

# INVESTIGATING THE FEASIBILITY OF A NATIONAL MINIMUM WAGE FOR SOUTH AFRICA

---

DEVELOPMENT POLICY RESEARCH UNIT  
SCHOOL OF ECONOMICS, UNIVERSITY OF CAPE TOWN



DEVELOPMENT POLICY  
RESEARCH UNIT



&

CENTRE FOR SOCIAL DEVELOPMENT IN AFRICA  
FACULTY OF HUMANITIES, UNIVERSITY OF JOHANNESBURG



DPRU WORKING PAPER 201601

MAY 2016



# INVESTIGATING THE FEASIBILITY OF A NATIONAL MINIMUM WAGE FOR SOUTH AFRICA

Development Policy Research Unit  
School of Economics, University of Cape Town

&

Centre for Social Development in Africa  
Faculty of Humanities, University of Johannesburg

Working Paper 201601  
ISBN 978-1-920633-32-5

May 2016

© DPRU, University of Cape Town 2016



This work is licenced under the Creative Commons Attribution-Non-Commercial-Share Alike 2.5 South Africa License. To view a copy of this licence, visit <http://creativecommons.org/licenses/by-nc-sa/2.5/za> or send a letter to Creative Commons, 171 Second Street, Suite 300, San Francisco, California 94105, USA.

# Acknowledgments

Part I of this report was prepared by a team at the Development Policy Research Unit (DPRU), University of Cape Town composed of Prof. Haroon Bhorat, Tara Caetano, Benjamin Jourdan, Prof. Ravi Kanbur, Christopher Rooney, Benjamin Stanwix and Prof. Ingrid Woolard. Except where otherwise state, the views expressed and methods of analysis in Part I of this report are of those listed above.

The DPRU would like to thank the current and former Employment Conditions Commission commissioners who agreed to be interviewed. Their time and inputs are appreciated.

Part II of this report was prepared by a team at the Centre for Social Development in Africa (CSDA), University of Johannesburg composed of Prof. Leila Patel, Zoheb Khan, Lauren Graham, Kim Baldry and Thapelo Mqhehe. Except where otherwise state, the views expressed and methods of analysis in Part II of this report are of those listed above.

The research team at the CSDA thanks the following organisations for their invaluable assistance with the preparation and coordination of fieldwork across the country:

- loveLife
- The Fit for Life, Fit for Work programmes at the Vrygrond Community Development Trust and at the Wits Reproductive Health and HIV Institute (WRHI)
- The Association for Rural Advancement (AFRA)
- Radebe's Bed & Breakfast & Coffee Shack
- Onamandla Project Management
- The Language Unit at the University of Johannesburg

The CSDA would also like to thank the seven business owners and managers who agreed to be interviewed, and the 153 young people who participated in the focus groups for this report. Their contributions are valued and the CSDA hopes this report has done justice to their views and experiences.

Lastly, both the DPRU and CSDA thanks the Department of Labour's reference group for their valuable contributions throughout this engagement.

Working Papers can be downloaded in PDF (Adobe Acrobat) format from [www.dpru.uct.ac.za](http://www.dpru.uct.ac.za). A limited number of printed copies are available from the Communications Manager: DPRU, University of Cape Town, Private Bag X3, Rondebosch, Cape Town, 7700, South Africa. Tel: +27 (0)21 650 5701, email: [sarah.marriott@uct.ac.za](mailto:sarah.marriott@uct.ac.za)

Corresponding author  
Prof. Haroon Bhorat, Director of the DPRU  
Tel: +27 (0)21 650 5705  
email: [haroon.bhorat@uct.ac.za](mailto:haroon.bhorat@uct.ac.za)

Recommended citation  
Bhorat, H. et al (2016). "Investigating the Feasibility of a National Minimum Wage for South Africa". Development Policy Research Unit Working Paper 201601. DPRU, University of Cape Town.

## Disclaimer

The Working Paper series is intended to catalyse policy debate. They express the views of their respective authors and not necessarily those of the Development Policy Research Unit (DPRU).

# Contents

List of Figures.....	7
List of Equations.....	7
List of Tables.....	8
List of Boxes .....	8
Part I: Quantitative Analysis Executive Summary.....	9
Introduction to Part I .....	9
Minimum Wage Policy.....	9
Low Wage Workers and Minimum Wages in South Africa .....	10
Modelling Potential Employment and Welfare Effects .....	10
Implementation and Enforcement.....	11
Conclusion.....	12
Part II: Qualitative Analysis Executive Summary.....	13
Introduction to Part II .....	13
Research questions.....	13
Methodology and major findings .....	13
<b>PART I: QUANTITATIVE ANALYSIS INVESTIGATING THE FEASIBILITY OF A NATIONAL MINIMUM WAGE FOR SOUTH AFRICA.....</b>	<b>15</b>
<b>1 Literature Review.....</b>	<b>15</b>
1.1 Minimum Wage Regimes across the Globe.....	15
1.2 Minimum Wages in South Africa.....	18
1.3 The Impact of Minimum Wages: International and South African Evidence.....	19
1.3.1 A Theoretical Framework for Minimum Wages and Employment.....	24
1.4 Minimum Wage Enforcement and compliance: A Literature Review.....	25
<b>2 Wages and Household Income at the Bottom of the Distribution: A Descriptive Overview .....</b>	<b>28</b>
2.1 Poor Households and Wage Employment .....	28
2.2 Coverage by Wage Legislation in South Africa.....	31
2.2.1 Sectoral Determination Worker Demographics and Firm Size.....	32
2.3 Trends in Minimum Wages and Current Wage Levels of Covered Workers.....	35
2.4 Current SD and BC Levels .....	37
2.4.1 Hours of SD Workers.....	37
2.5 Sectoral Minimum Wage Dispersion: Potential Co-ordinates for a National Minimum Wage .....	38
2.6 The Ratio of Minimum Wage to Mean/Median Wages: An Anchor for a National Minimum Wage .....	42
2.7 Conclusion.....	44
<b>3 Modelling Potential Employment and Welfare Effects .....</b>	<b>46</b>
3.1 Background.....	46
3.2 Sectoral Coverage Rates .....	47
3.3 Wage poverty and the wage poverty gap.....	49
3.4 Potential Household Income and Poverty Effects .....	50
3.5 The CGE MODEL: A Brief Overview.....	51
3.5.1 Methodology.....	52



3.5.2	Economy-wide framework and linkages in the CGE.....	53
3.5.3	Labour Market Assumptions.....	53
3.5.4	Scenarios and mapping to CGE.....	54
3.5.5	Employment Effects .....	56
3.6	The Working Poor and Wage Inequality.....	58
3.6.1	Wage Income Households .....	58
3.6.2	Wage Income Households and 'Unemployed' Households.....	62
3.7	Conclusion.....	64
<b>4</b>	<b>Implementation and Enforcement .....</b>	<b>66</b>
4.1	Global Examples of National Minimum Wage Implementation.....	66
4.1.1	Legislative and Institutional Adjustments.....	66
4.1.2	Defining the Minimum Wage .....	67
4.1.3	Setting the Initial Level of a NMW and Estimating Coverage.....	68
4.1.4	Adjusting the Minimum Wage .....	70
4.1.5	Phase-in and Transition Periods.....	70
4.1.6	Exclusions and Lower NMWs.....	72
4.2	Global Examples of Minimum Wage Enforcement Mechanisms .....	73
4.2.1	Persuasion, Information Dissemination, and Capacity Building.....	74
4.2.2	Monitoring, Legal Sanctioning and Action .....	75
4.3	Minimum Wage Implementation in South Africa.....	77
4.3.1	Adjusting Sectoral Minimum Wages .....	79
4.3.2	Strengths and Weaknesses of Minimum Wage Formulation .....	81
4.3.3	National Minimum Wage Implementation in South Africa: An Institutional View .....	82
4.4	Enforcement and Compliance in South Africa .....	83
4.4.1	The Inspection and Enforcement Services in South Africa.....	83
4.4.2	Minimum wages and compliance.....	84
4.4.3	Obstacles for the IES.....	85
4.4.4	Incentives for Non-Compliance.....	87
4.4.5	Institutional and Regulatory Issues of Enforcement .....	88
4.4.6	Concluding Remarks on Enforcement .....	89
<b>5</b>	<b>Part I Conclusion .....</b>	<b>91</b>
	<b>PART II: QUALITATIVE ANALYSIS OF HOW A NATIONAL MINIMUM WAGE MIGHT AFFECT YOUNG PEOPLE'S LABOUR MARKET OUTCOMES .....</b>	<b>92</b>
<b>6</b>	<b>Introduction.....</b>	<b>92</b>
<b>7</b>	<b>Literature Review.....</b>	<b>94</b>
7.1	Youth Unemployment.....	94
7.1.1	Trends And Statistics .....	94
7.1.2	Are Reservation Wages A Determinant Of Youth Unemployment?.....	95
7.2	Youth Employment In South Africa.....	96
7.3	Minimum Wages .....	98
7.3.1	Definitions And Purposes Of Minimum Wages.....	98
7.3.2	Theories And Evidence Regarding The Impacts Of Minimum Wages .....	99
7.3.3	Compliance/Enforcement/ Knowledge.....	102
7.3.4	The Youth Sub-Minimum Wage.....	103
<b>8</b>	<b>Research Questions.....</b>	<b>107</b>

<b>9</b>	<b>Methodology.....</b>	<b>108</b>
9.1	Qualitative Methods: Focus Groups And In-Depth Interviews.....	108
9.2	Sampling Strategy: Selection Of Focus Group And Interview Respondents.....	108
9.3	Sampling Strategy: Selection Of Research Sites For The Focus Groups.....	109
9.4	Procedure For The Focus Groups And Employer Interviews.....	111
9.5	Ethical Considerations.....	112
9.6	Analysis.....	113
9.7	Limitations .....	113
<b>10</b>	<b>Findings From The Focus Groups .....</b>	<b>115</b>
10.1	Profile Of Young Respondents .....	115
10.2	The Experience Of Unemployment And Work-Seeking.....	117
10.2.1	Duration Of Unemployment .....	117
10.2.2	Reasons For Unemployment .....	117
10.2.3	Reasons For The Success Of Working People In Finding Jobs .....	118
10.2.4	The Emotional And Psychological Experience Of Unemployment.....	119
10.2.5	The Costs Of Work-Seeking.....	120
10.3	Wages .....	120
10.3.1	Reservation Wages.....	120
10.3.2	Wages Earned By Young Workers.....	123
10.4	Knowledge And Perception Of Minimum Wages .....	124
10.4.1	Knowledge .....	124
10.4.2	Perceived Advantages And Disadvantages.....	124
10.4.3	The Youth Sub-Minimum.....	125
10.5	Potential Impacts Of Minimum Wages On Young People's Labour Market Outcomes .....	126
10.5.1	Changing Ideas About Reservation Wages And Fair Wages .....	126
10.5.2	Perceptions Of The Behaviour Of Employers .....	127
10.6	The Preferred Minimum Wage System.....	128
<b>11</b>	<b>Findings From The Interviews With Employers.....</b>	<b>130</b>
11.1	Profile Of Respondents.....	130
11.2	The Experience Of Working With Young People.....	130
11.2.1	Challenges Relating To Working With Young People .....	130
11.2.2	Advantages Relating To Working With Young People .....	132
11.2.3	Younger Vs Older Workers? .....	132
11.2.4	Efficiency Wages.....	133
11.3	Perceptions Of A National Minimum Wage (NMW) .....	133
11.3.1	The NMW: Perceived Disadvantages.....	133
11.3.2	The NMW: Perceived Advantages.....	134
11.3.3	Perceived Compliance .....	135
11.4	Perceptions Of A Youth Sub-Minimum Wage .....	135
11.5	Potential Impacts Of Changing Minimum Wage Legislation On The Employment Of Young People.....	136
11.5.1	Adjustment: Youth Employment.....	136
11.5.2	Adjustment: Substitution Of Young Workers .....	137
11.5.3	Other Adjustment Channels.....	137
11.5.4	Shifting Ideas About Fair Wage Levels.....	138
11.6	Views On Unemployment.....	138

11.6.1	The Role Of Government .....	138
11.6.2	The Role Of Business.....	139
<b>12</b>	<b>Part II Conclusion.....</b>	<b>140</b>
	<b>References.....</b>	<b>142</b>
	<b>Appendix A .....</b>	<b>148</b>
	International and South African Minimum Wage Studies .....	148
	<b>Appendix B.....</b>	<b>156</b>
	Under-Reporting of Wages in Household Surveys in South Africa .....	156
	<b>Appendix C .....</b>	<b>157</b>
	Private and Public Bargaining Council Wage Rates.....	157
	<b>Appendix D .....</b>	<b>161</b>
	Potential Job Losses by Sector and Elasticity, R1 619 and R6 133 scenarios (2014 Rands) .....	161
	<b>Appendix E .....</b>	<b>162</b>
	CGE Model Assumptions .....	162
	<b>Appendix F .....</b>	<b>163</b>
	Ethical Approval From The University Of Johannesburg's Faculty Of Humanities Ethics Committee .....	163
	<b>Appendix G .....</b>	<b>164</b>
	Discussion Guide For Focus Groups With Employed Youth .....	164
	Discussion Guide For Focus Groups With Unemployed Youth.....	170
	<b>Appendix H .....</b>	<b>176</b>
	Informed Consent Forms.....	176
	<b>Appendix I .....</b>	<b>179</b>
12.1	Demographic Forms .....	179
	<b>Appendix J .....</b>	<b>182</b>
	Voting Sheets for Preferred Minimum Wage System.....	182
	<b>Appendix K .....</b>	<b>183</b>
	Pamphlet Provided To Focus Group Respondents.....	183
	<b>Appendix L .....</b>	<b>190</b>
	Employer Interview Guide .....	190

## List of Figures

Figure 1. Wage-Employment Elasticities for LMI Countries .....	22
Figure 2. Wage-Employment Elasticities for High Income Countries .....	22
Figure 3. Minimum Wages and Employment: A Basic Theoretical Construct .....	24
Figure 4. Sources of Income, All Households (2012).....	30
Figure 5. Sources of Income, Households with at least One Employed Member (2012).....	30
Figure 6. Minimum Wage Coverage in South Africa (2014).....	31
Figure 7. 'Enterprise Size' across Minimum Wage Sectors (2014) .....	34
Figure 8. Legislated Real Minimum Wages by SD (in 2014 prices) .....	35
Figure 9. Lowest to Highest SD Wage Ratios, Selected Sectors .....	36
Figure 10. Real Wage Increase by Sector (%).....	36
Figure 11. Ratio of lowest and highest legislated rates relative to highest SD.....	39
Figure 12. Minimum wages in a proportional system.....	41
Figure 13. Ratio of Minimum to Median Wages, Selected Countries.....	42
Figure 14. Ratio of Minimum to Mean wages, Selected Countries.....	43
Figure 15. Ratio of Median to Mean Wages, Selected Countries .....	43
Figure 16. Possible Minimum Wage Values across the South African Employee Wage Distribution (2015 prices) .....	44
Figure 17. Two Minimum Wage Scenarios .....	46
Figure 18. Coverage Rate, Wage Poverty Ratio, Wage Poverty Gap (R2 447 - scenario) .....	49
Figure 19: Simulated Wage Increase, By Sector (R2 447 Scenario) .....	50
Figure 20. Minimum Wage Coverage by Quintile.....	51
Figure 21. CGE Economy-wide Linkages .....	52
Figure 22. Basic Labour Market Assumptions .....	53
Figure 23. CGE Labour Market by Industry and Skill Level.....	54
Figure 24. Change in per capita Household Wage, by Elasticity Value, R2 447 Scenario.....	59
Figure 25. Change in per capita Household Wage, by Elasticity Value, R3 400 Scenario.....	60
Figure 26. Change in per capita Household Wage, by Elasticity Value, R2 447 Scenario.....	62
Figure 27. Change in per capita Household Wage, by Elasticity Value, R3 400 Scenario.....	63
Figure 28. Pyramid of Severity of Regulatory Orders .....	74
Figure 29. Ratio of Active Population per Labour Inspector - International Evidence .....	76
Figure 31. Average Sectoral Determination Nominal and Real Wage.....	80
Figure 32. Exploring Alternative Minimum Wage Adjustment Mechanisms - The Wholesale & Retail Sector .....	80
Figure 33. Distribution of Employed Focus Group Respondents per Sector (n=73).....	116

