis ; is to identify some shared phenomenon and the description of shared experience (Wanger, Kawulich and Garner; 2012). According to Creswell (2013), phenomenological study describes the common meaning for several individuals of their lives experiences of a concept or a phenomenon and focuses on describing what all participants have in common as they experience a phenomenon (Creswell, 2013). Qualitative research is a form of enquiry that helps us understand and explain the meaning of social phenomena with as little disruption of the natural settings as possible (Wits student Paper, 2014 and Wanger, Kawulich and Garner: 2012). Qualitative research is especially effective in obtaining culturally specific information about the values, opinions, behaviours, and social contexts of particular populations (Wanger, Kawulich and Garner: 2012).

According to Van Maanem (1979,p.520) it is an umbrella phrase covering an array of interpretative techniques which seek to describe, decode, translate, and otherwise come to terms with the meaning of naturally occurring form of research (Welman, Kauger, Mitchell; 2008). This view is supported by Creswell (2013) who emphasizes, qualitative research begins with assumptions and the use of interpretive/theoretical frameworks that inform the study of research problem addressing the meaning individuals or groups ascribe to social or human problems. To study this problem, qualitative researchers use an emerging qualitative approach to enquiry, the collection of data in a natural setting sensitive to the people and places under study, and data analysis that is both inductive and deductive and established patterns or themes. (Creswell, 2013).

The national minimum wage has been a widely debated matter by various institutions for and against the implementation. Some insist that implementing the national minimum wage will result in high unemployment and reduce the income inequality whilst others argue that there will be little effect on employment. Employing qualitative research design assisted in getting the opinions, views and feelings from identified institutions and knowledge experts in this policy discourse.

### 3.4 Research Design

This study seeks to explore the potential effect of the proposed minimum wage on income inequality and employment. According to Durrheim (2006), a research design is a strategic framework for action that serves as a bridge between the research questions and the execution or implementation of research. Research designs consists of plans that guide, “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the reseach purpose” (Durrheim, 2006: p34). The researcher used phenomenological analysis, and interviewed targeted experts and policy makers in this phenomenon.

### 3.5 Study population and Sampling

The study population for this research comprises of targeted knowledge experts and policy makers in the introduction of the proposed national minimum wage in South Africa. These experts also participate in NEDLAC, which is a body that is currently reviewing the modalities of implementing the national minimum wage.

#### 3.5.1 Sampling

The study used purposeful sampling, which according to Carswell (2013) is when an enquier selects individuals and sites for study because they are purposefully informed and have an understanding of the research problem and central phenomenon in the study (Carswell, 2013). In phenomenology the number of particiapants range from 1 (Duke, 1984) up to 325 (Pokinghorne, 1989). Dukes (1984) recommends study/sample size of 3 to 10 subjects, and one phenomenology. In this study **14 knowledge experts** and policy makers have been identified as illustrated in the table below.

Table 2: Identified Knowledge Experts and Policy Makers

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>	<b>INTEREST Group</b>
Dr Thami Mazwai	Advisor to Minister of Small Business and Development	Ministry of Small Business & Development	Government
Lawrence Mavundla	President	National African Federation and Chamber of Commerce (NAFCOC)	Labour
Joel Netshitenzhe	Executive Director	Mapungubwe Institute of Strategic Reflection (MISTRA)	Academic
Bobby Godsell	Member of the National Planning Commission and former CEO of Anglo Gold Ashanti	National Planning Commission	Business
Thembinkosi Rawula	Member of National Parliament (NP) and member of Labour Portfolio Committee in Parliament	Economic Freedom Party (EFF)	Politician
Neil Coleman	Strategies Co-Ordinator and	COSATU Secretariat	Labour Member

	Member of Nedlac		
Iaan Maccun	Director of Collective Bargaining	Department of Labour	Government
Gilad Isaacs	Project Coordinator	Wits National Minimum Wage Research Initiative	Academic
Sharon Nembaleni	National Researcher	NUMSA	Academic
Hellen Magashoa	Policy and Advocacy	South African Chamber of Commerce and Industry	Business
Prof.Jeremy Seekings	Professor and Director	Centre of Social Science and Research at University of Cape Town (UCT)	Academic
Prof.Natalli Natrass	Professor	Centre of Social Science and Research at University of Cape Town (UCT)	Academic
Phineas Malapela	National Organiser Legal	Public & Allied Workers Union of SA ( PAWUSA)	Labour
Zitha Dube	Head Policy	Black Business Council (BBC)	Business

Source: Mgaga, A (2016)

### **3.6 Data Collection**

The primary data was obtained through interviews, and a questionnaire was used as an instrument to collect data during interviews. In instances where interviews were not honored due to geographic location and or work commitments, interview questionnaire was distributed to those subject experts who had indicated or shown interest to participate in the research study. Formal letters were sent via electronic mail to all identified respondents, soliciting interest and permission to interview them. Upon confirmation of interview request, consent letter were sent to all respondents. In the list of identified knowledge expert and policy makers as indicated in table: 2, seven (7) respondents agreed to be interviewed and dates of interview sessions were confirmed accordingly. Due to the nature of work of the respondents and other commitments, six (6) respondents requested to populate the interview questionnaire and emailed back to the researcher. One (1) interview was held in the interviewee workplace and lasted for an hour. The purpose of the research study was to explore the potential effects the proposed minimum wage has on income inequality and unemployment. The questionnaire was structured to capture the main research questions and to respond to the research objectives.

### **3.7 Data Analysis & Representation**

Qualitative data analysis refers to sorting, classifying and synthesising raw data collected from the semi-structured interviews and text sourced from official documents in order to produce research findings (Ryan, 2006). The data collected was captured according to categories/thematic areas to enable a thorough and precise analysis of all variables (Wits student, Mqedlana, 2014). Data collected was reduced to categories to assist in the organizing and labelling to answer the research questions (Wits student, Mqedlana, 2014). The researcher applied thematic content analysis as an approach to inductive analysis (Burnard, Gill, Steward and Chadwick, 2008).

#### **3.7.1 Thematic Analysis**

The researcher coded data into themes, namely:



- (a) effects the proposed national minimum wage. have on income inequality and employment.
- (b) potential challenges in implementing the national minimum wage.
- (c) Sector (bargaining councils or sectoral determination) coverage of the proposed national minimum wage.
- (d) Level at which the minimum be set to address income inequality and employment.

Pursuant to the identification of themes, sub categories were identified to analyse data as depicted in Table (2) below.

Table 2: Themes and sub categories

	Themes	Sub categories
1.	Effects of the proposed national minimum wage	Notion/understanding of the proposed national minimum wage in South Africa
		Effects on income inequality
		Effects on employment
2	Potential implementation Challenges	Envisaged challenges
		Country South Africa should emulate in implementing national minimum wage.
3	Sector coverage by the proposed national minimum wage.	Understanding wage setting/legislative environment in South Africa
		Perspective/views on sector coverage (bargaining or sectoral).
4	Minimum Wage Level Setting	Suggested level setting/amount

Source: Mgaga, A (2016).

The information captured was categorized and analysed according to the framework created by research questions (Wits student, Mqedlana, 2014). The findings of the research process were matched and analysed in line with the findings of the

literature review and subjected to the researcher's interpretation and conclusions (Wits student, Mqedlana, 2014).

### **3.8 Reliability and Validity**

The reliability and validity of the content analysis are essential because the absence of these qualities inform your incorrectness of data and inaccuracy of the research study (Salkind, 2012). Validity in research is concerned with the accuracy and truthfulness of scientific findings (Le Compe and Goetz 1982: 32). This view is further supported by Parakyla (2011) who says validity of research concerns the interpretation of observations whether or not the inferences that the researcher makes are supported by the data, and sensible in relation to earlier research (Silverman, 2014). A valid study should demonstrate what actually exists and a valid instrument or measure should actually measure what it is supposed to measure. Reliability according to Hammersley (1992), is the degree of consistency with which instances are assigned to the same category by different observers or by the same observer on different occasions (Silverman, 2014). In this research the qualitative approach adopted and data analysis technique enabled the reliability and validity of the research. The structural design of the research i.e. the questions, the identified knowledge experts and policy makers, were accordingly structured to generate accurate and credible findings that would not be in conflict or be in dispute with other research studies .

### **3.9 Ethical Consideration**

The discussions on the national minimum wage are at a critical stage at NEDLAC and most of the knowledge expert and policy makers identified in this study, play a key role in these discussions hence consent letters were sent and that participation to this research is voluntary. The researcher adhered to the issues of confidentiality and anonymity of respondents and the views expressed by the respondents are from the constituencies they represent and not of those of NEDLAC. None of the respondents names and positions are mentioned in the research findings.

### **3.10 Conclusion**

This chapter outlines the research design and methodology undertaken for this study. The study adopted a qualitative research method in answering the research questions and meeting the research objectives. Primary data was collected through interview and interview questionnaires. To ensure authenticity of the data collected and research findings, the researcher enforced measures of validity and reliability in the study. The study is underpinned by the research ethics framework.

The next chapter will present findings of data collected from interviews/questionnaires and the reviewed literature and quantify the views and opinions on the potential effect of the proposed minimum wage on inequality and employment.

## **CHAPTER 4**

### **PRESENTATION OF DATA**

#### **4.1 INTRODUCTION**

The research examines the potential effect the proposed minimum wage has on income inequality and employment. This chapter will present data collected in response to the research questions and objectives outlined in Chapter 1 of this study. Chapter three (3) outlined the research methodology employed in this research study to answer the research questions. In providing answers to the research question, the data will be presented in themes and sub categories outlines in (Table: 2) in the previous chapter.

#### **4.2 VIEWS ON NATIONAL AS PER THE DIFFERENT INTEREST GROUP .**

This section will present views of different interest groups in accordance with the thematic areas identified to respond to the research questions and objectives.

##### **4.2.1. Understanding the notion of the proposed national minimum wage in South Africa:**

###### **(a) Government**

The views of government on the understanding the notion of the proposed national minimum wage is that it is intended to regulate minimum wages for all workers not covered by collective agreements. Its objective would be to extend income protection for the lowest paid workers and to combat poverty and inequality in the SA labor market.

###### **(b) Organised Labour**

The primary goal of introducing a National Minimum Wage in South Africa is to create a decent minimum wage floor, assist in transforming the apartheid cheap labour structure, and combat working poverty and inequality. In the main it is an attempt by the South African Government to close the wage gap between the low earners and high earners created by the history of wage segregation, created by apartheid labour laws of 1911.

(e) Business

It is a standard set by the state to regulate people's wage to ensure no worker is paid unreasonably low in the respective sectors of the economy.

(f) Academics

The purpose of the national minimum wage is to ensure wages are able to cover the basic needs of workers and their families, taking into account relevant economic factors, this view is further supported by the ILO (Isaacs, 2016). In South Africa, a national minimum wage is also being explored as a tool to reduce inequality and transform the inherited apartheid wage structures (Isaac (Isaacs, 2016).

(g) Politician

Minimum Wage is the benchmark of wage paid to workers. The view is that time has come for Government to make a deliberate intervention in the manner in which different sectors pay people. There is a high level of inconsistencies to the detriment of workers. The state must now set standards and regulate people's wage to ensure no worker is paid unreasonably low in the respective sectors of our economy. A minimum wage must be a wage that would make a worker at least afford the basic needs of life such as shelter, food and clothing.

#### **4.2.2 Effect on income inequality**

(a) Government

Minimum wage will have positive effects on income inequality, raising the wages of the lowest paid should reduce inequality for certain groups in the labour market. If it were accompanied by measures to reduce earnings differentials this could further reduce inequality.

#### (b) Organised Labour

Positive effect on income inequality, if the minimum wage is fixed at R4500. It will be slightly above poverty line and above indigency levels defined by Social Welfare if more than one member of the family is employed.

#### (c) Business

No effect on income inequality but a positive effect on poverty: inequality is driven largely by the coincidence of very high earnings for professionals, managers and skilled workers with unemployment. Wages at the bottom end of the wage distribution make little difference, unless the minimum causes serious job destruction, in which case there may even be a small negative effect on employment. An appropriately set minimum would have some effect on poverty, however. Like the social assistance system, it would reduce poverty much more than inequality.