## List of Equations

Equation 1. Malaysia's National Wages Consultative Council .....	69
--	----

## List of Tables

Table 1. Minimum Wage Regimes across the Globe.....	16
Table 2. Sectoral Determination Overview (2015).....	19
Table 3. Wage levels in Brazil (2003-2011).....	27
Table 4. Household Size, Distribution, and Income across Quintiles (2012).....	28
Table 5. Labour Market Participation and Wages (2012).....	29
Table 6. Uncovered Workers by Industry (2014).....	32
Table 7. Demographic Characteristics of Workers Covered by a Sectoral Determination (2014).....	33
Table 8. SD Employees in Small Firms.....	34
Table 9. An Overview of SD Workers, Nominal Monthly Wages, (2015 prices).....	37
Table 10. Usual Weekly Hours of Work (2014).....	38
Table 11. SD Wages: Ratios to Selected National Wage Estimates (2015 prices).....	40
Table 12. Coverage Rates by Sector.....	48
Table 13. Two NMW Scenarios.....	55
Table 14. Potential Job Losses by Sector and Elasticity.....	57
Table 15. Wage Poverty and Wage Poverty Gap Ratios, for Wage Earning Households.....	61
Table 16. Wage Gini Coefficient by Scenario, Wage Income Households.....	62
Table 17. Wage Poverty and Wage Poverty Gap Ratios, Wage Earning Households and 'Unemployed' Households.....	64
Table 18. Wage Gini Coefficient by Scenario, Wage Income Households and 'Unemployed' Households.....	64
Table 19. Minimum Wage Definitions and Reference Time Periods - Global Evidence.....	67
Table 20. Consultative Processes and Qualitative Analysis to Establish NMW Level.....	68
Table 21. Coverage of NMW - the UK, Germany, Malaysia.....	69
Table 22. Adjustment of Minimum Wages Globally.....	70
Table 23. Phase-in/Transition Periods of NMW - the UK, Germany, Malaysia.....	71
Table 24. Exclusions and Sub-Minimum Groups of NMWs Globally.....	72
Table 25. Minimum Wage Violation Penalties - International Examples.....	77
Table 26. Minimum Wage Schedules across African Countries.....	82
Table 27. Demographic Characteristics of Labour Inspectors.....	83
Table 28. Number of Labour Inspectors and Labour Centres.....	84
Table 29. Level and Depth of Violation, 2013.....	84
Table 30. Non-compliance and the Depth of Non-Compliance.....	85
Table 31. Schedule 2 of the BCEA (as amended 2014).....	88
Table 32. Earnings by Industry for 18-25 year olds.....	97
Table 33. Focus Group Locations.....	110
Table 34. Employment Status by Sex of Focus Group Participants.....	115
Table 35. Employment Status by Highest Level of Education of Focus Group Participants.....	115
Table 36. Percentage of Working Focus Group Respondents Receiving Various Types of Benefits.....	116
Table 37. Wage Data for Focus Group Respondents.....	121
Table 38. Focus Group Respondents' Preferred Minimum Wage System.....	128
Table 39. Summary Information for Respondents to Employer Interviews.....	130
Table 32. South African Studies on Minimum Wages.....	148
Table 33. International LMI Country Studies on Minimum Wages.....	149
Table 34. Private Sector Bargaining Councils, Lowest and Highest Monthly Minimum Wage Rates, and Industry Monthly Average Wages.....	157
Table 35. Public Sector Bargaining Councils, Lowest Monthly Minimum Wage.....	160
Table 36. Potential Job Losses by Sector and Elasticity, R1 619 and R6 133 scenarios (2014 Rands).....	161

## List of Boxes

Box 1. The Case of Brazil: 1995 - 2012.....	27
Box 2. A Proportional Approach to the National Minimum Wage.....	41
Box 3. Public Awareness and Enforcement: Evidence from Costa Rica.....	75



*This report is divided into two parts. Part I was completed by the DPRU and is a quantitative analysis of the feasibility of a national minimum wage for South Africa. Part II was completed by the CSDA and is a qualitative analysis that investigates how a national minimum wage might affect young people's labour market outcomes in South Africa. Separate executive summaries for each respective Part are outlined below.*

## Part I: Quantitative Analysis Executive Summary

### Introduction to Part I

Minimum wages in South Africa are currently organised through two main structures, Bargaining Councils (BC) and Sectoral Determinations (SD), which together cover close to 70 percent of low-wage workers in the country. More recently, however, the proposed introduction of a National Minimum Wage (NMW) by government has been the subject of ongoing national deliberation and discussion. The DPRU was commissioned by the Department of Labour to provide an analytical and empirical rubric, with which a more informed and nuanced decision could be taken around the promulgation of a NMW for South Africa. This report presents the result of the work undertaken in this project. In summary, the report recommends that the South African Government consider introducing a NMW to address low wages. However, we argue that critical attention must be given to the design and implementation of the policy so that it achieves the goal of protecting workers, minimizes the potential negative consequences on employment, and ultimately succeeds in improving levels of compliance with legislated wages.

This report is divided into *four* main sections. The *first* section examines and summarises the international literature on minimum wages, with a specific focus on the effect of minimum wages on employment. We go on to examine the limited literature on South Africa and provide an overview of the current minimum wage systems in the country. The *second* section presents quantitative data on the South African labour market, looking specifically at working poverty, minimum wage coverage, the evolution of legislated wages in the SDs, and the current wage distribution. The *third* section explores how a NMW could impact on employment levels, wage poverty, and wage inequality across a range of possible scenarios. This exercise relies on a macroeconomic model to estimate employment effects and a microsimulation to examine the impact on household poverty and inequality levels. The *fourth* section focuses on implementation and enforcement. Here we review the experience of several other countries and draw a set of key lessons for NMW structure and implementation. This includes issues of coverage and possible exclusions, the level of the NMW, phase-in periods, timeframes, and enforcement regimes. The second part of this section then presents comprehensive data and information on enforcement and compliance in South Africa, and discusses institutional arrangements that could aid the efficient implementation and enforcement of a NMW.

### Minimum Wage Policy

Minimum wages are a common policy tool around the world and over 90 percent of ILO member states have some form of minimum wage system in place. While the structure and wage-setting frameworks differ widely there is general consensus that minimum wages are an important labour market intervention with various benefits. The stated objectives of most minimum wage policies usually include several key issues, among them: protecting vulnerable workers from extreme levels of low pay, addressing poverty by redistributing income from employers to low-wage employees, and encouraging labour productivity. There is, however, little empirical evidence to suggest that minimum wages alone can significantly impact poverty in a labour market like South Africa's, where many of the poorest households either have very few or no wage earners.

International evidence on the impact of minimum wages is mixed, but overall it suggests that moderate increases in minimum wage result in little or no decrease in employment. Since Card and Krueger's (1994) paper on minimum wages the literature has expanded exponentially, with a variety of empirical studies – often focused on a particularly industry or subset of workers. Critically, most of this literature, including extensive meta-reviews, looks almost exclusively at high-income country labour markets. In particular, the literature on Sub-Saharan Africa is scarce – with published work for only four countries. We survey all the published studies on minimum wage impacts for Low-and-Middle Income countries that report empirical results. The overall consensus from this exercise is in line with international evidence, suggesting that in general employment is either unaffected or negatively affected. In the latter case these effects are usually small, but can be stronger for low-skilled workers. There is a consensus in the literature, however, that minimum wages set at levels which are too high, or represent too large an increase from the baseline wage, will result in employment losses, in combination with an increase in levels of minimum wage violation.

The South African minimum wage literature is limited but shows that in those sectors studied, national sectoral minimum wages have not had a significant impact on employment, except in agriculture. SDs were first introduced in 1999 and

subsequent to this several papers have explored their impacts. In the retail, private security, forestry, domestic work, and taxi sectors no evidence of displacement effects were observed in response to the introduction of new minimum wage laws. It is important to note that in certain non-agricultural sectors, hours of work were also marginally reduced in response to the introduction of a minimum wage. In agriculture, however, it appears that employment did fall as a result of the wage law. This is broadly consistent with international evidence which suggests that in sensitive sectors where minimum wage increases are large (such as in agriculture), employment losses are more likely.

In addition, it is essential to appreciate that minimum wage impacts depend on a range of factors, and that wage-employment elasticities are not linear. With reference to past estimations of the impact of minimum wages in South Africa: the impacts observed are not invariant to the level of the minimum wage, and a series of time-variant factors may change the scale and nature of the economic outcomes. There is certainly a level beyond which a minimum wage will begin to negatively affect employment, and crucially this level may vary across geographic regions, sectors, and firms. This is a noted strength of South Africa's current SD and BC system, where wages are bargained in a decentralised manner, or set sectorally.

## Low Wage Workers and Minimum Wages in South Africa

Workers most likely to benefit from minimum wages, or minimum wage increases, are those earning the least and these workers typically live in larger households and are often the only wage earners in their household. This has implications for how substantially wage increases can impact overall per capita incomes and poverty levels. The data shows that poorer households in South Africa have more household members and fewer members in employment. Average household size is around 3.3, but households in the bottom income quintile have over 5 members, on average. Coupled with this, poorer households have fewer working members and significantly more unemployed dependents.

Of workers earning below the Basic Conditions of Employment income cut-off (R205 433.30 per annum in 2014) we estimate that approximately 20 percent are not currently covered by any formal wage bargaining processes or legislation (SD, Bargaining Council, or Union representation). In this group we estimate that around 45 percent of workers are covered by an SD, 22 percent by a BC process (public and private), and around 10 percent have their wages bargained by a private Union outside of other structures. The majority of uncovered workers are clustered in the manufacturing, construction, and financial services sectors.

All SD minimum wages have increased in real terms since their introduction. The largest increases have been seen in Agriculture and Forestry as a result of the one-off 50 percent increase in March 2013. The lowest average increases have been in Private Security and Hospitality.

The lowest SD is for Domestic workers in rural areas at R1 813 per month (2015), while the highest is for Managers in the Retail Sector in urban areas at R6 506 per month (2015). In comparison, the median wage for all employees in South Africa is R3 171 (2015) per month. Minimum wages for Domestic workers, and Farm and Forestry workers are substantially lower than SD wages for all other covered workers.

Across BCs the lowest minimum wage is for a Shampooist in the national Hairdressing, Cosmetology, Beauty and Skincare Industry at R1 397 (2015), while the highest specified minimum wage is for a Marine Engineer in the Fishing industry at R34 096 (2015). The BC minimum wage system comprises of 37 private, six public, and three statutory BCs, and includes thousands of specific minimum wage rates.

The ratio of minimum-to-mean, and minimum-to-median, wages in other countries can be a useful guide to setting wage rates. For a selection of 28 middle-to-high income countries the average minimum/median wage is 0.67, while South Africa's is 0.74. For a larger selection of 49 countries we find an average minimum/mean ratio of 0.51, while for South Africa this figure is 0.37.<sup>1</sup> Notably, South Africa's median/mean ratio is 0.5, highlighting the degree of wage inequality, and explaining the large difference between the two ratios given above.

Based on data from the most recent household survey many workers in South Africa report earning wages that are low, even relative to the current SDs. Approximately 30 percent of workers report earning less than R1 813 per month (the lowest SD), while around 70 percent of workers earn below the highest SD of R6 506 per month.

## Modelling Potential Employment and Welfare Effects

We model the impact of a NMW for all workers, including part-time and informal workers. We also assume a level of non-compliance with minimum wages equal to the current average level of non-compliance. Two different wage levels are

---

<sup>1</sup> The South African estimates only use SD minimum wage rates and not minimum wages specified by BCs.

modelled: The median wage of all current SD workers – R12.55/hour (R2 447/month for a fulltime worker<sup>2</sup>); the median wage in South Africa – R17.44/hour (R3 400/month for a fulltime worker). In each case we assume three possible wage-employment elasticities: -0.1, -0.3 and -0.5. In addition, we model a further lower and upper bound, where we set a NMW at the lowest and the highest SD wage rates – the results of this exercise are placed in Appendix D.

The number of workers earning below a NMW, and how far below they are, are both central to the overall impact of the law. The estimates for the percentage of workers earning below our selected NMW rates range from 0.2 in mining to 0.67 in agriculture, but the bulk of workers lie within the 0.2 to 0.35 band. There is also a strong correlation between the percentage of workers below and the distance of their wages from the NMW - the wage gap. Private households have the highest wage gap (0.27), followed by agriculture (0.24), transport (0.18), construction (0.17) and CSP (0.16).

Private households and the Agricultural sector have high percentages of workers below the NMW, and high wage gaps, so it is expected that these two sectors would require the biggest wage increases to reach any NMW. On average we calculate that the wage bill could increase by 14 percent in the private households and agricultural sectors if we assume a monthly NMW set at R2 447/month – the fulltime equivalent of the median wage among current SD employees, in 2015 prices.<sup>3</sup>

The CGE model, which is one among a suite of macro models that could be applied to this question, estimates that a NMW will result in a decrease in employment, but the extent of this depends on the wage modelled and the elasticity assumed. In the R2 447 scenario, employment decreases by between -0.8 percent and -3.4 percent, depending on the elasticity assumed. At the higher wage of R3 400, the decrease is estimated as being between -1.6 percent to -6.8 percent. If we assume an elasticity of -0.3, in the R2 447 scenario our model predicts an employment decrease of 281 100 in total (2.1 percent of employees), while in the R3 400 scenario this number rises to 566 100 (4.3 percent of employees).

Axiomatically, a NMW would have wage benefits for workers who remain in employment. In this regard the model predicts positive wage income results, particularly for households at the lower end of the distribution. At both our lower and upper wage-poverty lines, in every NMW scenario, wage-poverty falls considerably when an elasticity of -0.1 or -0.3 is assumed. At an elasticity of -0.5 we observe no change, as job losses appear to cancel out the overall income gains across households.

The microsimulation model also provides some insight into potential changes in wage inequality. As in the poverty effects we observe decreasing wage inequality in both NMW scenarios, except for when we assume an elasticity of -0.5.

## Implementation and Enforcement

Defining the purpose of a NMW is important to wage setting and implementation. Firstly, it must be agreed upon whether the legislation aims to provide a wage floor, or serve as a 'living wage'. Secondly, there are a variety of minimum wage definitions used, for example, whether it is only a basic wage, or whether it includes any bonuses, incentives or other benefits.

The Low Pay Commission in the UK is a good example of widespread consultation in deciding on a wage level. The Commission, at the time of promulgating the UK's NMW, invited evidence from nearly 600 employer organisations, trade associations, unions, voluntary organisations, pressure groups, and academics. In total, written evidence was received from around 500 organisations and formal oral evidence was taken from 47 representative groups of employers, unions, and pressure groups. Additionally, over 200 meetings with relevant stakeholders were conducted during 61 site visits.

Reasonable phase-in periods, possible exclusions, and transparent adjustment mechanisms are all core components of moving toward a successful NMW system. There are a range of permutations in each of these components and international comparisons provide a useful overview of the various options. Phase-in periods allow different sectors to adjust to new legislation according to specific time frames, exclusions can apply by age, sector, for specific categories of workers such as apprentices and so on, and adjustment mechanisms are usually guided by a rule but reviewed annually, or every two years.

Enforcement requires capable institutions, with sufficient resources, to inspect, support, and ensure compliance. An effective inspectorate is central to ensure that employers adhere to NMW legislation but enforcement strategies can take a variety of forms. These include: cooperation, which relies on persuasion and capacity building; warnings, civil and criminal penalties; and licence suspension and revocation. In general, the current schedule of fines in South Africa is too low to serve as a strong deterrent, and there is very little collaboration between the inspectorate and other relevant government departments that could help to improve enforcement efforts.

The Inspection and Enforcement Service in South Africa currently lacks the resources (human, infrastructural, and physical) to improve compliance levels, which are currently around 50 percent across SD sectors according to the latest available survey data. In total there are 1 056 labour inspectors across the country, an average of 10 per 100 000 employees. However, in Gauteng and the Western Cape this ratio is only 5. There is also no central case management system for capturing

---

<sup>2</sup> Here we assume a 45hour work week in line with the current SD schedules.

<sup>3</sup> This takes non-compliance into account and assumes the NMW has some effect on employees earning just above the NMW level.

information about inspections and compliance levels, which is extremely problematic for monitoring purposes at a provincial and national level.

The current system for introducing, setting and updating SDs is robust and appears to work well. There are, however, adjustments that could be made, for example, the extent to which the Employment Conditions Commission has capacity to conduct research, their involvement with enforcement and compliance, and the way in which they update minimum wages. There is also scope to simplify the SD rates, which are complex, but this will depend on how the NMW affects the current system.

## Conclusion

Ultimately, it is clear from the international evidence – and indeed South Africa's own domestic experience with minimum wages – that a few factors are critical to the successful implementation of a NMW system. Firstly, and perhaps most crucially, whilst the choice to set a NMW is not in question, the level at which the wage is set remains the most critical decision for the policy maker. If set too high, or possibly at odds with sectoral and economic conditions, disemployment effects can result and may be severe. Our modelling results for South Africa do confirm this. Secondly, however, and as an extension to the latter, a minimum wage set at a moderate level – can indeed serve as a benchmark for employers to improve both wages and the non-wage conditions of employment for all workers. Thirdly, we show that minimum wage promulgation must be jointly determined with decisions around how to enforce the law. In many developing countries, including South Africa, levels of minimum wage violation are high. That being said, it is evident that too high a minimum wage will result in increased levels of violation of the law. Finally, our evidence points to the fact that household poverty and inequality levels, amidst employment losses, will decline at different elasticity and minimum wage values in South Africa. Ultimately though, the latter outcome alone is suggestive of how delicate a policy territory the introduction of a minimum wage can be. Whilst the promise of reduced household poverty and inequality levels, as well as increased wages for workers – serves as an attractor – there is the omnipresent threat of job losses. Finding the appropriate balance between these two countervailing forces represents the art of optimal minimum wage policy.

## Part II: Qualitative Analysis Executive Summary

### Introduction to Part II

The introduction of a National Minimum Wage (NMW) in South Africa is likely to be an important and far-reaching labour market policy, with impacts on employment, unemployment, wages, and decisions to participate in the labour market. We argue that it is important to investigate these potentially changing labour market outcomes specifically for young people – a group that is particularly vulnerable in the labour market to unemployment, to low pay, and to dropping out of the labour market altogether. It is also essential that any new policies support existing interventions aimed at boosting youth employment. The aim of this study is therefore to gain an understanding, from the perspective of young people and employers, of the impact of an NMW policy on the labour market outcomes of young people aged 18-25.

Youth unemployment is one of South Africa's most critical challenges. For the 18-25 age group, the narrow unemployment rate is 42% (Statistics South Africa, 2015a). The expanded unemployment rate, which includes those who have stopped looking for work due to discouragement, stands at 59% (ibid). In addition, the mean wage paid to full-time workers in this age group is approximately R2 600 per month (Statistics South Africa 2014, own calculations). The consequences of failing to improve this situation are grave. Firstly, exit from the Child Support Grant at age 18 removes a key material support for young people, and for those who are unable to move into higher education after completing high school (or complete their high schooling), work becomes the central means by which they can support themselves. The inability to find work, or being employed in a very low-paying job, is therefore likely to exacerbate poverty and inequality. Secondly, failure to find work soon after school may lead to long-term unemployment – the longer young people are unable to gain work experience and other marketable skills, the less likely their future employment prospects become. Thirdly, large-scale unemployment and the preponderance of low-paying work for young people have serious implications for social inequality, social cohesion, rising levels of crime, and for economic growth. Finally, unemployment and poor working conditions undermine individual psychological, emotional and material well-being.

### Research questions

For these reasons, we undertook a qualitative study aimed at understanding how an NMW might impact on the labour market outcomes of employed and unemployed young people aged 18 to 25. These outcomes include unemployment, employment, wages, and participation in the labour market. The research questions are as follows:

1. How will the introduction of an NMW impact on the labour market outcomes of young people who are either looking for work or working in low-wage jobs in South Africa?
2. How are businesses likely to react to the introduction of an NMW?

### Methodology and major findings

The study engaged employed and unemployed youth in the above age cohort in 19 focus group discussions. A total of 153 young people participated in these focus group discussions (73 employed; 80 unemployed), which were held in urban and rural locations in Gauteng, the Western Cape, Kwa-Zulu Natal, the Eastern Cape and North West province. The findings suggest that:

- (1) Youth unemployment in South Africa is largely involuntary, and the cost of work-seeking is very high. To increase youth employment, respondents in our focus groups (as well as in our employer interviews) suggested that government and the private sector could (a) provide better education both in and out of school (particularly around career guidance and how to apply for jobs); (b) crack down on fraudulent job advertisers; and (c) decrease the cost of work-seeking via, for example, improving the quality and affordability of public transport, providing better and more accessible information about job opportunities, and moving away from paper-based job application processes.
- (2) Unemployed youth report higher reservation wages, on average (median value of R3 000 per month), than employed respondents (median of R2 100 per month). This is likely due to inexperience in the labour market. Reservation wages are calculated primarily with reference to the cost of living (medians of R2 900 and R3 700 per month for employed and unemployed respondents respectively). Furthermore, most young people would accept a job at a wage of R2 600 per month.



- (3) The reservation wages reported by respondents are well below amounts they perceive to be fair, implying that although young people are willing to work for relatively low wages, they would not regard these wages as being fair. The median values for fair wages are R6 000 and R5 500 per month for employed and unemployed respondents respectively and R6 000 per month for all respondents together<sup>4</sup>.
- (4) Young people lack knowledge of minimum wages, and generally lack the bargaining power to claim their rights or to negotiate for better working conditions. Respondents also told us of widespread non-compliance of employers with existing minimum wage legislation, and this was confirmed in some cases by the reported current wages of employed respondents. These findings mean that should an NMW be introduced, this would need to be supplemented with the provision of comprehensive but accessible information to workers, job-seekers and employers. Enforcement would also need to be enhanced.
- (5) A guarantee of higher wages would probably stimulate job-seeking, including for those who have become discouraged and dropped out of the labour market. It is unlikely to crowd out investments in further education and training.
- (6) The idea of a youth sub-minimum wage was not well-received by the majority of young people in our research. But a minority saw it as providing an opportunity to enter employment and gain experience.

Seven in-depth interviews were also conducted with business owners and/or human resourcing managers in the retail, employment services, construction, financial services, manufacturing and hospitality sectors. The interviews were conducted in Durban and Johannesburg. These findings suggest that:

- (1) Poor work ethic, limited work experience and high turnover were identified as challenges relating to the hiring and retention of young people. However, some respondents also regarded these issues as inevitable for people at the start of their careers, and believed that with age comes greater responsibility and commitment. Some saw these challenges as advantages, claiming that they allow for employers to mould young employees into the types of workers they need – something which they see as harder to do with older workers.
- (2) Most respondents were in favour of an NMW provided it is not set too high. They believed it would contribute to greater equality, to improving the standard of living of workers and that it would provide job-seekers and workers with an important 'guaranteed' income.
- (3) Views on a youth sub-minimum wage were more mixed. Smaller business owners were generally in favour, seeing it as a mechanism to reduce labour costs and compensate them for training costs. Others were more sceptical, chiefly due to the concern that paying less for the same work would discriminate against young people.
- (4) We do not get the impression from respondents that increases in minimum wage levels would lead to substantial retrenchments, due either to operational needs (in more labour-intensive businesses such as construction and retail, or skill-intensive sectors such as financial services) or to the ability to transfer costs to consumers (for the larger businesses). Minimum wage increases above current wages may, however, reinforce preferences for older workers in new hiring decisions, where these preferences exist, as they have more work experience and soft skills which are developed with work experience. In addition, smaller businesses may be hit much harder than larger businesses, due to their need for labour but a reduced ability to meet higher wage costs. Finally, we have mixed findings regarding reductions in minimum wage levels for young people (either in the form of a youth sub-minimum wage or in the form of a new minimum wage which is below the average wage currently paid to young workers). In some cases, these reductions would lead to employers hiring more young people at the reduced wage which could boost employment.

<sup>4</sup> Median values are reported here rather than mean values due to the lower sensitivity of median values to outlying large responses. See Table 6 on page 51 for more information on reported costs of living, reservation wages, current wages earned by employed respondents and perceived fair wages, including mean values.

# **PART I: QUANTITATIVE ANALYSIS INVESTIGATING THE FEASIBILITY OF A NATIONAL MINIMUM WAGE FOR SOUTH AFRICA**

## **I Literature Review**

### **I.1 Minimum Wage Regimes across the Globe**

Minimum wage systems exist in about 90 percent of the International Labour Organisation's (ILO) 193 member states (Benassi, 2011). While these systems have a range of different characteristics, all minimum wage regimes can be broadly organised into four main groups, depending on the wage framework and how wages are set:

1. One base minimum wage rate for the whole country or per region, with the State as the key decision-maker.
2. Multiple minimum wage rates by sector and/or occupation, with the State as the key decision-maker.
3. One base rate for the whole country or per region, determined by collective bargaining.
4. Multiple rates that vary by sector and/or occupation, determined by collective bargaining (Eyraud & Saget, 2005).

In general, NMW systems set a single wage floor that applies to all wage-earning workers (Group 1). Regional minimum wage systems set varying rates for each defined region within a country – typically established in countries with particular administrative and political structures (e.g. the United States which has federal and state governments) and differing living standards between regions (Group 3). Sectoral or occupational minimum wage systems only set minimum wages for specific workers, in given job categories, and typically aim to protect workers in vulnerable sectors or occupations (e.g. South Africa) (Group 2 and 4). Globally, approximately 50 percent of countries have a single NMW while the other 50 percent have some form of sectoral, regional or occupational minimum wage system. In most low-income countries, where informal employment is a common feature, minimum wage systems apply to formal and informal sector employment (Rani, Belser, & Oelz, 2013). The government usually has the primary role in adopting, updating, and enforcing wage legislation, in most countries collective agreements in specific sectors or occupations often set wage rates that are above the government-legislated minima. These hybrid systems can encompass varying characteristics of the aforementioned frameworks – for example, in South Africa, a tripartite body establishes sectoral/occupational minimum wages for specific low-income sectors, while collective bargaining also establishes sectoral/occupational minimum wages in many other sectors in the country. These are issues we explain in more detail shortly.

The four classifications given above provide a simplified picture of minimum wage systems throughout the world, which were developed in each case along country-specific lines. Indeed, there are a variety of context-specific factors that contribute to the establishment and evolution of a particular minimum wage regime in any given economy. One major influence is the extent to which a country has a shared history with other countries – either through collaborative policymaking, such as in Europe, or a history of colonial conquest as in Latin America, Africa, and large parts of Asia (Botero et al. 2003; Eyraud & Saget, 2005). In addition, the state of collective bargaining, and the manner in which this has evolved, will often impact on the type of minimum wage regime introduced. Finally, a country's level of industrialisation, together with the way in which a government views the minimum wage as a tool for economic policy, can be a key determining factor in the nature and reach of the chosen minimum wage regime (Eyraud & Saget, 2005).

Table I, below, categorises existing minimum wage systems across selected countries. The variety of systems suggests that there is no preferred or 'optimal' model of minimum wage promulgation at the country level. Moreover, as mentioned above, there are countries that have hybrid systems, such as South Africa, which place them under multiple classifications.

Table I. Minimum Wage Regimes across the Globe

National or regional minimum wage rate set by government or tripartite body	Sectoral and/or occupational minimum wage rates set by government or tripartite body	National or regional minimum wage rate set through collective bargaining	Sectoral and/or occupational minimum wage rates set through collective bargaining <sup>5</sup>
<b>Asia</b>			
Australia, China, India, <sup>6</sup> Indonesia, Japan, Republic of Korea, Lao's People's Democratic Republic, Malaysia Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Thailand, Viet Nam <sup>7</sup>	Bangladesh, Cambodia, Fiji, <sup>8</sup> India, <sup>9</sup> Japan, Nepal, Pakistan, <sup>5</sup> Philippines, Solomon Islands, Sri Lanka		Fiji, India, Pakistan
<b>Africa</b>			
Algeria, Angola, Burkina Faso, Chad, <sup>10</sup> Gabon, Ghana, Guinea-Bissau, Madagascar, Morocco, Mozambique, Nigeria, Sao Tome and Principe, Senegal, Tunisia	Botswana, Lesotho, Mauritius, <b>South Africa</b>		Botswana, Namibia, <b>South Africa</b>
<b>Americas</b>			
Argentina, Bahamas, Bolivia, Brazil, Canada, <sup>11</sup> Chile, Colombia, Haiti, Mexico, Panama, Paraguay, Peru, Trinidad and Tobago, United States, Uruguay, Venezuela	Belize, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay		
<b>Arab States</b>			
Lebanon, Syrian Arab Republic			
<b>Europe</b>			
Albania, Bulgaria, Czech Republic, Estonia, France, Germany Hungary, Ireland, Israel, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Poland, Portugal, Romania, Russian Federation, Slovakia, Slovenia, Spain, Turkey, United Kingdom	Cyprus, Czech Republic, <sup>12</sup> Malta	Belgium, Greece	Austria, Finland, Germany, Iceland, Italy, Sweden, Switzerland

Source: Table adapted from Eyraud & Saget (2005), ILO Travail Database (2015a)

Even within these four broad classifications, however, the processes followed in order to set and update minimum wages, the groups involved in this process, and the institutions governing minimum wage regimes are diverse. For example, in Brazil – a country with a single NMW system – the federal statutory minimum wage is decided by the executive power of government and established by decree. This determines the monthly, daily, and hourly amount of the minimum wage.<sup>13</sup> Separate to this, wages in Brazil can be set at different rates through decentralised collective bargaining, but these agreements cannot violate the federal statutory minimum wage (ILO, 2015a). We focus on the Brazilian case in more detail in Box 1, but give a set of brief country-level examples here to expand on the information in Table I.

In contrast to Brazil, Thailand has a National Wage Committee that makes a recommendation to the government concerning the fixing of regional minimum wage rates. This Committee consists of five representatives from the government, (including

<sup>5</sup> In many countries collective bargaining determines wage rates for certain sectors, setting them at a level higher than the minimum fixed by an authority. These cases are not included in the table as the rates thus set are in addition to the basic statutory minimum. Only cases in which collective bargaining is the sole means used to establish minimum wage rates are listed.

<sup>6</sup> Reference is made here to the recommended federal floor, one of the three procedures used in India.

<sup>7</sup> Minimum wage rates vary depending on whether a company is foreign or locally owned.

<sup>8</sup> The Minister of Labour establishes minimum wage rate for workers in sectors or occupations in which there is no collective bargaining mechanism.

<sup>9</sup> Minimum wage rates are established for sectors or occupations in which there is no effective collective bargaining mechanism.

<sup>10</sup> The 1996 Labour Code provides that minimum wages should be determined by collective agreement. In actual fact, minimum wages fixed by the government at that time have not been adjusted since then.

<sup>11</sup> Two provinces have been provided as an example: Ontario and Manitoba.

<sup>12</sup> In addition to the national minimum wage, the government set minimum tariffs (sector/occupation specific minimum wage rates). These apply only if the employer chooses not to conclude a collective agreement.

<sup>13</sup> Act n. 12.382, 25th February 2011 fixing the new minimum wage and establishing new procedures §3 Supplementary Law No. 103/2000 §1

the Permanent Secretary of the Ministry of Labour and Social Welfare as Chairperson), five employer representatives and five employee representatives. Once the Committee has given consideration to the relevant information it submits minimum wage rates to the Council of Ministers for publication in the Government Gazette (ILO, 2015a).<sup>14</sup>

In Russia, the system is closer to that of Brazil's in that the federal government establishes a NMW rate by federal law (ILO, 2015a). Whilst the Russian Labour Code does not set out the consultation process to be followed before the government sets or adjusts minimum wage rates, it does, in theory, provide for consultations on the regulation of labour relations with social partners. As in Brazil, the federal minimum applies to all groups of workers, without any differentiation by age, occupation or industry, and collective agreements can be made on the condition they are more favourable than the NMW (Muravyev & Oshchepkov, 2013).

In China, minimum wages apply nationally but a single minimum wage is not set. Rather, provincial, regional or local governments set minimum wages and the labour law requires that all enterprises (including state agencies) pay at least the minimum wage. Regional trade unions and business federations are consulted at the local level with regard to setting the minimum wage, and the China Labour Union and China Federation of Employers are consulted at the national level (ILO, 2015a). Collective bargaining agreements on minimum wages can be established at the enterprise level, where, when employees and employer agree, it is submitted to the labour administrative department and comes into effect.<sup>15</sup> These minimum wages are sensitive to such factors such as GDP growth.

In some high-income country settings, such as the United Kingdom, where a NMW was legislated in 1999, the system is relatively straightforward. The Prime Minister sets the wage rate following a recommendation by the Low Pay Commission. The Low Pay Commission is an independent body and comprises of a chair and nine members – three represent employers, three represent employees and three are independent (usually academics). When formulating their recommendation, the Commission conducts its own research and consultations to consider the effect the minimum wage will have on the economy as a whole, and the potential impacts on competitiveness. Decentralised collective bargaining is also used to set wages, but as in other cases the agreed upon wages cannot be lower than the nationally legislated minima (ILO, 2015a).

Similarly, in Kenya, there is a wage council that investigates the setting of wage levels, and it invites representations from interested parties. The council then makes recommendations to the Minister of Labour on wage levels and conditions of employment. In the performance of its functions, the council conducts public hearings and can subpoena persons or materials if necessary. However, instead of making recommendations on a NMW as the United Kingdom does, sectoral wages are considered on a case-by-case basis in Kenya, with a complex set of wage rates within each sector (ILO, 2015a).

In Latin America, Honduras has a sectoral/occupational wage system in which the Ministry of Labour together with the National Minimum Wage Commission fixes minimum wages by sector. The National Minimum Wage Commission is a tripartite institution made up of three government representatives, three employer representatives and three worker representatives. However, it frequently happens that the three parties fail to reach consensus in which case the executive branch of the government makes the final decision (Ham, 2013).

Mexico, however, has a hybrid wage system with two types of minimum wages: There are general minimum wages that apply to all workers and vary according to region; and occupational minimum wages that are higher than the general minimum wages. Both of these wage types are set by the National Commission on Minimum Wages, which is also a tripartite institution made up of representatives from the government, employers and workers. Wages can be fixed by collective agreements but the legislation is unclear as to whether such wages can be lower than the minimum wage (ILO, 2015a).<sup>16</sup>

Overall, the institutional set-up of how minimum wages are set largely falls into three categories: Tripartite bodies, independent commissions, and executive decree. Wage setting itself takes place at the local and/or national level. In the case of tripartite bodies and independent commissions it appears that in most countries once consultation and research is completed recommendations are made directly to the respective Ministry of Labour or equivalent governmental department. When governments alone decide, consultation with various stakeholders usually does take place in some form, and, in general, the legislation makes clear that a range of social and economic factors in the country are taken into account. In all of the countries discussed here, collective bargaining is common regardless of the institutional and wage-setting framework and in most instances the legislation is clear that where wages are negotiated in a collective agreement they cannot be less than legislated minimum wages (Eyraud & Saget, 2005). Given this international background we now turn briefly to the South African case in some detail in order to situate it within the various systems described here.