#### (d) Academics

The literature shows that minimum wages are increasingly seen as a tool through which to tackle inequality and poverty (Isaacs, 2016). Research also indicates that the effect of minimum wages on inequality is greater in developing countries than in developed countries (Isaacs, 2016). Both the developed and developing –country literature demonstrates that inequality-reducing effect of minimum wages (Isaacs, 2016). The scale of the effect remains debated and depends on the effects on employment and the earnings of those in the lower half of the wage distribution (Isaacs, 2016). However other academics views are that minimum wage will have positive effect on income inequality, if the NMW is set at a level that causes unemployment then inequality will rise. A recent paper by IMF shows that reducing unemployment would lower inequality.

(e) Politician

It is scientifically proven that, the more money given to the most poor and low earning workers the more chances for the economic growth because the low earning workers need money to afford basic needs of life such as shelter, food and clothing. The minimum wage will play a decisive role in closing the inequalities provided that the state create a legislative framework and environment that is supportive to the objectives of Minimum wage. Amongst many things the state must do, the salary of highest paid both in private and public sector must be regulated to close the inequalities, those who are paid highest salaries and own means of production must subsidise the poor on basic services such as water and sanitation, refuse removal, food, housing and education provision including health care.

#### **4.2.3 Effects on employment.**

(a) Government

It is very likely that there will be some loss of employment (minimum) in those sectors that are not protected with the introduction of a NMW. The extent of job loss will depend on the level of the NMW and the adjustment that industries are able to make over time.

(b) Organised Labour

Fair minimum wage will increase job security and productivity as labour will be happy to work and retain their jobs, on converse higher minimum wages encourage firms to shed lower skilled labour in order to improve productivity and protect profits . Some firms might be able to improve efficiency in other ways (perhaps re-organising production without firing anyone) and some firms might benefit from the fact that higher paid workers have more to spend on their products.



### (c) Business

There is a trade off between wages and employment, especially in sectors which are exposed to international competition. The impact on employment will depend on the level of the minimum wage and will be higher in sectors like agriculture and lower in sectors like domestic work. To support this statement the impact of higher minimum wages thus depends on the level of the new minimum wage and the position of affected firms in the broader economy (Groundup, 2016) . Those facing international competition (in the 'tradeable' sectors') are the most likely to shed labour because they are already under pressure to be as efficient as possible given the existing labour force (Groundup, 2016).

### (d) Academics

If the minimum is set at an appropriate level, then any employment effects will be small. If it is set at a high level and it is enforced, however, then there will clearly be ensuing job destruction. This will be most pronounced in sectors with wage-elastic demand for employment, either because they are tradable sectors (such as clothing manufacturing) or there are technologies for mechanization (including, now, domestic work, with new robotic vacuum cleaners).

### (e) Politician

The buying power of low earning workers will increase and goods will be bought frequently and production will accelerate job creation and job security will be guaranteed because manufactured goods and consumptive products will be processed and sold speedily. Therefore minimum wage will indeed create jobs because workers buying power will enhance the economic activity.

A considerable volume of evidence exists regarding the relationship between minimum wages and employment (Gilad, 2016). The traditional 'competitive market' theory holds that an increase in the price of labour will lead to a decrease in the demand for labour and hence greater unemployment (Gilad, 2016). The empirical evidence suggests that different country contexts matter, and that developing economies may respond to minimum wages differently to developed ones (Gilad, 2016). In South Africa there is limited research on the impact of minimum wages, with six sectoral determinations studied (Gilad, 2016). The results from Borat et al.

(2013) show that in five of the six sectors (retail, domestic work, forestry, taxi, and private security) the institution of a minimum wage had no statistically significant impact on employment (Gilad, 2016). In agriculture on the other hand there was statistically significant decline in employment (Gilad, 2016).

#### 4.2.4 Envisaged Implementation Challenges

##### (a) Government

The main challenge will be to ensure proper enforcement measures and the effective use of inspectorate to enforce and also advocate the NMW to employers and workers. Another key challenge will be the buy-in or acceptance of the national minimum wage level by organised labour.

##### (b) Business

The problem will be non-compliance, resulting in employers using cheap labour or increase their reliance on more part-time and casualised work and reduce the number of hours of work leading to a drop in the wage bill. If minimum wage is set at a high level employers will be forced to reduce the number of workers employed.

##### (c) Organised Labour

The challenge is the resistance from the business sector, in fact the delay in implementing the NMW is the refusal of the business sector in adopting the NMW concept.

##### (d) Academics

SA's minimum wage systems depend primarily on trade unions and workers reporting non-compliance. If non-compliance is reported, then the state has the capacity to enforce. If workers do not report non-compliance, perhaps because they fear job loss, then minima would be hard to enforce.

##### (e) Politician

A narrow focus on the quantum of a minimum wage may not be entirely helpful in addressing the challenge of income poverty and inequality. It may douse the fires of dissatisfaction for a while. But if it is not combined with measures that alleviate workers' cost of living, reduce the dependency ratio, visibly narrow the wage gap at enterprise level and engender genuine inclusivity by sharing the gain and the pain, it will not result in sustainable social stability. New pressures and periodic flare-ups will be a permanent certainty, aggravated by the race-based colonial inheritance.

#### **4.2.5 Country South Africa should emulate in implementing the national minimum wage.**

All the interest groups expressed the same view indicating that Brazil should be the country South Africa should emulate in implementing the national minimum wage. Literature suggests that Brazil has achieved impressive results in reducing inequality over the past twenty years (Isaacs, 2016). According to estimates by Ferreira et.al (2014), between 1995 and 2012 wage and income inequality in Brazil declined 20% and 12%, respectively, and the ratio between earners at the 90<sup>th</sup> and 10<sup>th</sup> percentiles dropped by almost 40% (Isaacs, 2016).