---

<sup>14</sup> Labour Protection Act 1998 (as amended 2008) §§78, 79, 82 84, 84/1, 85, 88

<sup>15</sup> Specific legislation regulates collective bargaining regarding wages in Foreign Investment Enterprises, which are not included within the ambit of the Labour Act. Collective Wage Bargaining in Foreign Invested Enterprises, China Law and Practice, 1997-11-00. Vol. 11. No. 9, pp. 25-27

<sup>16</sup> Political Constitution of the United States of Mexico Art.123(VI), Federal Labour Act Art.94,95,96,551, and Federal Labour Act Art.386, 391 (VI)

## I.2 Minimum Wages in South Africa

The major legislative frameworks that serve as the foundation for labour relations in South Africa today are the Labour Relations Act (LRA) of 1995 and the Basic Conditions of Employment Act (BCEA) of 1997. These two Acts outline the country's dual wage-setting system, which comprises of:

- I. Collective bargaining through statutory institutions (bargaining councils); and
- II. Sectoral Determinations that are published by the Ministry of Labour and set minimum wages for sectors/occupations/areas.

The Labour Relations Act (1995) created a voluntary system that promoted centralized bargaining, and the extension of collective bargaining rights to almost all employees, including civil servants. It thus reconstituted the old industrial councils as bargaining councils<sup>17</sup>, as well as making provision for public service bargaining councils.<sup>18</sup> Amendments to this Act in recent years have been introduced to transition participating parties of the old Act more fluidly into the bargaining council framework<sup>19</sup> and these have dealt with several key issues. They have:

- made provisions for pension and medical schemes<sup>20</sup>;
- specified the laws around bargaining council registration, extension agreements, and council agents<sup>21</sup>;
- given bargaining councils the power to provide industrial support services to participating parties;
- extended services and functions of bargaining councils to the informal sector<sup>22</sup>;
- specified regulation and representation issues for trade unions, Labour Court judges, and fixed-term and part-time workers; and
- provided greater protection for temporary employees.<sup>23</sup>

Despite these revisions the bargaining council framework faces some of the same challenges as its predecessor Act. These include the efficacy with which bargaining councils can represent and cover a wide spectrum of workers and businesses, the capacity to inspect and enforce agreements, and the difficulties associated with managing the tradeoffs between employer and employee interests.<sup>24</sup> Overall, however, the role of collective bargaining is crucial for minimum wage setting in South Africa and in Section 2 we show how many workers it currently covers. The advantages of collective bargaining is its localised and context specific nature; workers and employers can negotiate terms of employment conditions based on economic and geographical factors specifically relevant to their respective industry/occupation.

Alongside the bargaining council system, the BCEA (1997) introduced regulations that apply to all employed individuals, and it thus covers many workers in sectors where bargaining councils either have limited coverage or do not exist. The BCEA does include an income threshold, of R99/hour in 2014, where those earning above this are exempt from certain sections of the legislation. Beyond basic employment regulations the BCEA allows the Minister of Labour to establish a more specific 'Sectoral Determination' (SD) for a given sector, which introduces minimum wages, maximum working hours, and other non-wage requirements.<sup>25</sup> The idea behind SDs is that they apply to workers who otherwise would have no detailed labour protection. The Minister establishes these SDs by taking into consideration recommendations from the Employment Conditions Commission (ECC) – we discuss the composition and functioning of the ECC in more detail in Section 4. Importantly, a recent Amendment (2014) to the BCEA, introduces a default provision that allows for the setting of a cross-sectoral (or national) minimum wage for the first time.<sup>26</sup>

<sup>17</sup> Bargaining councils themselves can be understood as institutionalised collective bargaining structures established by one or more registered trade unions together with one or more registered employer organisations for a specific area and sector in the economy. Participation in a bargaining council is voluntary and the parties negotiate wages, conditions of employment, and social benefit funds (Godfrey et al, 2010).

<sup>18</sup> The LRA also introduced statutory councils to provide a compromise between the voluntarism of the bargaining council system and the compulsion that was demanded by Congress of South African Trade Unions (COSATU). In terms of the Act a statutory council can be established on application by either a 'representative' trade union or employers' organisation, that is, only one party unilaterally applies for it and this party must meet a lower representivity threshold than for a bargaining council. The drawback is a limited bargaining agenda. Only four statutory councils have been established since the promulgation of the LRA, with one converting into a bargaining council in 2011, and have not accomplished much so far in terms of collective bargaining (Godfrey, Theron, & Visser, 2007).

<sup>19</sup> 1996 Amendment of Labour Relations Act

<sup>20</sup> 1998 Amendment of Labour Relations Act

<sup>21</sup> 2000 Amendment of Labour Relations Act

<sup>22</sup> 2002 Amendment of Labour Relations Act

<sup>23</sup> 2014 Amendment of Labour Relations Act

<sup>24</sup> Benjamin, Bhorat, & Cheadle (2010) note that rigidities in the labour market are also due to the inefficient judiciary system and while the Commission for Conciliation, Mediation and Arbitration (CCMA) has been proven to efficiently resolve labour disputes, the Labour Courts are often slow and face significant backlogs.

<sup>25</sup> Sectoral Determinations were first introduced in 1999 for contract cleaning workers. SDs are updated every few years by the recommendation of the ECC, and promulgation by the Minister of Labour.

<sup>26</sup> Within s55 of the BCEA.



Currently, there are 37 private sector and six public sector bargaining councils registered in South Africa, representing a large proportion of the labour force.<sup>27</sup> In Appendix C we list all of these bargaining councils and their respective industry. Regarding SDs, there are now a variety of sectors and occupational groups covered by an SD and Table 2, below, illustrates the geographical and occupational variation within each sector. The complexity of the SD wage system is immediately clear - in total there are over 120 different wage levels that apply across sectors, areas and occupations. The upper non-shaded section of the table covers SDs that legislate minimum wage rates, while the bottom shaded sections have no specified wages.

Table 2. Sectoral Determination Overview (2015)

Sector	Occupation/Other Classification	Geographical Areas	Year and Month Introduced	Schedules Within
Domestic Workers	All	A and B	August 2002	2
Private Security <sup>28</sup>	Occupations: Artisan, Clerical Assistant (4 grades), Clerk (4 grades), Driver (3 grades), General Worker (2 grades), Security Officer (4 grades), Other	1, 2 and 3	November 2001	57
Taxi	Occupations: Taxi Drivers, Admin, Rank Marshalls and Other	All	July 2005	4
Whole sale & Retail	Occupations: Assistant Manager, Cashier, Clerk, Displayer, Driver (4 grades), Forklift operator, General Assistant, Manager, Merchandiser, Security Guard, Sales Assistant, Sales Person, Shop Assistant, Supervisor, Trainee Manager	A and B	February 2003	36
Forestry	All	All	March 2003	1
Contract Cleaning	All	A, B, and C	May 1999	3
Farm Workers	All	All	December 2002	1
Hospitality Workers	Less than 10 employees, and more than ten employees	All	May 2007	2
Learnerships	NQF 1 to 8 with credit obtainment 0-600 (4 Grades)	All	June 2001	14
Expanded Public Works Programme	All	All	November 2010	1
Small Business Sector <sup>29</sup>	All	All	November 1999	1
Children in the Performance of Advertising, Artistic, and Cultural Activities <sup>30</sup>	All	All	August 2004	1
Civil Engineering (Discontinued)	Task Grades 1-9	All	March 2001	9

Source: Information collected from ECC reports, and Sectoral Determinations available at: [www.labour.gov.za](http://www.labour.gov.za)

### 1.3 The Impact of Minimum Wages: International and South African Evidence

We have briefly explored a variety of country-level minimum wage systems but it is interesting to note that all such systems have a relatively short global history. The first well-documented legislated NMW system originated in New Zealand, in 1894, when the country was still a British Colony, and subsequently similar policies were introduced elsewhere in the then British Empire (Houghton, 2012). The idea of ensuring a legalized basic wage for workers increasingly found support in post-WWI Europe and the 1919 *Treaty of Versailles*, for example, established that “labour should not be regarded merely as a commodity or article of commerce” (The League of Nations, 1919). This eventually led to the first European Minimum Wage-Fixing Convention in 1928 and consequently the increasing adoption of minimum wage systems by countries around the world in an attempt to protect workers against “unduly low wages” (ILO, 1970:1).

In most Sub-Saharan African (SSA) countries minimum wages have been introduced over the course of the 20<sup>th</sup> century and now the majority have some form of minimum wage legislation. The stated objectives of minimum wage policies usually focus on protecting vulnerable workers from extreme levels of low pay, addressing poverty by redistributing income from employers to low-wage employees, and encouraging labour productivity. Notably, however, in most cases the law also explicitly recognises the potential trade-offs that minimum wage policy must take into account. It is well established that

<sup>27</sup> There are also three statutory councils currently registered in South Africa: (1. Statutory Council for the Squid and Related Fisheries of South Africa; 2. Statutory Council for the Fast Food, Restaurant, Catering and Allied Trades; and 3. Statutory Council of the Printing, Newspaper and Packaging Industry of South Africa), but they represent a small portion of workers and have not accomplished much in terms of collective bargaining.

<sup>28</sup> Private security includes additional determinations for specific grades of Security Officers in years 2 (Grade D & E) and 3 (Grade C, D & E) of employment.

<sup>29</sup> The Sectoral Determination for the Small Business Sector regulates overtime, average hours, and leave of an employee, but does not stipulate a minimum wage

<sup>30</sup> This SD includes employment regulations but does not specify wages rates.

there are risks associated with instituting wage floors. The risks can include increased unemployment in certain settings, adjusted hours of work that disadvantage workers, and the movement of workers from formal to informal employment – where livelihoods are often more precarious. Rising wages as a result of minimum wage policy are a notable benefit at the micro level and have potential positive macroeconomic effects through driving demand. Yet, higher wages may also have some impact on the cost of living in the medium-term if firms respond to higher labour costs by raising the price of goods and services. Where wage legislation extends to issues of employment protection there can be significant non-wage benefits for employees, alongside the possibility of higher wages leading to increased productivity. Beyond the various costs and benefits, however, which are the focus of a well-established body of literature, the attendant issues of enforcement and compliance are central to any discussion of minimum wages, particularly in Low and Middle Income (LMI) country settings. Indeed, it is arguable that most of the impact of a minimum wage policy is largely contingent on enforcement and compliance in many of these economies. This is a largely neglected issue in most cases, which we take up in Section 4.

Following the widespread adoption of minimum wages as a tool for social protection, these policies have become the focus of dynamic debate and research among economists. In particular, these debates focus on the impact of introducing and raising the minimum wage at the macro and micro level. The arguments for and against minimum wages are complex and often intertwined with ideological predisposition, making policy choices difficult, and in general, the debate around the effects of minimum wages remains unresolved. What has emerged is that while the theoretical debate continues, most of the recent work in this area is adding important nuance by focusing on empirically measuring the impact of minimum wages at the country or sectoral level. This is where we focus our attention here. Of particular interest is the growing body of work in this area on LMI countries around the world, which has begun to produce a range of results that can usefully be observed as evidence.

To begin, however, we must first explore the seminal economics literature in the United States, specifically, Card and Krueger's (1994) paper, *Minimum wages and employment: A case study of the fast-food industry in New Jersey and Pennsylvania*, revolutionised the debate on the relationship between minimum wages and employment. In this paper, as well as in Card (1992a & 1992b); Card and Krueger (1995); and Card, Katz, and Krueger (1994a & 1994b) the author show that the employment effects of a minimum wage increase in the fast food industry in the United States was either neutral or positive. This went against the standard economic model in which higher legislated wages always negatively affected employment, and it opened up the field to what is now a large empirical literature focused on estimating the impact of minimum wages. Despite the work by Card and Krueger, Neumark and Wascher (1995, 2000) have argued that in most cases minimum wage increases still have disemployment effects, and indeed they dispute even the findings about the fast food industry. In Neumark and Wascher (1995) the authors reviewed the group of workers studied by Card and Krueger (1994) and found negative employment effects when using a different data set.<sup>31</sup>

Since the early 1990s the literature has expanded dramatically. Recently published meta-studies of this literature, still focused largely on the United States, suggest that in most high-income settings, "the weight of [...] evidence points to little or no employment response to modest increases in the minimum wage" (Schmitt, 2013:1).<sup>32</sup> While debate continues, what this literature does make clear is that it is impossible to predict minimum wage-employment impacts *a priori*. Critically, the majority of the literature has focused almost exclusively on high-income countries. The question of the expected consequences of minimum wage promulgation (or adjustment) in LMI countries, which typically have more unskilled, low-cost labour vulnerable to the negative effects of a minimum wage, has attracted less attention to date but is particularly pertinent. Careful empirical work, conditional on the availability of adequate data, is required to understand minimum wage impacts at a country or sectoral level in these cases.

In Neumark and Wascher's (2008) meta-review they include 15 studies focused on eight LMI countries over the period 1992 to 2006.<sup>33</sup> The authors caution that studying minimum wage effects in LMI countries<sup>34</sup> is complicated, partly due to issues that relate to data availability and quality, but also because the results are often not easily generalizable across countries or sectors. The majority of findings reviewed by the authors reveal either no effects or small negative employment effects of minimum wages. In Brazil, for example, disemployment effects and reduced work hours are seen to be minor or non-existent overall, but more pronounced for individuals with low-skills and lower wages (Fajnzylber, 2001; Lemos, 2004, 2006; and Neumark, Cunningham & Siga, 2006). In Chile, increases in the minimum wage had negative employment effects for youth and unskilled workers, but led to an increase in the employment of women (Montenegro & Pagés, 2004). In Colombia disemployment effects were found and these were higher for low-skilled workers (Bell, 1997; Maloney & Nuñez Mendez, 2004). In Costa Rica, increases in minimum wage also decreased employment and reduce hours worked by employees in covered sectors, especially those in the lower half of the skill distribution (Gindling & Terrell, 2005 & 2007; El Hamidi

---

<sup>31</sup> The authors estimates are based on payroll data that suggest the New Jersey minimum wage increase led to a 4.6 percent decrease in employment in New Jersey relative to the Pennsylvania control group. In reply to Neumark and Wascher's criticism, Card and Krueger (1998) took into consideration another new data set – integrating confidential Bureau of Labor Statistics data – and confirmed their original conclusions: they found neutral or positive employment effects. Again, Neumark and Wascher (2000), using a more complete payroll data set than before, confirm their findings of negative employment effects.

<sup>32</sup> See also Belman and Wolfson, 2014.

<sup>33</sup> The country studies focus on Brazil, Chile, Colombia, Costa Rica, Indonesia, Mexico, Puerto Rico, and Trinidad and Tobago.

<sup>34</sup> Neumark and Wascher (2007) use the term 'developing country' to describe what we have referred to as Low and Middle-Income (LMI) countries.

&Terrell, 2001). Similar results are found in Indonesia, New Zealand and Trinidad & Tobago (Alatas & Cameron, 2003, 2008; Rama, 2001; Suryahadi et al., 2003; Hyslop & Stillman, 2005; Strobl & Walsh, 2003).

In the years following the publication of Neumark and Wascher's (2008) review paper a growing body of research has focused on minimum wage effects in LMI countries. In East Asia a number of papers provide new evidence on minimum wage impacts for Thailand (Del Carpio, Messina and Sanz-de-Galdeano, 2014), Vietnam (Del Carpio and Liang, 2013; Nguyen, 2010 & 2013), The Philippines (Lanzona, 2012; Del Carpio, Margolis and Okamura, 2013), and Indonesia (Del Carpio, Nguyen, & Wang, 2012; Magruder, 2013; Comola and De Mello 2011; Harrison and Scorse, 2010). In China, Wang and Gunderson (2011 & 2012) and Fang and Lin (2013) provide some of the first estimates of minimum wage effects, while in Latin America several new papers build on existing work and provide new results (Ham, 2013; Alaniz et al., 2011; Gindling, 2014; Kharmis, 2013). The literature on SSA, however, remains rather limited with published work existing only for four countries, namely Ghana (Jones, 1997), Kenya (Andalón and Pagés, 2008), Malawi (Livingstone, 1995) and South Africa (Hertz, 2005; Dinkelman and Ranchhod, 2012; Bhorat et al., 2013, 2014a; Bhorat et al., 2014b; Nattrass and Seekings, 2014). The most comprehensive literature in the SSA region exists for South Africa and we review this in more detail shortly. To summarise, Betcherman's (2014) meta-review brings together the most recent evidence on LMI countries and finds that, "On balance, the impact of these [minimum wage] regulations tends to be either insignificant or modestly negative [on employment]."

To understand the results of the minimum wage literature more clearly we surveyed 37 international minimum wage studies conducted on 19 LMI countries since 1992, as well as noting the 98 papers reviewed by Neumark and Wascher (2008). Summarized descriptions of each paper and their main findings have been put into two tables, which can be found in the Appendix A (Table 32 for South Africa and Table 33 for other LMI countries). These tables list the authors of each study, the year of publication, the country or group studied, the study period date and data used, and the findings on the employment, wage and non-wage effects. The overall consensus from the recent empirical literature we survey is in line with Betcherman (2014): in general, employment is either unaffected or negatively affected by an increase in the minimum wage. In cases where there are negative effects, however, this effect is usually small, but in several cases it is stronger for low-skilled workers and youths (Brown et al., 1983). The findings of the more recent papers that we review, some of which have been mentioned above, are largely similar to those of Neumark and Wascher (2008, 2013 & 2014). To reiterate though, as Figure 1 and Figure 2, below, will reinforce, where negative effects are found they are usually small.