#### **4.2.6 Wage Setting/legislative environment in South Africa.**

The views expressed by the different interest groups on the understanding of the wage setting/legislative environment in South Africa are similar to that of the literature in that they revealed the following:

In South Africa minimum wages are currently set on a sector by sector basis, through a combination of bargaining councils agreements, and company level agreements, negotiated between trade unions and employer organisation and sectoral determination set by the Minister of Labour on the recommendation of the (ECC) Employment Conditions Committee (Isaacs, 2016).

#### **4.2.7 Views on sector coverage**

Business, Organised Labour, Politician and Academics suggests that we should have a sector based national minimum wage set at a modest level for each sector (bargaining and sectoral). But government seems to suggest that we should have one national minimum wage to cover workers for both sectors.

#### **4.2.8 Minimum Wage Level Setting**

Research conducted in South Africa using three international recognised measures or approaches in benchmarking a future national minimum wage, resulted in benchmarks fall predominantly between R4 000 and R 5 500 in 2015 rands (Isaacs, 2016). This is congruous with a statistical modelling which indicates that a phased-in national minimum wage in the R 3, 500 to R 5 500 band has a positive effects on the economy and is economically sustainable (Isaacs, 2016).

All the interest group views on the level of setting is similar to literature, in that all agreed that the national minimum wage be set from between R 3,500 to R 5 500.

#### **4.6 CONCLUSION**

The respondents understand the the notion behind the introduction of the national minimum wage in South Africa, as the means by government to close the income inequality and poverty gap in the country. However they are very cautious of the effects the minimum wage will have if set high on income inequality and employment. If the NMW is set high it will have adverse effects on employment resulting in high number of unemployment as employers will not be able to afford. On income inequality it will be bridge the gap and reduce poverty in households. The respondents further suggested that government should set the minimum wage at an appropriate level that is not high nor to low such that it will have no effect on income inequality. They sighted non-compliance as a major challenge that will confront government in implementing this policy and suggest that government should introduce measures of enforcement and that the should be one minima that will covers workers in bargaining councils and sectoral determination. The respondents further suggested that the national minimum wage should be set at any level between ( R3,500 to R 5,500), as this has been proven through research as a level that is economically suistanable.

The following chapter will discuss the views of the respondents on the national minimum wage in line with reviewed literature and answers to the research problem.

## **CHAPTER FIVE**

### **DISCUSSION OF THE FINDINGS**

#### **5.1 INTRODUCTION**

This chapter will discuss the findings of the study as presented in chapter 4 in the context of the research questions, research objectives and aims of the study.

The purpose of the study was to explore the potential effects of the proposed national minimum wage on income inequality and employment. The data for interpretation was obtained through interview questionnaires of six (6) knowledge expert and policy makers and through one (1) interview with a knowledge expert. The six knowledge experts and policy makers initially agreed to be interviewed but due to other commitments, requested that a questionnaire be sent to them instead of interview sessions. The researcher also reviewed literature on the national minimum wage and its impact on income inequality and employment.

The analysis and interpretation of data will be clustered in themes and sub-categories in accordance with the primary and secondary research questions. The research will also interpret other pertinent findings on the effects of the national minimum wage.

#### **5.2 SUMMARY OF FINDINGS**

The research purports to examine the potential of the proposed national minimum wage on income inequality and employment. As discussed below are the summary of findings to the research question supported by literature findings.

### **5.2.1 EFFECTS OF THE PROPOSED NATIONAL MINIMUM WAGE ON INCOME INEQUALITY AND EMPLOYMENT .**

In examining the effects of the national minimum wage on inequality and employment, the research will discuss findings from the study conducted as well as literature findings to the research.

The literature shows that minimum wages are increasingly seen as a tool through which to tackle inequality and poverty (Isaacs, 2016). Increasing minimum wages or instituting a meaningful national minimum wage could directly raise low-income wages and increase the labour share (Isaacs, 2016). Minimum wages are consistently found to have positive effects on reducing poverty and inequality, with aggregate small, neutral or statistically insignificant impacts on employment (Isaacs, 2016).

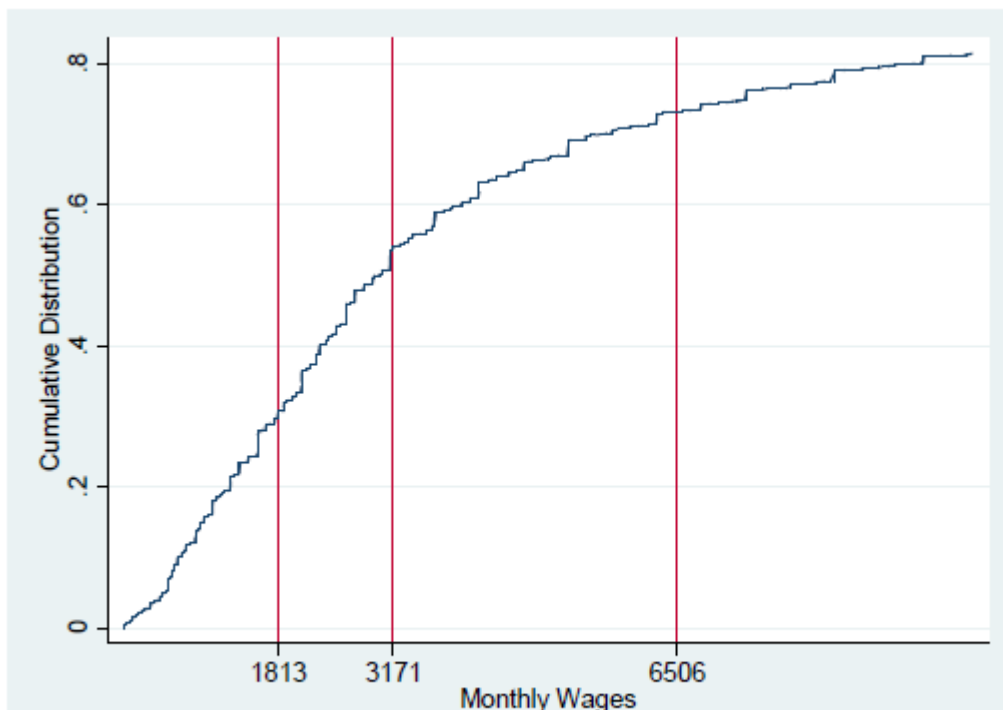
#### **5.2.1.1 Effects on income inequality**

The main rationale for a NMW policy for South Africa is to reduce poverty and income inequality and to deter their future growth (Adelzadeh and Alvillar, 2016). Before we discuss findings on income inequality, we will first discuss findings on the impact on minimum wage on the economy in South Africa as the two are intertwined. A recent study conducted by the University of Witwatersrand National Minimum Wage Research Initiative, used statistical modelling to evaluate the impact the national minimum wage will have in South Africa deduced the following:

##### **(a) Modelling impact of the national minimum wage in South Africa**

Statistical modelling is a useful way to assess the possible effects of a particular policy, although it should be approached with caution (Isaacs, 2016). Two statistical models were used in modelling the impact of the national minimum wage, the first model used was the United Nations Global Policy Model (GPM) and analyses the macroeconomic impact of a rising labour share in South Africa (Isaacs, 2016). The second, by Adelzadeh and Alvillar (2016), uses the Dynamically Integrated Macro-Micro Economic Simulation Model (DIMMSIM) developed by Applied Development Research Solutions (ADRS), and models the macroeconomic and microeconomic consequences of directly raising wages through the institution of a national minimum wage (Isaacs, 2016). Interestingly, the observed changes in the economy in the two models are consistent with one another (Isaacs, 2016). In Adelzadeh and Alvillar (2016) a national minimum wage would raise wages, particularly for the lowest earners, and increase household income and hence household expenditure (Isaacs, 2016). The other model GPM found that rising wage share also raises spending (Isaacs, 2016). In both exercises, the policy adjustments raise aggregate demand and output and enhance labour productivity while inflation is contained (Isaacs, 2016). Employment, in both models, falls very slightly, in line with the international and local evidence, and in Adelzadeh and Alvillar (2016) the highest national minimum wage modelled (R6 000) introduces some instability into the economy indication of a possible threshold near this level (Isaacs, 2016). The figure 15 below illustrates this point in more details:

**Figure 15: Possible Minimum Wage Values across the South African Wage Distribution (DPRU,2016)**



Source: LMDS (2014), own calculation.

Notes: R1 813 (Lowest SD wage – rural domestic work); R3 171 (Median South African wage); R6 506 (Highest SD wage – retail manager)

Examining figure 15 more closely, it would appear that setting the minimum wage above the South African median wage in the short term will, to all intents and purposes be unfeasible (DPRU, 2016). Setting the wage floor any higher runs the risk resulting in job losses (DPRU,2016), albeit unevenly



distributed across firms and sectors (DPRU,2016). Most employers could only absorb marginal increase and not substantial increase (DPRU, 2016).

The ongoing debate on the implementation of the national minimum wage, necessitated National Treasury and the Development Policy Research Unit (DPRU) of the University of Cape Town to undertake a modelling exercise using neoclassical ‘computable general equilibrium’ (CGE) models (Storm and Isaacs, 2016) . Due to the design of the model and the assumptions made, necessarily produce a prediction that rising wages will lead to unemployment and economic deterioration models (Storm and Isaacs, 2016) (Storm, 2016).

Table 6 shows the predicted outcomes from the National Treasury for different possible levels of a NMW (Storm and Isaacs, 2016).

**Table:7 National Treasury Predictions**

	<b>R1 258</b>	<b>R1 886</b>	<b>R3 189</b>	<b>R4 303</b>
<b>Average rand increase</b>	R31	R139	R719	R1 434
<b>Workers affected (%)</b>	15.8	28.3	50.2	60.1
<b>Average increase (%)</b>	2.5	8.0	29.1	50.0
<b>Real GDP (% change)</b>	-0.3	-0.7	-2.1	-3.7
<b>Household consumption (% change)</b>	-0.2	-0.6	-2.1	-3.7
<b>Gross fixed capital investment (% change)</b>	-0.2	-0.6	-2.0	-3.6
<b>Government consumption (% change)</b>	-0.3	-0.6	-1.7	-2.9
<b>Exports (% change)</b>	-0.2	-0.6	-1.7	-3.1
<b>Imports (% change)</b>	-0.2	-0.5	-1.6	-2.9
<b>Jobs lost (% change)</b>	<b>-0.8</b>	<b>-2.1</b>	<b>-6.2</b>	<b>-10.1</b>
<b>Jobs lost</b>	<b>96 000</b>	<b>244 000</b>	<b>715 000</b>	<b>1 168 000</b>

Source: Own calculations using MacLeod (2015)

Column 1 shows a prediction that, for the lowest NMW of R1 258 per month, only 16% of workers would benefit from receiving higher wages and the average increase per worker would be only R31, or 2.5% (Storm and Isaacs, 2016). The total wage bill of the country would increase by a mere R52 million (Storm and Isaacs, 2016). The Treasury model predicts that, as a result of this (low) minimum wage, 96 000 jobs would be shed and all indicators of the

state of the economy would deteriorate (Storms and Isaacs, 2016). Progressively higher levels of the minimum wage are predicted to result in greater economic harm (Storms and Isaacs, 2016). When the NMW is set at R4 303, real GDP, household consumption, gross fixed capital investment, government investment, imports and exports all fall by between approximately 3% and 4% – and job losses are predicted to be approximately 1.2 million (Storms and Isaacs, 2016).

Table: 7 shows predictions DPRU predictions similar to that of National Treasury. The higher the national minimum wage, the higher the predicted job losses (Storms and Isaacs, 2016). The DPRU predictions are presented for different values of  $\epsilon$ , which is the assumed ‘wage-employment elasticity’ (Storms and Isaacs, 2016). This is a measure of how strongly employers react to wage-cost increases (Storms and Isaacs, 2016).