Here it is important to clarify the economic term 'elasticity', which is commonly used, before we proceed. Simply, an elasticity is a measure of one variable's sensitivity to a change in another variable. In the context of this report, an employment elasticity tells us the impact on employment for a specified minimum wage increase (e.g. For an X percent increase in the minimum wage, employment will increase/decrease by Y percent). We have constructed graphs of the employment elasticities of minimum wage increases found in all of the studies in Neumark and Wascher (2008) and a range of additional minimum wage studies published after 2007 that were not included in Neumark and Wascher's (2008) review.<sup>35</sup> We reproduce only those estimates that were reported to be statistically significant, and we divide the results into LMI and high-income countries.

Overall, employment elasticities in the figures range from 2.17 (Katz & Krueger, 1992) to -4.6 (Abowd, Kramarz, & Margolis, 1999). The mean and median of all of the cumulative elasticities are -0.22 and -0.11, respectively, suggesting that on average the impacts of various minimum wage hikes in the countries under review have been marginally negative. Figure 1 presents 32 statistically significant estimates from 11 LMI countries. The median elasticity is -0.08 (upper dotted line) and the mean elasticity is -0.11 (the lower dotted line).

---

<sup>35</sup> We note that there is a debate concerning the methodology used in Neumark and Wascher's (2008) meta-review. See Dube et al. (2010, 2013); Allegretto et al. (2011, 2013); de Linde et al. (2014); and Doucouliagos and Stanley (2009).



Employment elasticities can be a useful guide to minimum wage impacts, but they should also be carefully understood. Every elasticity figure was calculated based on a particular increase in minimum wages, and these increases differ widely. In one country wages could have risen by 20 percent and in another by one percent – the papers in question do not always make this explicit. Moreover, it should not be assumed that if a particular study reports negligible employment effects from a specific minimum wage increase, that a larger increase in the same context (e.g. a 5 percent increase versus a 50 percent increase) would produce the same results. Indeed, the literature suggests that larger increases have larger impacts on employment. Belman and Wolfson (2014) who analyse employment effects in the United States conclude that, “large increases could touch off the disemployment effects that are largely absent for moderate increases” (p 397). It would therefore be incorrect to conclude that employment elasticities remain constant regardless of the size of the minimum wage increase. To emphasise, larger increases may produce higher elasticities, alluding to the non-linear relationship between minimum wage adjustments and employment shifts. We return to this point shortly.

We now turn our attention to the South African literature on minimum wage impacts. In the post-1994 period, nationally legislated minimum wage setting began with a SD being introduced for the Contract Cleaning sector in 1999. This was followed by the introduction of SDs for the Civil Engineering and Private Security sectors in 2001, and the Domestic Work and Agriculture sectors soon after. As noted above, there is now an extensive set of SDs in South Africa. While the research on minimum wage impacts in the country is at a fairly early stage, there have been a handful of studies focusing on a few of these recently covered sectors. The work that has been done shows that sectoral minimum wage legislation has had varying effects on employment, wages, hours worked, and contract coverage. The literature is discussed below and an overview of each study can be found in Appendix A, Table 32.

Effects in the domestic work sector were the first to be examined. Hertz (2005) found that employment decreased and working hours were reduced after the introduction of a sectoral minimum wage for domestic workers during the period 2001 to 2004. Average wages within the sector, however, were found to have increased as a result of the new SD. Dinkelman and Ranchhod (2012) and Bhorat, Kanbur, and Mayet (2012b) extended this work, but found no clear evidence of disemployment effects in that sector. Bhorat, Kanbur, and Mayet (2012b) did observe that hours of work were slightly reduced, but that the increases in the minimum wage outweighed this effect at the aggregate level so that the overall gains were positive. Bhorat, Kanbur, and Mayet (2012b) also examined the impact of minimum wage laws in the retail, private security, forestry, and taxi sectors. The authors found no disemployment effects in these sectors, and showed that real hourly wages increased for all sectors as a result of the legislation, except in the forestry and taxi sectors. The results on changes in hours worked are mixed but not substantial.

In the agricultural sector Bhorat, Kanbur, and Stanwix (2014) found significant negative employment effects as a result of the introduction of minimum wages in 2003. Additionally, the authors show that average wages and non-wage benefits, as measured by having a written contract, increased substantially. More recent work by Garbers (2015) corroborates these findings and estimates that farm employment decreased by approximately 16 percent as a result of the agricultural minimum wage regulation, of which 7.5 percent was directly attributable to higher unskilled labour costs. Conradie (2004) surveyed 190 wine and table grape farmers in the Western Cape and found that a 10 percent increase in the minimum wage led to a disemployment effect of between 3 and 6 percent. In another micro survey Murray and van Walbeek (2007) surveyed 103 sugarcane farmers in KwaZulu Natal and found no large disemployment effects. However, they estimate that working hours were reduced by between 22 and 40 percent. Overall then the research that has been done in this sector suggests that the wage-employment elasticities are higher than in other sectors covered by an SD.

In the clothing and textile sector, which is not covered by a SD, Natrass and Seekings (2014) found that intensified enforcement of minimum wage laws by the sector’s national bargaining council caused the closure of four factories in Newcastle in 2011. They estimate that this threatened an estimated 20,000 jobs. Natrass and Seekings (2014) argue that these producers had to contend with minimum wages set in bargaining councils dominated by unionized firms in metro areas, who produce primarily for the middle- and high-income end of the clothing market, with more room to pay higher wages. The lower-income end clothing market manufacturers in Newcastle, they argue, could not afford these wages that were extended to non-party members<sup>36</sup> and ultimately closed, resulting in the export of South African jobs to lower-wage countries such as Lesotho and China.

Clearly the South African literature is limited at present, but from what has been published thus far it appears that, in general, the employment effects of minimum wage increases have been mixed. In most sectors the effects on employment have been benign, while employment in the agricultural sector was negatively affected by the introduction of minimum wages. The impact of the 50 percent increase in agricultural minimum wages in 2013 has not yet been analysed empirically, but there is some evidence to suggest that employment in the Western Cape has been negatively affected, and that employment losses have been concentrated among women (Levine, 2014). The result of introducing minimum wages in all the other non-agricultural sectors appears to have had no measurable negative impacts.

---

<sup>36</sup> Bargaining councils, through Ministerial agreements, can make “extension agreements” to non-party members in a sector (employers not associated with a bargaining council), where conditions of employment can be enforced by agents of the bargaining council and employers can be penalised by law for not abiding by such conditions.



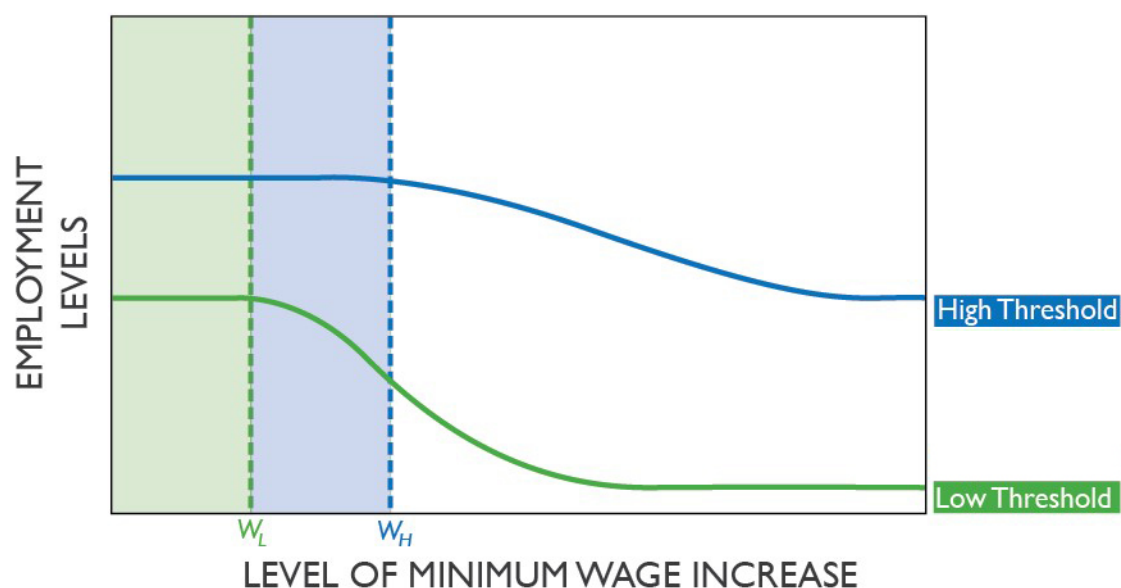
The South African evidence is consistent with the international evidence in a number of respects. Firstly, the results suggest that the impact of minimum wages on employment and hours of work are either insignificant or in some cases negative. Secondly, and this is crucial, when the impact is negative, the absolute value of this response is usually small. Put differently, and again in agreement with the international literature, minimum wage adjustments in South Africa have not had significantly negative disemployment effects in general. Thirdly, in sensitive sectors where minimum wage increases have been large (such as in agriculture) employment losses ensued. Ultimately then, we would argue that, within some feasible range (dependent on country-specific factors and estimates) a minimum wage will not have significant nor large disemployment effects. Outside of this range however, which indeed time-based factors may alter – negative employment shocks are non-linear in nature, and could occur.

### 1.3.1 A Theoretical Framework for Minimum Wages and Employment

The observed impacts in South Africa depend on a range of factors, these include the level of the minimum wage relative to average wages, the size of the minimum wage increase, the sector under consideration (for example tradable vs. non-tradable), the timing of the wage change, the level of worker productivity, the enforcement regime, and the extent of compliance. While past increases in minimum wages have generally not negatively affected employment, it is not the case that such positive outcomes will persist regardless of the level to which a minimum wage is raised. This is a key point to keep in mind when reference is made to past estimations of the impact of minimum wages in South Africa: The impacts observed are not invariant to the level of the minimum wage, and a series of time-variant factors may change the scale and nature of the economic outcomes from instituting a minimum wage. In one conception of the potentially heterogeneous effects of minimum wage adjustments, there is a level beyond which a minimum wage will begin to negatively affect employment, and crucially this level may additionally vary across geographic regions, sectors, and firms.

Figure 3, below, visually represents this idea in a very basic theoretical construct, by presenting two different impact scenarios. The solid green and blue lines can each be considered to be labour demand functions representing the employment response to increases in the minimum wage. Here, we present the level of employment on the y-axis and the level of a minimum wage increase on the x-axis. It is clear that in the case of the blue line, the minimum wage can be raised to  $W_H$  (the high wage threshold) without any impact on employment. Beyond  $W_H$ , however, any increase in the hypothetical minimum wage will begin to result in job losses, stipulated here by a decline in employment levels. In the second case represented by the green line, the broad relationship between the minimum wage and employment stays the same, but crucially employment is more sensitive to changes in the minimum wage and wages can only be raised to  $W_L$  (the low wage threshold) before they begin to impact negatively on employment.

Figure 3. Minimum Wages and Employment: A Basic Theoretical Construct



Source: Author's own creation

We could construe the upper blue line as a non-tradable sector in the South African non-agricultural economy, such as contract cleaning, while the lower green line could represent a sector more sensitive to wage changes such as agriculture. However, the abovementioned factors that can influence wage-employment trade-offs would all play a role in determining where  $W_L$  lies for a given set of firms, workers or sector.

The lines also suggest a key insight into estimated wage-employment elasticities, namely that they are neither constant nor linear. Put differently, if a 50 percent increase in the minimum wage results in a 10 percent drop in employment (where the wage-employment elasticity is thus -0.2), it is not the case that a 100 percent increase will result in a 20 percent drop in employment – the elasticity will not remain at -0.2. Ultimately, basing all future minimum wage adjustments, of any value and increment, on past estimates remains an incomplete and ultimately inexact manner in which to ground a discussion around the adjustment to a new NMW. The fact that a 30 percent adjustment in the minimum wage for contract cleaners, or a 25 percent increase for taxi drivers, did not result in observable disemployment effects, will not necessarily mean that such an adjustment for all workers under a NMW dispensation will also have benign disemployment effects. Grasping this conceptual point, and the potentially heterogeneous economic trade-offs it will entail, is critical to ensuring more carefully considered policy formulation around a NMW. This is a noted strength of the current sectoral determination system, which takes sector-specific considerations into account when setting minimum wages.

## 1.4 Minimum Wage Enforcement and compliance: A Literature Review

Enforcement of, and compliance with, minimum wage legislation is a substantial contributing factor that must be considered in discussions of minimum wage effects. We introduce a general discussion of the key issues here but provide more detailed case studies and South Africa-specific analysis in Section 4. The international literature on minimum wages implicitly assumes that wage laws are adequately or perfectly enforced. In South Africa this is not the case, and similarly high rates of non-compliance with minimum wages have been found in many other LMI country settings. Concerns over the economic effects of minimum wage laws on employment are understandably prominent in the active labour market policy agenda but the enforcement of these laws should not be ignored. Internationally the research in this area is at a very early stage and in many cases the data are inadequate to understand enforcement practices and the various elements that influence compliance. However, papers by Borat et al. (2012a), Rani et al. (2013) and Almeida et al. (2009 & 2012) provide clear evidence that many covered workers around the world continue to earn sub-minimum wages and that factors such as levels of unemployment, firm size, informality, intensity of inspection and the level of fines for non-compliance all influence compliance rates to varying degrees.

Bhorat et al. (2013) suggest that there are four sets of variables that are important in understanding the factors influencing minimum wage violation in the developing world. There are, firstly, institutional factors such as the penalty structure for non-compliance, the complexity of the wage schedule and the resources allocated to enforcement services. All play a role in shaping the levels of violation to some extent, but their importance will vary based on the specific country and labour market context. Secondly, the individual characteristics of inspectors, including their level of education, can influence the extent to which they are effective at achieving compliance. Thirdly, firm characteristics such as size, distance from the enforcement agency, the number of previous violations, and the level of foreign ownership will impact on the levels of enforcement and violation. Finally, local labour market characteristics such as the unemployment rate, the average wage rate relative to the minimum wage, and the levels of unionisation also play a role.

A recent study by Rani, Belser, and Oelz (2013) explores issues of minimum wage coverage and the gaps in minimum wage compliance<sup>37</sup> in 11 LMI countries.<sup>38</sup> The work shows that of the 746 million workers identified in all countries, 51.8 percent were wage earners, 43.6 percent were covered by wage legislation, and 8.1 percent were excluded or unprotected. Of the 326 million covered workers, an average of 33.3 percent were being paid less than what was stipulated by legislation, and the extent to which these workers were being underpaid averaged 40 percent less than the legislated minimum wage (Rani, Belser, & Oelz, 2013). Work by Borat et al. (2013) suggests similar figures for South Africa, and we present updated numbers in Section 4 of this report on the level and depth of non-compliance in South Africa for each of the SDs, using an Index of Violation methodology from Borat et al. (2012a).

Concerning government policy on enforcement it is axiomatic that if minimum wages are not effectively enforced, the intended policy benefits will be restricted to a small proportion of workers. The evidence suggests that compliance levels are generally low across the developing world and that more rigorous enforcement measures are needed to ensure that firms, as well as households, do not underpay their employees (Nguyen, 2010). There are two initial decisions facing policymakers: Firstly, to set the level of the minimum wage, and secondly, to choose the intensity of enforcement. Setting the minimum wage should balance potential wage gains against the risks of decreasing employment, while also taking account

---

<sup>37</sup> Coverage gaps represent the proportion of wage earners that not are covered by minimum wage legislation in the labour market. Compliance gaps represent the proportion of wage earners who are covered by minimum wage legislation but still make sub-minimum wages.

<sup>38</sup> Brazil, Costa Rica, India, Indonesia, Mali, Mexico, Peru, the Philippines, South Africa, Turkey, Vietnam.

of the extent to which wage laws can be enforced. Belser & Sobeck (2012) suggest that minimum wage setting be based on three key indicators: a) a minimum living wage threshold; b) the number of employees directly affected by the minimum wage, and the impact on the country's total wage bill; and c) the ratio of the minimum wage to the average (mean and median) wage. In terms of the last mentioned indicator, data available from the ILO for a selected 48 countries shows an average minimum-to-mean wage ratio of 0.51 (See Section 2, Figure 14). However, comparing minimum wages to mean wages can be deceptive if income inequality is extreme, as high earners will pull up the mean wage figure and substantially depress the minimum-to-mean wage ratio. Generally median wages more accurately represent the earnings of workers in the middle of the income distribution. Data available from the ILO for a selected 28 countries shows an average minimum-to-median wage ratio of 0.67 (See Section 2, Figure 13).

Concerning enforcement, the higher minimum wages are, relative to the average wages paid within a country, the higher the chances are of employers protecting profits from increased costs and subsequently not complying with legislation. Andalón and Pagés (2008), for example, find that minimum wages in Kenya are set high relative to the median wage (above 70 percent of the median wage in salaried employment) and thus non-compliance levels in the country are also high. In Vietnam, where the minimum-to-median wages ratio has averaged 0.39 and the minimum to mean wages ratio averaged 0.34, compliance has averaged 95 percent. In India, where compliance averaged 45 percent, the minimum-to-median wage ratio has averaged 1.03 and the minimum-to-mean wages ratio has averaged 0.65 (Rani, Belser, & Oelz, 2013).