**Table: 7 DPRU Predictions**

	Number of jobs lost			
	R1 619	R2 447	R3 400	R6 133
$\epsilon = -0.1$	-42 500	-100 000	-205 000	-597 000
$\epsilon = -0.3$	-120 000	-281 000	-566 000	-1 595 000
$\epsilon = -0.5$	-451 000 <sup>5</sup>	-451 000	-897 000	-1 996 000
	Percentage decline			
$\epsilon = -0.1$	-0.3%	-0.8%	-1.6%	-4.5%
$\epsilon = -0.3$	-0.9%	-2.1%	-4.3%	-12.1%
$\epsilon = -0.5$	-3.4%	-3.4%	-6.8%	-15.2%

Source: DPRU (2016)

Given the different NMW levels used by the DPRU and the National Treasury, a direct comparison is difficult (Storms and Isaacs, 2016). However, the job losses (897 000) predicted by the DPRU for a NMW of R3 400, when assuming a -0.5 elasticity, are relatively close to those of the National Treasury’s R3 189 level 715 000 jobs shed (Storms and Isaacs, 2016). This is not surprising, given that the National Treasury model assumes a -0.5 elasticity (Storms and Isaacs, 2016).

Storms and Isaacs (2016) in their analyses and critic of the two models, deduce that the unjustified neoclassical assumptions regarding savings and investment further

force economic contraction (Storms and Isaacs, 2016). The models also do not accommodate many real-world adjustments which have been shown to result from implementing minimum wages, and the adjustments that are allowed are those which have been shown to occur very minimally in reality (Storms and Isaacs, 2016). It is therefore not necessarily the specific characteristics of the South African economy which would cause higher wages to result in unemployment, but the nature of the CGE model and its *ad hoc* assumptions (Storms and Isaacs, 2016). This makes these models unsuitable for modelling the likely impact of a national minimum wage (Storms and Isaacs, 2016). By construction, in these models the potential positive income impact of higher wages is always overpowered by falling aggregate demand that results in reduced output, declining growth rates and job losses (Storms and Isaacs, 2016); the possibility of any other outcome is precluded, long before the model predictions are generated (Storms and Isaacs, 2016).

Adelzadeh and Alvillar (2016) show how a national minimum wage set at a level that meaningfully boosts low-wage earnings can also meaningfully reduce poverty and inequality (Isaacs, 2016).

### **United Nations Global Policy Model (GPM)**

In the recent study by Strauss and Isaac (2016), the United Nations Global Policy Model (GPM) was used to simulate the effect of an increase to the labour share in South Africa (Isaacs, 2016). A national minimum wage, set at a level above the current (often low) sectoral minima, will (under all reasonable assumptions) increase the labour share (Isaacs, 2016). Beginning in 2015 Strauss and Isaac set a target growth path for the economy that increases the labour share by a prescribed percentage by 2025 (Isaacs, 2016). They develop three different ‘scenarios’, involving three different increases, and compare these with a baseline ‘business-as-usual’ scenario in which the economy is allowed to continue along its current growth path (Isaacs, 2016).

The table below outlines the results of key variables by 2025 for a baseline and all three scenarios (Isaacs, 2016).

#### **Table 4: Key variables by 2025 for baseline and all three scenarios**

	Labour share (%)	GDP (USD PPP)	Private Consumption to GDP (%)	Government net lending to GDP (%)
Baseline	42.1	739 956	60.8	-7.0
Scenario 1	44.1	748 431	61.3	-6.7
Scenario 2	46.1	757 078	61.8	-6.5
Scenario 3	47.1	761 522	62.1	-6.4

	Employment rate (%)	Private investment to GDP (%)	Current account deficit to GDP (%)	Price inflation (%)
Baseline	40.4	14.5	-6.1	7.6
Scenario 1	40.4	14.4	-6.3	7.4
Scenario 2	40.4	14.4	-6.6	7.3
Scenario 3	40.4	14.3	-6.7	7.2

Source: GPM model.

To summarise the table above, increasing the labour share has a positive overall effect on the South African economy and no significant negative effect (Isaacs, 2016). The most notable positive effect is an increase in private consumption and GDP growth (Isaacs, 2016). Although the increase in growth *rates* dissipates in the longer term, the *level* of GDP is left permanently higher (Isaacs, 2016). Increasing the labour share has a negative effect on South Africa's current account and a marginally negative effect on private investment as a percentage of GDP (Isaacs, 2016). A modest redistribution of income in the South African economy has positive consequences but alone does not radically alter the economy's trajectory (Isaacs, 2016). The model illustrates that the South African economy is indeed 'wage-led': an increasing labour share is beneficial to the economy as a whole (Isaacs, 2016).

### **The Dynamically Integrated Macro-Micro Economic Simulation Model (DIMMSIM)**

Adelzadeh and Alvillar (2016) used DIMMSIM to measure the macroeconomic impacts (for example, growth or employment rates) and microeconomic impacts (for example, poverty or inequality levels) of instituting a national minimum wage at different hypothetical levels (Isaacs, 2016). Four scenarios were developed and compared with a baseline 'business-as-usual' scenario with the effects shown over a ten-year period 2016-2015 (Isaacs, 2016). In all scenarios the national minimum wage rises steadily over time – in real terms by between zero percent and 1.32% – although obviously to different degrees and with acceleration more substantial in the

higher three scenarios (Isaacs, 2016). A national minimum wage, set at a meaningful level above the current lowest sectoral determination, lifts wages, income, and spending, and increases productivity, investment, output, and growth (Isaacs, 2016). This occurs with a minimal effect on employment and sustainable movements in the current account, inflation, and debt-to-GDP ratio (Isaacs, 2016). Most importantly, a national minimum wage is projected to reduce poverty and inequality (Isaacs, 2016).

## **1. Research Findings on income inequality**

The research found that the minimum wage will have a positive effect on income inequality if set at a right or appropriate level. Raising the wages of the lowest paid should reduce inequality for certain groups in the labour market. If it were accompanied by measures to reduce earnings differentials this could further reduce inequality. The findings also suggests that the introduction of the national minimum wage will also reduce poverty in that the money given to the most poor and low earning workers, the more chances for the economic growth because the low earning workers need money to afford basic needs of life such as shelter, food and clothing. Literature further supports the findings of the research in that, literature shows that minimum wages are increasingly seen as a tool through which to tackle inequality and poverty (Isaacs, 2016). Research also indicates that the effect of minimum wages on inequality is greater in developing countries than in developed countries (Isaacs, 2016). Both the developed and developing –country literature demonstrates that inequality-reducing effect of minimum wages (Isaacs, 2016). The scale of the effect remains debated and depends on the effects on employment and the earnings of those in the lower half of the wage distribution (Isaacs, 2016).