The intensity of enforcement depends largely on government resources, but the ability to enforce effectively is also related to a third factor – the complexity of the minimum wage schedule. It has been argued that the complexity of a country's wage system is related to higher levels of non-compliance (ILO, 2012/2013). Complex schedules can create confusion among employers, or be used as a tool to skirt the law, and is also more difficult for authorities to enforce. In Brazil, for example, where a single NMW is applied to all workers in the formal and informal sector, compliance averages 80 percent. In India, where there is an extremely complex system of minimum wages that include 45 differing wage rates for 1 679 job categories, compliance averages 45 percent (Rani, Belser, & Oelz, 2013). There are, of course a range of factors that contribute to rates of non-compliance but complexity could plausibly be expected to play some role since employers and workers are less likely to understand their responsibilities and rights.

Thus, some of the key decisions facing the State are not only the explicit level of a minimum wage but also the complexity of the wage regime, and the intensity of enforcement envisaged for a new minimum wage policy. In particular, the notion that higher relative minimum wages are invariably correlated with higher levels of non-compliance, together with the fact that these two variables constantly interact with each other – should be carefully considered in the decision-making around a NMW policy and we address this in more detail in Section 4. In addition, the economic environment and the implementation of collaborative social policies that coincide with minimum wage policy can play a big role in compliance and enforcement as well as in the overall economic impact of minimum wages. This can be best demonstrated by examining the case of Brazil between the late-1990s and mid-2000s, a country often cited as having successfully used minimum wage policy to decrease poverty and inequality while at the same time having no discernible effect on employment. The details of the Brazilian case are summarized in Box 1, below.

*Box 1. The Case of Brazil: 1995 - 2012*

From 1995 to 2012, real mean and median earnings in Brazil increased by 14 percent and 43 percent, respectively. The national real minimum wage on the other hand increased by more than 103 percent within this time period, with the majority of the growth happening from 2002 to 2012. Various academics including Fajnzylber (2001); Foguel, Ramos, & Carneiro (2001); Lemos (2004, 2006, 2007, 2009); McIntyre (2006); and Neumark, Cunningham, & Siga (2006) have argued that this substantial increase in the minimum wage contributed to a reduction in income inequality and poverty, while disemployment effects were either very small or zero. From 2002 to 2012, the proportion of the Brazilian population making less than \$1.25 (PPP) per day decreased from 8.87 percent to 3.75 percent, GDP per capita jumped from \$2 810 to \$11 319, the Gini coefficient fell from 0.59 to 0.53, and unemployment declined from 9.1 percent to 6.0 percent (World Bank, 2014).

However, as Berg (2011) and Ferreira, Firpo, and Messina (2014) note: While the increase in the minimum wage did help with the compression of the wage distribution and stimulation of growth in Brazil during this period, additional factors also were important in reducing income inequality in Brazil.

In addition to the minimum wage policy, major economic, demographic, spatial, and institutional dynamics allowed Brazil to enjoy substantial growth and prosperity during this period. From 1990 to 1997, the Brazilian Real was extremely overvalued, resulting in a currency crash in 1998 and 1999. This crash and the continued currency devaluation in the following years made the Brazilian exchange rate extremely competitive, which aided massive economic growth and labour demand in the commodities boom in the early 2000s (Berg, 2011).

The youth population, who typically occupy precarious jobs, fell as a proportion of the overall population as the fertility rate (births per woman) had decreased substantially in the preceding two decades – from 4.5 in 1975 to 2.5 in 1995 (World Bank, 2014). Additionally, the average level of education increased within the working age population as the Brazilian government implemented strict education reforms; in 1996, 23 percent of this population had at least ten years of schooling, this increased to 55 percent by 2012 (Ferreira, Firpo, & Messina, 2004).

These economic and demographic shifts alone would have resulted in lower unemployment and higher formality as low skilled workers gained leverage and demanded labour contracts to be formalised. Moreover, labour demand for high skills failed to keep pace with supply, which decreased wages for workers at the top end of the income distribution. This excess supply of skilled workers undoubtedly contributed to compressing the wage distribution in Brazil (Ferreira, Firpo, & Messina, 2004).

Spatial and institutional factors also aided economic growth over this period. For example, more of the working population at the time began to move from rural areas to urban areas where labour policy enforcement was stricter. Also, the Brazilian Public Prosecutor's Office (PPO) and Ministry of Labour and Employment implemented more stringent enforcement measures on labour policies (Ferreira, Firpo, & Messina, 2004) – hence, the reason why Brazil could manage increasing the average minimum-to-median wage ratio while maintaining a high compliance level around 80 percent. (Rani, Belser, & Oelz, 2013).

*Table 3. Wage levels in Brazil (2003-2011)*

<b>Wage Levels</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Median Wage (Brazilian Real)	477	499	523	598	612	699	778	815	936
Minimum Wage (Brazilian Real)	240	260	300	350	380	415	465	510	545
Mean Wage (Brazilian Real)	861	901	969	1039	1116	1226	1330	1452	1588
Min/Median	50%	52%	57%	59%	62%	59%	60%	63%	58%
Min/Mean	28%	29%	31%	34%	34%	34%	35%	35%	34%

Source: ILO Global Wage Report data (2015)

Thus, increases in the national minimum wage at the time was met with high demand for low-skill labour due to the commodities boom, subsequently increasing the pay for those who earned the least, which further compressed the wage distribution and supported the decrease in inequality in the country. Moreover, other minor factors such as the decrease in occupational segregation by gender, introduction of micro-policy interventions that facilitated registration and lowered taxes for SMEs, and the expansion of social safety net programmes allowed for a more inclusive and entrepreneurial labour force during this time (Berg, 2011).

Ultimately then, whilst an increase in the national minimum did help fuel formal job creation and decrease inequality in Brazil from 1995 to 2012, it is important to note that the success of Brazil's minimum wage policy was only one factor, amongst a myriad of others, in understanding the reduction in income inequality over a two-decade period in the country.

## 2 Wages and Household Income at the Bottom of the Distribution: A Descriptive Overview

This section is focused on presenting descriptive data that are relevant to the minimum wage landscape in South Africa. It draws largely on household survey data from StatsSA, and in particular the Labour Market Dynamics Study (LMDS), which is released annually and is the largest, nationally representative household survey. There are some concerns about the possibility that wage levels in the LMDS may be underreported, we address this issue in Appendix B. The latest available data that contain information on wage income are from 2014.<sup>39</sup> In addition, we supplement these data with some findings from the National Income Dynamics Study (2012), which provides richer data on other income sources – the LMDS only focuses on wage income.

We begin by providing a basic overview of the income distribution of households in South Africa, where we focus on issues relevant to the labour market, including household income, household size, labour market status, the number of working persons per household and the importance of wage income in total household income. This provides a foundation for thinking about households that earn below or near current minimum wage levels, and how minimum wages can influence household poverty. We then move on to focus directly on the existing minimum wage framework in South Africa, which was outlined in Section 1. Here we provide a breakdown of workers in the labour market, showing those who are covered by some form of wage bargaining procedure and those who are not. Following this, the rest of the section is made up of an extensive overview of the Sectoral Determination (SD) minimum wage system in place at present, and the workers covered by this system. We focus mainly on SDs over the Bargaining Council (BC) system in this regard as SDs represent the most vulnerable workers in the country and the largest proportion of workers covered by minimum wage legislation. We show how firm size differs across the SDs, how legislated SD wages have increased over time, and how average wages compare to the current SD and BC minimum wage levels. We note how minimum-to-average wages internationally may be a useful starting point for thinking about a NMW level, and then based on several wage benchmarks we present data showing where these benchmarks would cut the overall wage distribution in South Africa.

### 2.1 Poor Households and Wage Employment

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. To do this we divide households into five quintiles<sup>40</sup> based on household income. In order to avoid selecting a poverty line here we simply classify households in the bottom two quintiles as ‘poor’ and those in the upper three quintiles as ‘non-poor’. Importantly, here we are using NIDS (2012) and taking account of all sources of household income.

In Table 4, below, we outline the basic features of households in terms of size and per capita income. 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). 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.

Table 4. 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.

<sup>39</sup> We include part-time and full-time employees in our sample. For the wage data we treat the upper 1 percent of wage earners as outliers and remove them from the sample.

<sup>40</sup> A quintile simply divides the population into five equal groups.

The average size of a household in South Africa is 3.3, but as the table shows this differs considerably across the income distribution. In quintile 1 the average household size is close to 5, while in quintile 5 it is 2, thus on average households in the poorest quintile are more than double the size of households in the richest quintile. Given that households have been grouped by total income it is obvious that those in quintile 1 will have the lowest monthly income – a ratio of 1:14 relative to the richest quintile – but what the table shows is that because poorer households are also much larger, per capita incomes are even lower – a ratio of 1:39. Poor households must distribute a much smaller total income across more people and this exacerbates the large gap in per capita incomes.

It is also important, when thinking about minimum wages, to examine how poverty is linked to the labour market. In South Africa it is well established that access to decent wage income, or the lack thereof, is what drives poverty. Table 5, below, explores the labour market linkages of poor and non-poor households in more detail. The table presents labour market information for people of working age, again with households grouped into quintiles, and as before households in the bottom two quintiles are classified as poor. The first four rows show the fraction of employment, unemployment (both definitions<sup>41</sup>), and non-participation in each quintile, and below this we present unemployment rates.

The table shows how individual employment and unemployment rates are inextricably linked to household poverty levels – where household welfare is positively influenced by the fraction of employed people. Only 16 percent of working age adults in quintile 1 are employed, while in quintile 5 this percentage rises to 75 percent. This suggests that high rates of unemployment and low rates of employment are at the core of the high levels of observed household poverty levels. In many ways, a more employment absorbent labour market, lies at the heart of trying to reduce household poverty levels. In addition to this, many people who are employed earn very low wages. Table 5 shows that average monthly wages are around R1 000 for workers in quintile 1, in 2012 prices, and R1 700 in quintile 2. Wages increase to around R13 500 in the richest quintile. The average wages of workers in quintile 1 are below any of the legislated SDs (shown later in this section), and even the averages for quintile 2 are low relative to the SDs. The final row of the table shows the average number of non-employed persons in a household relative to the number of employed persons. It is additionally clear that among poor households, the number of people reliant on each employed person is high.

Table 5. Labour Market Participation and Wages (2012)

	Poor		Non-Poor			All
	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	
Labour Market Participation						
Employed	15.9%	35.9%	52.5%	65.3%	75.0%	44.4%
Unemployed (strict)	25.1%	17.4%	12.3%	9.0%	2.6%	14.9%
Unemployed (discouraged)	5.5%	4.5%	2.2%	1.7%	1.2%	3.4%
Not Economically Active	53.5%	42.2%	33.0%	24.0%	21.3%	37.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Unemployment Rates						
Narrow Unemployment Rate	61.2%	32.7%	19.0%	12.1%	3.3%	25.1%
Broad Unemployment Rate	65.8%	37.9%	21.7%	14.1%	4.8%	29.1%
Wages and Labour Market Linkages						
Avg. Wage of Employed Persons	R 1 017	R 1 707	R 2 651	R 4 751	R 13 458	R 5 787
Avg. No. Employed per Household	0.4	0.9	1.0	1.2	1.2	0.9
% Working Households	36.2%	65.8%	71.1%	85.8%	87.8%	69.3%
Avg. No. Non-Employed per Employed in Working Households	4.1	2.5	1.4	0.9	0.6	1.5

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

Notes: All figures weighted using calibrated weights.

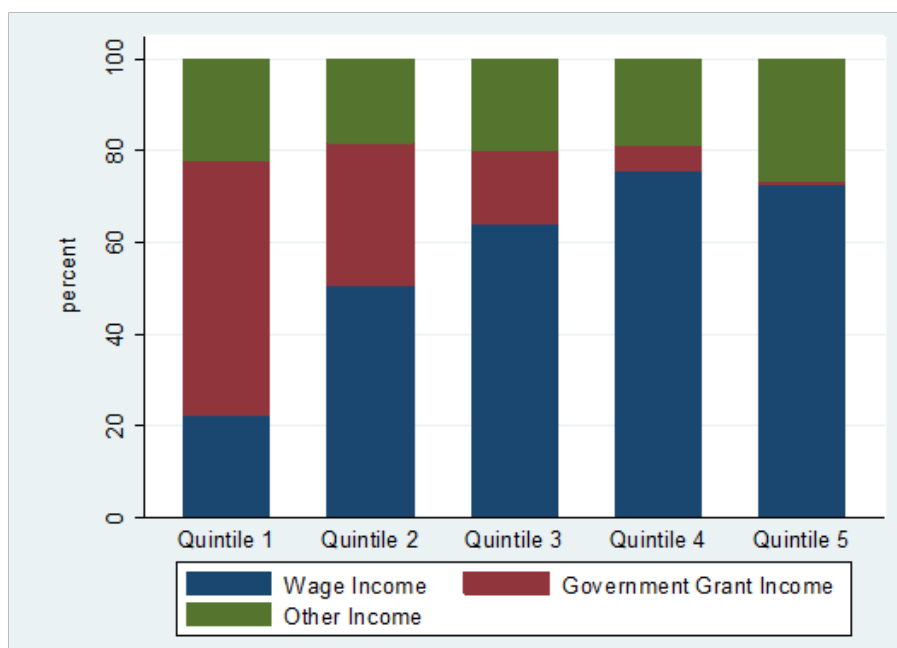
Figure 4 and Figure 5, below, focus on the sources of income across the quintiles – where income is divided into wages, government grants, and other sources. Figure 4 includes all households, while Figure 5 includes only households with at least one working member. It is immediately clear that poorer households rely more heavily on non-wage income as opposed to income earned directly in the labour market. A strong reliance on grant income is evident among poor households when we focus on all households in South Africa, making up close to 40 percent of total income in quintile 1 (Figure 4). If we only consider households that have at least one wage earner (Figure 5) this falls to below 20 percent, with wage income accounting for almost half of total income. Both figures, however, clearly show that wages increase in importance in richer households, and make up around 80 percent of total household income in quintile 5. It is important to keep in mind that while Figure 5 shows a substantial reliance on wage income even for the poorest households these households are typically much larger

<sup>41</sup> This refers to the 'narrow' and the 'broad' definitions of unemployment. Where the narrow unemployment rate only includes people who say they are unemployed and are actively looking for work, compared to the broad unemployment rate which also includes those who are unemployed and available to work but have not taken active steps to look for work.



than richer households (Table 4). In the context of minimum wages this means that for increased wage income to impact significantly on household poverty, wages would have to rise by a substantial amount.

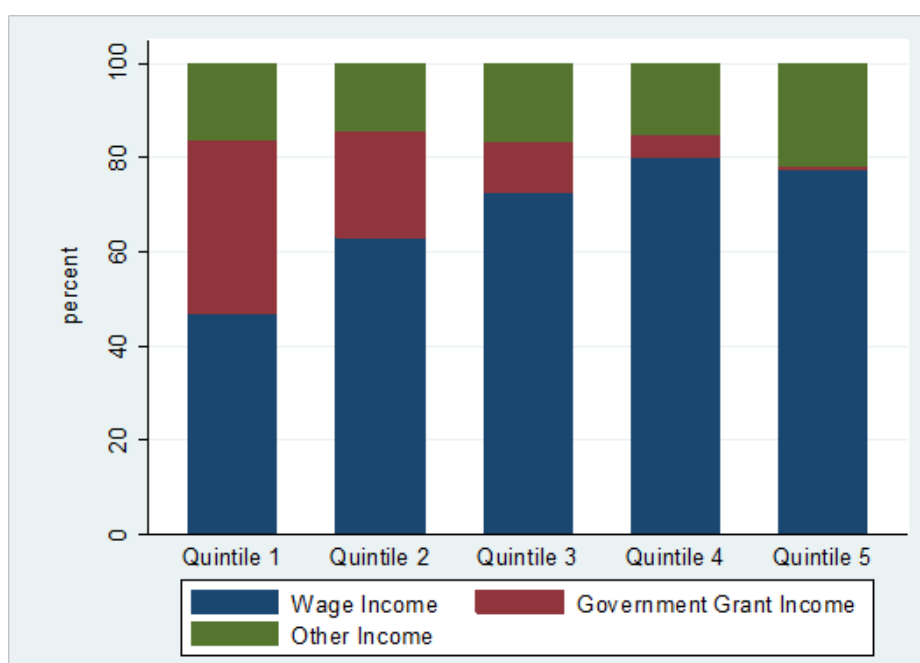
Figure 4. Sources of Income, All Households (2012)



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

Notes: All figures weighted using calibrated weights.

Figure 5. Sources of Income, Households with at least One Employed Member (2012)



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

Notes: All figures weighted using calibrated weights.

The failure of the labour market to create a sufficient number of low-wage jobs, thus serves to exacerbate the cycle of poverty for those households in the bottom quintile. A NMW intervention, which may end up increasing wages but possibly reduces employment at the bottom end of the distribution – could potentially force an unintended trade-off between employment creation and household poverty.

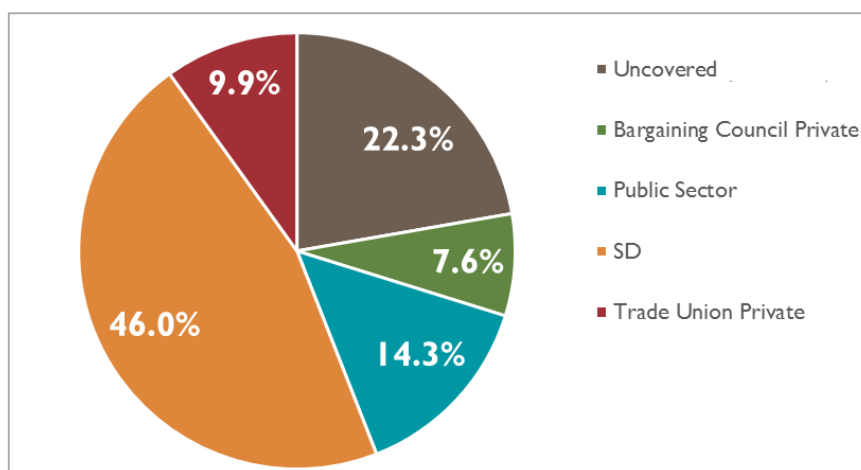


## 2.2 Coverage by Wage Legislation in South Africa

Before providing an analysis of workers currently covered by minimum wage legislation, and presenting data on the levels and evolution of minimum wages in South Africa, it is useful to identify what minimum wage coverage looks like at present. Specifically, it is important to understand how many workers are employed outside of any formal wage protection systems, as these are ostensibly the workers that are most likely to be affected by a NMW. Figure 6, below, uses data from the LMDS (2014) to identify five key groups of workers, namely: Public sector workers, private sector workers who are trade union members, private sector workers who are covered by a bargaining council, workers covered by a SD, and workers not covered by any wage legislation or formal bargaining structure.

There are several things to note about the workers included in Figure 6. The sample only includes employees (those working for someone for pay) who earn an income that is below the BCEA income cut-off. This cut-off was set at R205 433.30 per annum in 2014 and means that all sections of the BCEA, including the SDs, apply to workers below this level. Our sample thus includes approximately 10.5 million workers – around 67 percent of the total employed.<sup>42</sup> Beyond this, to avoid overlaps across these categories – e.g. workers in the public sector who are also covered by a bargaining council – we categorised workers sequentially. Hence, from the full group of workers we identified public sector workers, followed by those covered by an SD, then union members, and those covered by a bargaining council<sup>43</sup>. The residual group of workers we treat as ‘uncovered’. In total, we estimate that around 2.3 million workers are currently not covered and would therefore, under a NMW be covered for the first time by such legislation. At present close to 5 million workers are covered by a SD.

Figure 6. Minimum Wage Coverage in South Africa (2014)



Source: LMDS (2014), own calculations

It is useful to have some idea of the sectors in which these uncovered workers are employed. In Table 6, below, we provide a basic industry breakdown. What is clear is that the majority of uncovered workers are located in three key sectors: manufacturing, construction, and financial services (largely office and administrative occupations). While it may be the case that smaller, localised bargaining councils in the manufacturing sector do in fact cover some workers without their knowledge we know of no reason to doubt that workers in construction and financial services are not currently covered by wage legislation.<sup>44</sup>

<sup>42</sup> The rest are those who earn above the BCEA income cut-off, or are employers or self-employed.

<sup>43</sup> This is based on workers reporting whether their wages are bargained by a bargaining council. We compare these self-reported estimates to administrative data from the DoL – the number of workers registered with firms covered by bargaining council agreements – and while our estimate is slightly lower we do not believe it is sufficiently different to warrant replacing the self-reported numbers with the administrative data.

<sup>44</sup> The survey asks respondents about how their wages are determined, and one of the options is to answer that wages are set by a bargaining council.

Table 6. Uncovered Workers by Industry (2014)

Industry	Number	Percentage
Agriculture	46 931	0%
Mining	35 062	1%
Manufacturing	719 467	31%
Utilities	24 320	1%
Construction	648 839	29%
Transport, storage and communication	250 514	11%
Financial Services	613 799	26%
Private Households	14 642	1%
Other	1 567	0%
<b>Total</b>	<b>2 355 142</b>	<b>100%</b>

Source: LMDS (2014), own calculations

Having provided a basic overview of the scope of SD coverage we now begin to explore SD workers, firm size and the current minimum wage system in more detail.

## 2.2.1 Sectoral Determination Worker Demographics and Firm Size

Here we focus on some of the key characteristics of workers who are employed in sectors covered by a SD. Table 7 provides this information, below; the sample is restricted to employees and who are earning below the 2014 BCEA cut-off.

Looking firstly at the gender profile of the various SD sectors, we see that five out of the eight sectors are male-dominated – these are the agriculture, forestry, taxi and private security sectors – while the hospitality, domestic worker and contract cleaning sectors are largely dominated by women. With the exception of forestry, the majority of workers in SD sectors reside in urban areas. This is to be expected given the type of industries, as well as the number of available jobs being far higher in urban areas than rural areas.

By racial composition the large majority of SD workers are African, which is to be expected based on the population demographics and the fact that low wage jobs in South Africa largely remain the preserve of African workers. The highest proportion of coloured workers can be found in agriculture, largely due to the Western Cape agricultural sector. The wholesale and retail sector is where the biggest proportion of white workers are located, but they only account for 12 percent of total workforce. As we will see shortly, the wholesale and retail sector has the highest wages amongst SD sectors.

Workers between the ages of 25 and 44 are in the majority across all SD sectors. There is a higher-than-average youth (15 -24) cohort in the wholesale and retail, agriculture, forestry and hospitality sectors. The domestic worker sector has a particularly high contingent of workers in the 45 -54 age group. In terms of educational attainment, most SD workers have an 'incomplete secondary' education. However, in the agriculture, forestry and domestic worker sectors, the proportion of workers who have an 'incomplete secondary' education is substantially less than in other sectors and this difference is made up by workers who only have a primary education. This indicates that lower skills are required in these three sectors.

With the exception of agriculture and forestry, Gauteng is the province with the largest proportion of SD workers. This is to be expected given that Gauteng is South Africa's economically dominant province. The Western Cape has a particularly high proportion of SD workers in the agriculture and hospitality sectors. In Kwazulu-Natal and Mpumalanga there is a high proportion of forestry workers.

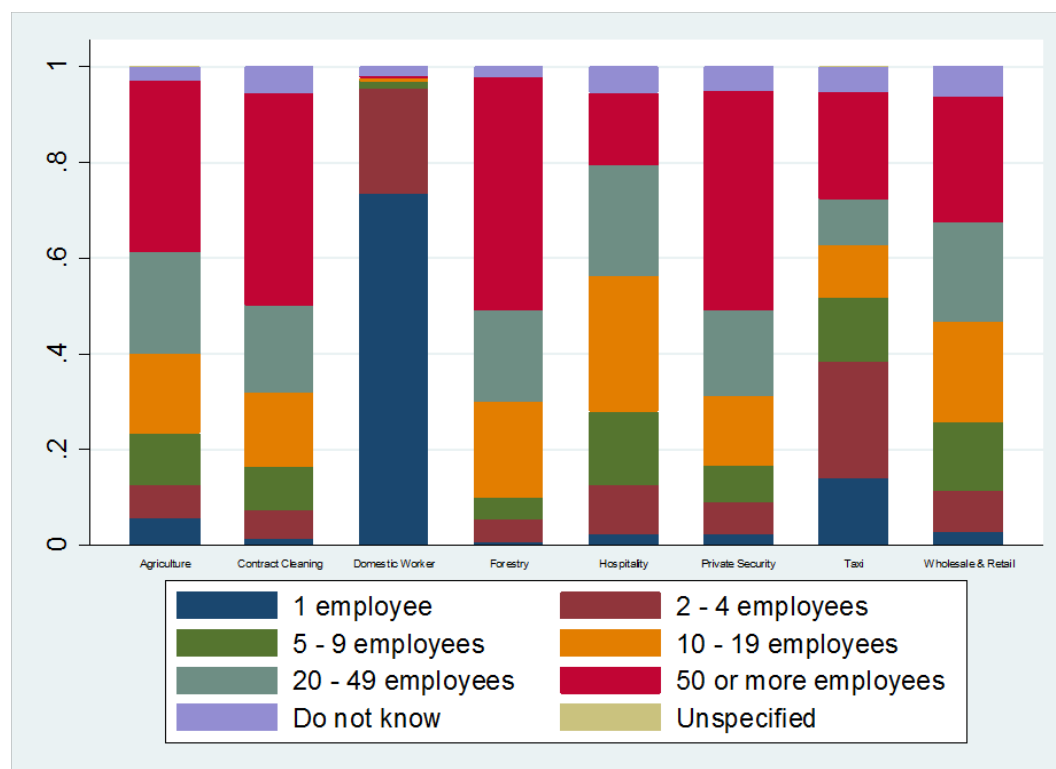
Table 7. Demographic Characteristics of Workers Covered by a Sectoral Determination (2014)

	Wholesale and Retail	Agriculture	Forestry	Hospitality	Taxi	Domestic Worker	Private Security	Contract Cleaning
<b>Gender</b>								
Male	54.9	69.2	69.1	37.8	98.0	20.5	78.2	33.4
Female	45.1	30.8	30.9	62.2	2.0	79.5	21.8	66.6
<b>Geographical Area</b>								
Rural	16.5	42.7	79.2	14.0	21.2	22.2	17.5	24.8
Urban	83.5	57.3	20.8	86.0	78.8	77.8	82.5	75.2
<b>Race</b>								
African	69.6	76.3	92.7	81.0	89.7	92.6	91.7	89.6
Coloured	13.7	21.6	5.4	9.2	5.8	7.3	5.6	9.0
Indian	4.3	0.0	0.0	2.3	2.9	0.0	0.3	0.2
White	12.4	2.1	1.9	7.5	1.5	0.1	2.4	1.1
<b>Age</b>								
15 - 24	16.3	11.6	13.9	18.4	7.1	4.0	5.9	7.6
25 - 34	39.5	32.2	31.9	40.9	37.8	22.4	36.4	27.9
35 - 44	25.1	27.0	28.1	27.0	30.4	31.6	40.7	29.7
45 - 54	13.0	20.1	18.1	10.0	17.2	29.0	11.6	24.2
55 - 65	5.6	8.6	8.1	3.5	7.1	12.2	5.1	10.1
65+	0.5	0.5	0.0	0.2	0.4	0.8	0.4	0.4
<b>Education Level</b>								
No Schooling	1.0	10.5	6.3	0.8	1.6	6.9	0.9	4.1
Pre Primary	0.6	4.2	2.9	1.0	0.7	3.1	0.9	1.7
Primary	5.3	29.9	37.7	5.2	8.3	28.0	4.6	16.0
Incomplete Secondary	79.9	52.0	48.7	83.2	83.7	59.5	83.1	73.7
NTC	1.6	0.1	0.0	1.8	0.7	0.2	0.8	0.8
D/C less matric	0.7	0.1	0.5	0.7	0.2	0.1	2.0	0.3
D/C+ Matric	7.6	1.0	2.5	6.1	3.6	0.4	5.9	1.7
Degree	2.1	0.2	1.0	0.4	0.2	0.0	0.7	0.3
Other	1.3	2.1	0.4	0.9	1.0	1.8	1.1	1.4
<b>Province</b>								
Western Cape	16.4	20.5	5.5	24.0	8.2	11.0	14.1	12.4
Eastern Cape	9.2	11.0	11.9	10.1	10.9	9.7	8.4	8.9
Northern Cape	1.1	5.7	0.0	1.2	0.5	2.3	1.2	2.3
Free State	5.0	8.2	0.2	4.7	5.4	6.5	5.8	6.1
Kwazulu-Natal	13.6	12.3	43.8	16.8	19.4	17.3	16.9	17.1
North West	6.1	8.0	1.2	5.1	4.0	7.1	5.3	10.3
Gauteng	32.3	9.4	0.0	28.7	39.6	29.3	36.3	25.1
Mpumalanga	7.5	10.7	22.3	5.7	4.9	8.0	6.9	10.9
Limpopo	8.8	14.2	15.2	3.6	7.2	8.8	5.1	7.0

Source: LMDS (2014)

In addition to understanding the demographics of SD workers, it is equally important to examine the enterprises in which they are employed. Figure 7, below, provides a snapshot of firm size<sup>45</sup> across each SD. That data is illuminating in that it shows the distribution of small and large firms (or enterprises) across sectors, especially given that smaller enterprises may be more vulnerable to large wage increases, and are also less likely to be inspected. The domestic worker sector is largely comprised of one or two employees, while in most other sectors enterprise sizes are much larger. In agriculture, contract cleaning, private security and wholesale and retail at least half of all enterprises employ more than 20 workers.

Figure 7. 'Enterprise Size' across Minimum Wage Sectors (2014)



Source: LMDS (2014), own calculations.

In Table 8, below, we turn our attention to examining the proportion of employees in small firms (defined as firms with 49 or fewer employees) who work in sectors covered by a Sectoral Determination. In the interests of brevity, the '1 employee', '2 – 4 employees' and '5 – 9 employees' categories have been combined. In firms where there are between 1 and 9 employees, 50.3 percent of those employees work in sectors covered by an SD. This rises to 77.2 percent in the '10 – 19 employees' category and drops to 33.6 percent in the '20 – 49 employees' category. Although there is no clear relationship between the firm size and the proportion of employees in SD sectors, it is evident that a NMW would have a significant impact on all small businesses, with the '10 – 19 employees' category being the most affected.

Table 8. SD Employees in Small Firms.

Firm Size – Number of Employees	Total Number of Employees	Employees in SD Sectors	Proportion of Employees in SD Sectors (%)
1 – 9	4 073 000	2 048 646	50.3
10 – 19	1 882 137	1 453 816	77.2
20 – 49	2 290 522	769 087	33.6

Source: LMDS (2014), own calculations.

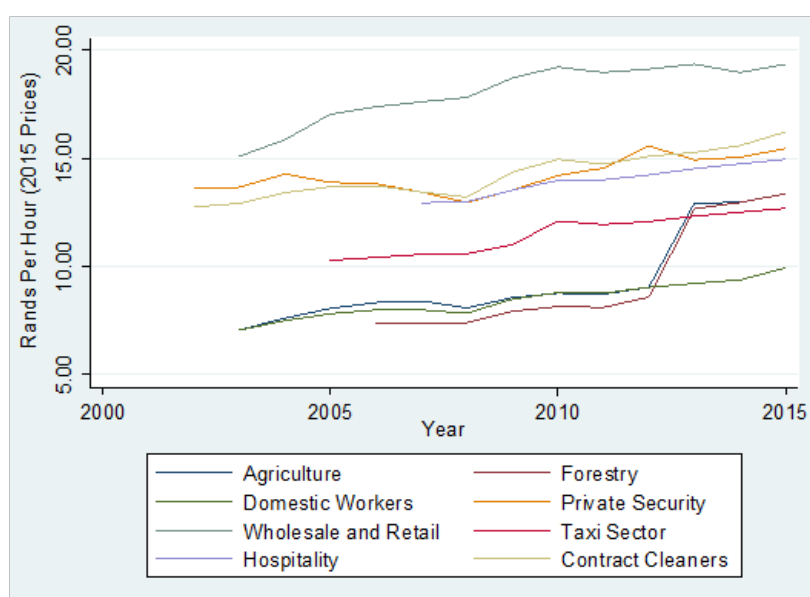
<sup>45</sup> This is self-reported information from the LMDS (2014) on the number of employees working at the interviewee's firm or place of work.

Examining firm size is thus relevant in this context given the discourse around the relationship between minimum wages and small-to-medium sized enterprises, which are typically most vulnerable to increased costs, and enforcement and compliance. We take up the latter issue further in Section 4.

## 2.3 Trends in Minimum Wages and Current Wage Levels of Covered Workers

We now move to focus on the level of the SDs, how they have increased over time and where they are currently set relative to average wages. Figure 8, below, presents the legislated minimum wages across the relevant SD sectors over time. Given that many of the sectors contain more than one wage rate we have simply taken the mean of all minima in each sector – i.e. where there is more than one minimum wage in a given sector we take the mean of these wages.<sup>46</sup> Differing starting points in the wage series reflect the first year of promulgation.

Figure 8. Legislated Real Minimum Wages by SD (in 2014 prices)



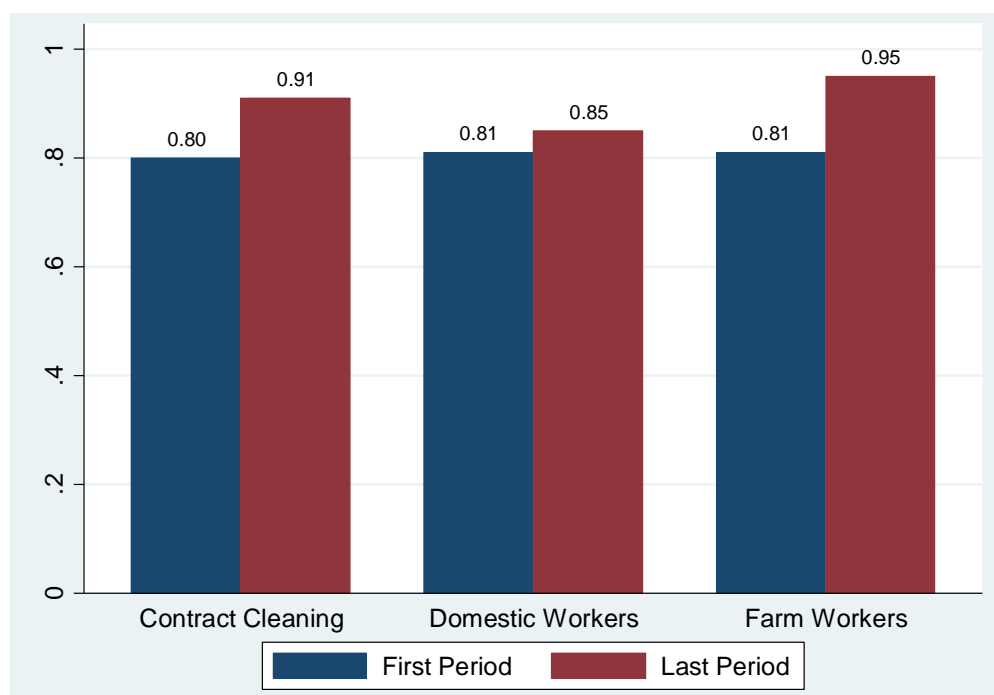
Source: Department of Labour (2015a), own graph.