In order to better understand the income distribution in South Africa it is useful to examine how the population is distributed by income, what household composition looks like, and how employment varies across the income distribution (DPRU, 2016). In Table 6, below, outlines the basic features of households in terms of size and per capita income (DPRU, 2016). As the first row makes clear, each quintile contains 20 percent of households, where quintile 1 contains the poorest households (16.3 million people), and quintile five the richest households 6.5 million people (DPRU, 2016). The bottom quintile of households contains 31 percent of the total population,

while a further 25 percent are in the second quintile – put differently, over half of South Africans live in the bottom two income quintiles (DPRU, 2016).

Table 6: *Household Size, Distribution, and Income across Quintiles (2012)*

	Poor		Non-Poor			All
	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	
<b>General</b>						
Share of Households	20%	20%	20%	20%	20%	100.0%
Number of People (000's)	16 306	12 867	8 979	7 640	6 483	52 275
Share of population	31.2%	24.6%	17.2%	14.6%	12.4%	100.0%
Avg. Household Size	5.2	4.1	2.8	2.4	2.1	3.3
<b>Household and per capita Income</b>						
Avg. Monthly Household Income	R 1 671	R 3 125	R 4 169	R 7 317	R 24 090	R 8 018
Avg. Monthly p.c. Income	R 323	R 773	R 1 491	R 3 117	R 12 509	R 3 611

Source: National Income Dynamics Study (NIDS) Wave 3. Own calculations.

Notes: All figures weighted using calibrated weights.

The average size of a household in South Africa is 3.3, but as the table shows this differs considerably across the income distribution (DPRU, 2016). One of the principle aims of introducing a NMW is to raise the incomes of workers and as a result reduce poverty and inequality (DPRU, 2016).

A recent study done by Adelzadeh and Alivillar ( 2016), showed that the implementation of the NMW will directly increase the wage income of many workers (Adelzadeh and Alivillar, 2016). Figure 16 below presents results of household income under BAU (Adelzadeh and Alivillar, 2016).

Figure: 16 Household Income



The figure above indicates that with BAU scenario, household real gross income is projected to increase by an average annual rate of 3.3 percent (Adelzadeh and Alivillar, 2016). Relative to the BAU scenario, implementation of the NMW over the next 10 years is projected to increase the rate of growth of household income by 0.16 percent minimal scenario, 1.3 percent index 40%, 1.25 percent index 45% and 3.3 percent maximal scenario (Adelzadeh and Alivillar, 2016).

It can be deduce from the study that the contribution of the NMW to the increase in household income mainly reflects its positive impact of more than four million low-wage fulltime workers (Adelzadeh and Alivillar, 2016).

### 5.2.1.2 Effects on employment

A considerable volume of evidence exists regarding the relationship between minimum wages and employment (Isaacs, 2016). The traditional ‘competitive market’ theory holds that an increase in the price of labour will lead to a decrease in the demand for labour and hence greater unemployment (Isaacs, 2016). The empirical

evidence suggests that different country contexts matter, and that developing economies may respond to minimum wages differently to developed ones (Isaacs, 2016).

### **(a) Literature evidence on employment effects**

There is limited research on the impact of minimum wages in South Africa, with six sectoral determinations studied (Isaacs, 2016). The results from Borat *et al.* (2013, 2013) are summarised in Table 5 and show that in five of the six sectors (retail, domestic work, forestry, taxi, and private security) the institution of a minimum wage had no statistically significant impact on employment (Isaacs, 2016). In agriculture on the other hand there was a statistically significant decline in employment (Isaacs, 2016). Dinkelman and Ranchhod (2010) likewise show no negative impact on employment or hours worked for domestic workers and strong evidence of an increase in wages (Isaacs, 2016). Hertz (2005) finds a small disemployment effect (Isaacs, 2016). Table; 5 below shows a summary of employment studies conducted in South Africa.

Table:5 below illustrates summary of employment studies in South Africa.



	Retail	Domestic work	Forestry	Taxi	Security	Agriculture
Employment elasticity*	-0.0002	-0.0005	-0.0001	0.00005	0.0001	-0.0418
Statistically significant	No	No	No	No	No	Yes
Hourly wage elasticity**	0.0568	0.0698	-0.0079	0.0152	0.272	0.1751
Statistically significant	Yes	Yes	No	Yes	Yes	Yes
Hours worked elasticity***	-1.203	-0.325	0.0757	-0.789	-1.741	0.106
Statistically significant	Yes	No	No	No	Yes	No
Better overall based on monthly income****	Yes	Yes	No change	No change	Yes	

Notes: \* Wage gap\*Post - Specification I \*\* Wage gap\*Post - Specification III  
 \*\*\* Sector\*Post - Specification I \*\*\*\* As reported in study

Source: Borat *et al.* (2013, 2013)

In Borat *et al.* hourly wages rose in five of the six sectors (only forestry shows no statistically significant rise) while hours worked fell marginally in retail and private security (Isaacs, 2016). Overall, workers were better off in the majority of sectors and no worse off in any (Isaacs, 2016).

This research study found that if the minimum is set at an appropriate level (R3 000 to R4 000), then any employment effects will be small. If is set at a high level ( R 6 000) and it is enforced, however, then there will clearly be ensuing job destruction. This will be most pronounced in sectors with wage-elastic demand for employment, either because they are tradable sectors (such as clothing manufacturing) or there are technologies for mechanization (including, now, domestic work, with new robotic vacuum cleaners).

### 5.2.1.3 ENVISAGED POTENTIAL IMPLEMENTATION CHALLENGES

In South Africa minimum wages are currently set on a sector by sector basis, through a combination of bargaining councils agreements, and company level agreements, negotiated between trade unions and employer organisation and sectoral determination set by the Minister of Labour on the recommendation of the (ECC) Employment Conditions Committee (Gilad, 2016). One of the envisaged challenges will be the lack of buy-in or resistance from the trade unions, working class and business sector. For the trade unions the resistance or lack of buy-in will arise if the minimum wage is set at a level that is too low to what they are proposing, it is quite important that minimum wage should be sector specific. To the business sector and working class, the resistance will stem from setting the minimum wage high such that they cannot afford it, resulting in non-compliance to enforcing its implementation. The key biggest challenge will be that of non-compliance if the national minimum wage is set at high levels.

#### **5.2.1.4 SECTOR COVERAGE**

The research findings suggest that a sector phased approach in the introduction of the proposed national minimum wage be considered, taking into account the different wage setting and legislative environment in South Africa as explained in the literature. There should be a negotiated minimum wage for workers in the bargaining councils and there should also be a national minimum wage for workers in the sectoral determination.

#### **5.2.1.5 SETTING THE NATIONAL MINIMUM WAGE LEVEL**

A number of indicators may be useful in providing guidance in the setting of a national minimum wage level in South Africa (Isaacs, 2016). Labour market indicators such as the ratios between minimum wages and mean wages, and minimum wages and median wages are also instructive (Isaacs, 2016). According to Isaacs (2016) in a recent study that used three international recognised measures (Isaacs, 2016) – poverty lines as a proxy for workers' basic needs, ratios of minimum wages to mean wages, and current minimum wage levels through collective bargaining (Isaacs, 2016), identified how these benchmarks fall predominantly between R4 000 and R5 500 in 2015 rands (Isaacs, 2016).

In supporting the literature findings, the research study found that the national minimum wage be set between R3,500 to R 5,500. This is congruous with a statistical modelling which indicates that a phased-in national minimum wage in the R 3, 500 to R 5 500 band has a positive effects on the economy and is economically sustainable ( Gilad, 2016).

### **5.3 CONCLUSION**

Although the proposed national minimum wage policy debate is still at NEDLAC, it is quite important for policy makers entrusted with this policy formaulation to take into account the different expectations and interest expressed by the respondents in so far as the sector coverage and level setting of the minima. It is also further important to draw attention to the potential effects the proposed national minimum wage has on income inequality and employment. If the national minimum wage is set at an appropriate level it will have posotive effects on income inequality resulting or leading also to poverty gap reduction. There is also evidence that suggestes that there will also be minimal impact on employment if the minimum wage is set at at right level which the research deduce that it must be betweenm R3,500 to R 5, 500. Conversely if the minimum wage is set above these bands then there will be negative effects on employment.

## **CHAPTER SIX**

## **CONCLUSIONS, LIMITATION OF THE STUDY AND RECOMMENDATIONS**

### **6.1. INTRODUCTION**

The study sought to achieve two objectives namely: to determine the potential effects of the proposed minimum wage in reducing income inequality and employment as well as to identify pros and cons in the implementation modalities of the national minimum wage.

This chapter will discuss the conclusions, limitations and recommendations of the study.

### **6.2 CONCLUSION**

The primary goal of introducing a national minimum wage in South Africa is to create a decent minimum wage floor, assist in transforming the apartheid cheap labour structure, and combat working poverty and inequality (Coleman, 2016). The minimum wage must be set at an efficient and equitable level, such that it is at the lowest yet reasonable level, as opposed to the highest level (budget speech competition, 2015). This level must be above the current lowest sectoral determination, lifts wages, income, and spending, and increases productivity, investment, output, and growth (Writer, 2016). The converse therefore is setting the minimum wage high has the potential downside, in that it may discourage employers from using the low-wage, low-skill workers that minimum wages are intended to help (Neumark, 2014).

In South Africa discussions around the nmw national minimum wage are at an advance stage, with the Deputy President recently announcing a committee in August 2016, to look at the implementation modalities of the minimum wage. This announcement of the committee is a direct consequence of the intense discussion at NEDLAC on the need to implement the national minimum wage albeit the economic conditions in South Africa, high income inequality, high unemployment levels, slow economic growth and low job creation (budget speech competition, 2015) .

The research study recommendations could greatly assist the committee in decision making and furthermore draw their attention to the potential effects on income inequality and employment and level the minima should be set.

### **6.3 RECOMMENDATIONS.**

The recommendations of the study emanate from the analysis of the research report and further responds to the purpose of the research study. Below are the recommendations as per the research questions and objectives of the study.

#### **6.3.1 EFFECTS ON INCOME INEQUALITY**

- minimum wage will have a positive effect on income inequality, if set at a right or appropriate level. Raising the wages of the lowest paid should reduce inequality and poverty for certain groups in the labour market. If it were accompanied by measures to reduce earnings differentials this could further reduce inequality.
- The converse however is setting the minimum wage high has the potential downside, in that it may discourage employers from using the low-wage, low-skill workers that minimum wages are intended to help (Neumark, 2014).

#### **6.3.2 EFFECTS ON EMPLOYMENT**

- Setting the minimum wage at a right level will have minimal impact of employment, this view is further supported by a recent study done in South Africa which also suggests that national minimum wage can be implemented without significant employment effects that if carefully designed and set at a level that is able to meaningfully improve workers' livelihoods, can achieve its central objectives of reducing working poverty and inequality (Isaacs, 2016). It is of paramount importance that a right level be first determined so as to have positive effects on employment.

### **6.3.3 LEVEL SETTING & COVERAGE**

- The national minimum wage must be set between R3,500 to R 5,500. This level is further supported by a statistical research modelling done recently (Isaacs, 2016).
- The national minimum wage shall be the legal floor for a defined period of time, guaranteed by law, below which no employee may be paid in South Africa (Cosatu,2015).
- A national minimum wage will apply to all employees, both in the public and private sectors, unless provided for otherwise by an exclusion, phase-in or phase-out in an upfront agreement (Cosatu,2015).

### **6.3.4 ENVISAGED CHALLENGES AND ADVANTAGES**

- Research study indicates that when the national minimum wage is set at a right level it will have positive effects on inequality and will reduce poverty for low paid workers. Government should introduce a monitoring and compliance framework on the implementation of the national minimum wage.
- If there is no proper enforcement and monitoring framework. There will be high levels of non-compliance which serves a main challenge envisage.

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