The hospitality and taxi sectors have enjoyed a steady increase in the mandated minimum wage. As with all other sectors, the agriculture and forestry sectors enjoyed a steady increase in the prescribed minimum wage up until 2012. Between 2012 and 2013, there is a sharp rise in the minimum wage for agriculture. This represents the large increase in the agricultural minimum wage at the beginning of 2013, following the farmworker strike in the Western Cape in late 2012.

Another feature worth investigating is how the intra-sectoral, legislated wage levels have converged over time, i.e. how the gap between the highest and lowest legislated wage within a sector has decreased. Figure 9 presents the ratio of the lowest SD wage to the highest SD wage for three sectors that have had differentiated minima by geographic region, namely Contract Cleaning, Domestic work, and Farm work. Over time, it is evident that legislated minimum wages within sectors have become compressed, meaning that those SD workers in the rural areas have received higher legislated wage increases relative to those in urban areas. For example, in agriculture, the ratio of minimum wages for workers in Area B (rural) to minimum wages for workers in Area A (urban) was 0.81 in 2003, and by 2007 this had risen to 0.95, before the geographic differentiation of wages in this sector was removed.

<sup>46</sup> In the Private Security and Wholesale and Retail sectors the range of legislated minimum wages is large relative to other sectors (as shown in Figure 11 below), thus the median wage may be a more accurate reflection of average wages in these sectors. However, given the complexity of the sectoral wage schedules it is not possible to identify the distribution of workers within each schedule across occupational and geographic categories.

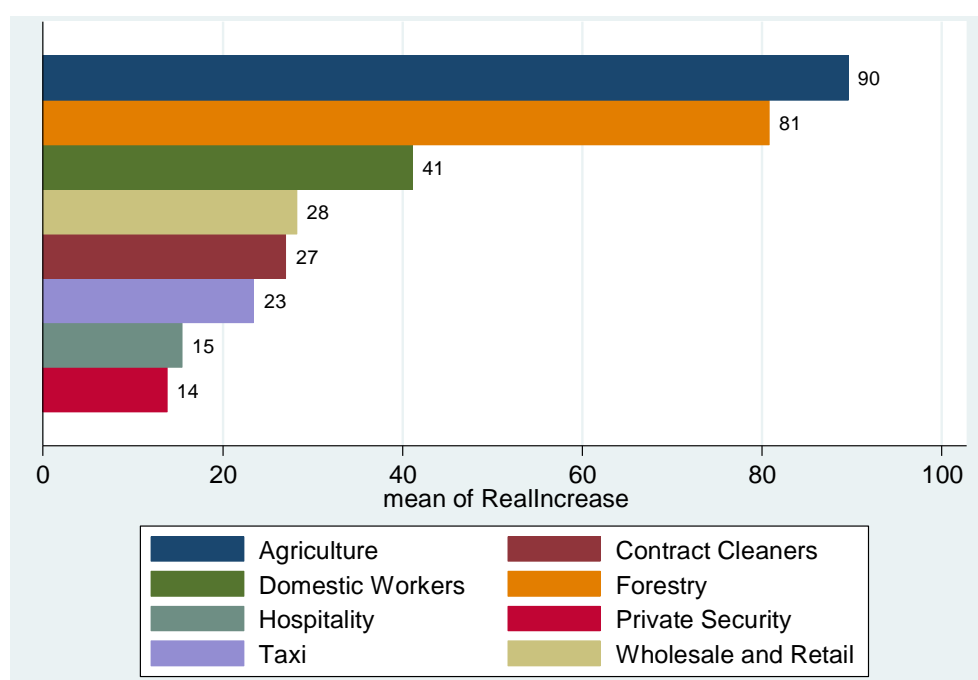
Figure 9. Lowest to Highest SD Wage Ratios, Selected Sectors



Source: Department of Labour (2015a)

Figure 10, below, summarises the aggregate information captured in Figure 8 and Figure 9, showing the overall increase in SD wages over the period for which they have been in effect. The figure shows that the agricultural and forestry sectors have enjoyed the biggest increases in real wages amongst the different sectors, due in large part to the 50 percent increase in 2013. The large wage increases in agriculture and forestry are positive in the sense that workers in these sectors are among the lowest paid in the country. On the other hand, while other low-paid sectors, such as domestic workers, have not enjoyed sharp increases of the same magnitude, real wage levels have risen by 32 percent over the period.

Figure 10. Real Wage Increase by Sector (%)



Source: DoL (2015a), own calculations.

Note: The growth rates listed above represent the real minimum wage increases for each SD from the time each SD was established – i.e. the Contract Cleaning SD increase of 22 percent is measured from 1999 to 2015, while the Hospitality SD increase of 13 percent is measured from 2007 to 2015.

Overall, it is clear that SD wage levels have risen faster than inflation over the period, with particularly large increases in certain sectors mentioned above. In 2007, the real pooled-average SD legislated wage was R11.48 and in 2015 this figure was R14.38, reflecting a 25 percent real increase.

## 2.4 Current SD and BC Levels

Table 9, below, shows the legislated minimum wage (SD), the mean and median wages of workers in each SD, and the number of workers in each of the key sectors covered by an SD. We present wages in monthly terms. It is important to note that we only include employees who earned less than the 2014 BCEA cut-off.

Table 9. An Overview of SD Workers, Nominal Monthly Wages, (2015 prices<sup>47</sup>)

Sectoral Determination	Lowest Sectoral Determination Wage	Highest Sectoral Determination Wage	Mean Wage	Median Wage	Number of Workers	% of total employees
Agriculture	R2 607	R2 607	R2 414	R2 175	668 048	5.1
Forestry	R2 607	R2 607	R2 231	R1 585	38 710	0.3
Domestic Workers	R1 813 <sup>48</sup>	R2 065 <sup>9</sup>	R1 671	R1 359	1 131 424	8.6
Private Security	R2 067 <sup>49</sup>	R6 155 <sup>10</sup>	R3 995	R3 137	523 870	4.0
Wholesale and Retail	R2 514 <sup>50</sup>	R6 506 <sup>11</sup>	R4 558	R3 171	1 382 320	10.5
Taxi	R2 113	R3 021	R3 796	R2 823	253 358	1.9
Hospitality	R2 761	R3 077	R3 935	R2 719	333 656	2.5
Contract Cleaners	R2 844 <sup>51</sup>	R3 122 <sup>12</sup>	R2 938	R2 196	743 723	5.7
<b>Average / Total</b>	<b>R2 522</b>	<b>R3 624</b>	<b>R3 192</b>	<b>R2 396</b>	<b>5 075 109</b>	<b>38.6</b>

Sources: Department of Labour (2015a), LMDS (2014), own calculations.

Note: The sample has been restricted to 'employees' who earn less than the BCEA income cut-off. We report monthly legislated wages for each SD.

The second and third columns show the lowest and highest legislated SD minimum wage within each sector. On average, the lowest SD wage across sectors is R2 522 while the average highest SD wage across sectors is R3 624. For workers covered by an SD, it is evident that when looking at the mean monthly wages, there are essentially two groups. The first group – comprising agriculture, forestry and domestic workers – are all low paid compared to the other five sectors. The second group – comprising the wholesale and retail, taxi, hospitality, contract cleaner and private security sectors – has a mean monthly wage that is 82 percent higher than the mean monthly wage in first group. We present more detailed information on the differences across SDs in due course (see Figure 11 and Table 11).

A different story emerges when median monthly wages are considered. When looking at the median monthly wages for workers in these sectors, the gap between the highest median wage and lowest median wage is far lower than when comparing the mean. Indeed, there is quite a large difference between the mean and median for the wholesale and retail, taxi, and hospitality sectors. This suggests that in these sectors there are a small number of high earners who are inflating the average. The majority of workers are not earning as well as the mean wage might suggest; on average, the difference between the mean and median wage across SDs is R796.

While we have focused here on SD wage levels due to the vulnerable nature of workers within SDs, in Appendix C we have created a table of the 37 private sector bargaining councils currently in operation in South Africa, along with their respective lowest and highest monthly minimum wage for specified occupations for comparison.<sup>52</sup> Additionally, industry mean and median wages for corresponding bargaining councils are given.

### 2.4.1 Hours of SD Workers

<sup>47</sup> 2014 LMDS data inflated to 2015 using annual CPI.

<sup>48</sup> Domestic workers who work fewer than 27 hours a week are excluded from this calculation.

<sup>49</sup> This figure only includes private security guards.

<sup>50</sup> This figure excludes the legislated wages for a Manager, Assistant Manager, Supervisor and Trainee Manager, which are far above the other legislated wages in the Wholesale and Retail Sector.

<sup>51</sup> The contract cleaning SD only specifies a minimum hourly wage. To convert this hourly wage to a monthly wage, it was assumed contract cleaners work for 8 hours a day for 21.6 days a month.

<sup>52</sup> We also included a table for the six public sector bargaining councils in Appendix C.



We now turn our attention to another important consideration when thinking about the introduction of the minimum wage: working hours (Table 10). Working hours are a crucial mechanism of adjustment potentially used by employers and firms in their responses to higher wage levels. In order to manage their total wage bill, firms may reduce the number of hours worked by employees.

Table 10, below, suggests that with the exception of domestic workers and contract cleaners, the mean usual hours of work is between 45 hours and 55 hours for sectors covered by an SD. In other words, the average worker in these sectors works between 9 and 11 hours a day – assuming a five-day work week.

*Table 10. Usual Weekly Hours of Work (2014)*

Sector	Mean	Median
Agriculture	44.4	45.0
Forestry	45.1	45.0
Domestic Workers	35.5	40.0
Private Security	54.6	50.0
Wholesale and Retail	46.5	45.0
Taxi	56.5	50.0
Hospitality	47.1	45.0
Contract Cleaning	38.7	40.0
Average	46.1	45.0
Formal, non-SD workers	42.8	40.0

Source: LMDS (2014), own calculations.

The median figure for these sectors is between 9 and 10 hours a day. Both the mean and median weekly hours of these sectors exceed those of the formal non-SD sector, suggesting that minimum wage workers work longer hours.

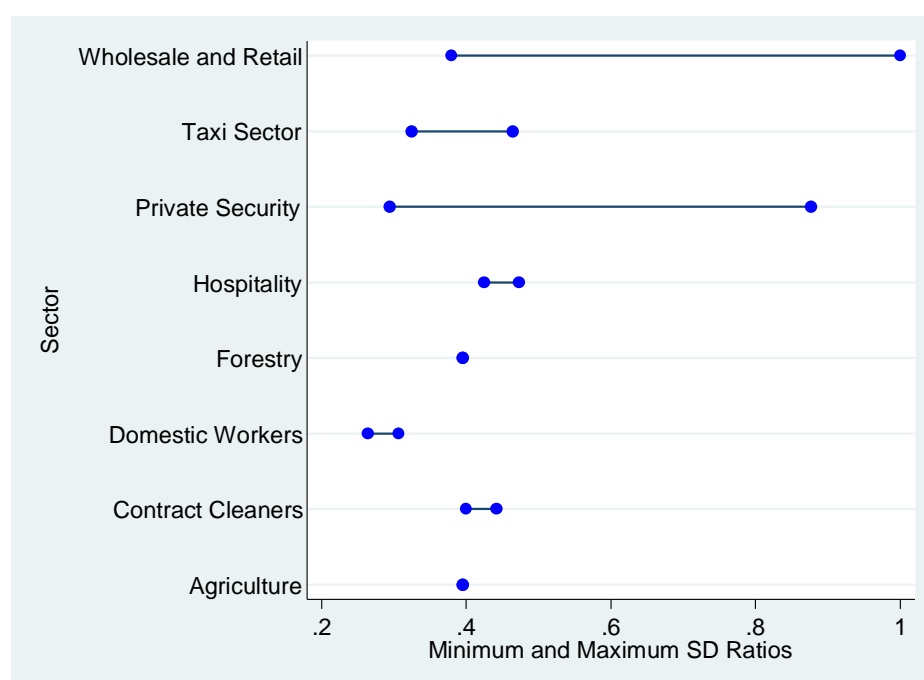
## 2.5 Sectoral Minimum Wage Dispersion: Potential Co-ordinates for a National Minimum Wage

There are a number of factors that need to be considered with regard to setting a NMW in the South African context. We identify several key issues here that go some way toward conceptualising how a NMW framework could begin to take shape. In particular, this serves as the beginning of thinking about the possible level/s of a NMW from a menu of options, within the context of the existing SDs. This would seem to be a reasonable starting point, given that the logic of a NMW similar to that which has pervaded the policy thinking within the SDs set over the last two decades by the ECC.

At the outset, given the current wage-setting frameworks and other NMW frameworks that exist around the world, two main options present themselves for South Africa. The first would be adopting a NMW that replaces the current SD framework entirely (a single minimum wage). This would be similar to the case of Brazil, discussed above. The second option would be introducing a dual system in the form of a single national wage floor, but with an alternative schedule for specific groups of workers to account for sectors that face unique conditions. Such a system is in place in the United Kingdom for example, where a NMW exists alongside a set of lower minimum wage rates for younger workers and apprentices (UK Low Pay Commission, 2014). In both cases the level at which the minimum wage is set is intimately tied to the chosen policy option.

In the first instance, if the NMW is intended to replace all the existing SD frameworks completely, it would need to be set at a level that balances the interests of those currently at the bottom of the SD schedules (domestic workers in rural areas – R9.30/hr) with those currently at the top (retail managers in urban areas – R33.37/hr). To put this into perspective: the monthly wages for these workers are R1 813 for domestic workers, compared with R6 506 for retail managers - a ratio of about 1 to 3.5. This is a significant range, and Figure 11, below, shows this range. The figure selects the top SD (urban retail managers) as a benchmark and presents each of the SDs in relation to this. For SDs where the schedule is not singular we present the highest and the lowest minimum wages. This comparison allows us to visualise the vast differences in prescribed earnings across and within SDs. It is clear from the figure that the greatest ranges of wages within a sector are in Wholesale and Retail, and Private Security. While domestic workers, as noted above, have the lowest minimum wages, at around 25 to 30 percent of the highest SD. Overall, it is clear that the majority of minimum wage schedules in fact are less than 50 percent of the highest SD.

Figure 11. Ratio of lowest and highest legislated rates relative to highest SD



Source: LMDS (2014), own calculations

Returning to wage-setting, the obvious risk is that a wage set too high in this range would have potentially negative employment impacts on the low-wage, labour intensive sectors such as Domestic Work and Agriculture. This is the trade-off represented in the theoretical framework suggested in Section 1, above. Alternatively, a wage set too low would disadvantage workers in the higher earning sectors, such as those in Wholesale and Retail, who would face a lower legislated wage. The lack of strong bargaining councils in SD sectors suggest that frameworks to allow for bargaining above a NMW may be limited in the short term, however, plant-level bargaining may be possible. In particular, the complexity of the existing 124 schedules – with geographical and occupational differences within sectors – makes collapsing the SD schedules in search of a unitary minimum wage a very tricky task.

If the NMW framework was to be planned as a dual system, the potential decisions would be slightly different. For example, the NMW could be set slightly higher than in the case of single wage but have separate, lower wages for particular groups that face greater dis-employment risks – such as farm or domestic workers. There are international examples of a NMW that covers the majority of workers, alongside a separate minimum wage schedule for agriculture, in order to take account of specific industry characteristics such as the lower cost of living in a rural area. Alternatively, but still within a dual minimum wage model, a single legislated floor could be set for all workers, that defined a basic income – and then above this rate, simplified, higher schedules could remain. This is the framework in Australia, where the NMW is a single floor which aims to protect all workers against exploitation, and above this level the government sets wages for specific sectors (ILO, 2015a). Workers and employers in different sectors can then use the recommended rates as benchmarks to bargain from. In this case, the bargaining capacity of workers in different sectors must be carefully considered.

It is also useful to compare the Lowest Sectoral Determination (LSD) wage in each SD sector to average wages in other parts of the economy when thinking about the dual system discussed above. In Table 11, below, we present the ratio of each LSD wage to a variety of benchmarks. Firstly, (in the second column) we show each LSD wage relative to the mean of all legislated wages. Secondly, (in the third and fourth columns) we show each LSD wage relative to the overall mean and formal mean wage in South Africa. When looking at third column, we observe that five sectors have a ratio of above or equal to 0.35, while the other three are below that. The gap between the highest and lowest ratio is 0.16. Thirdly, we present ratios for each LSD relative to mean and median wages of uncovered workers (those not covered by any wage-setting legislation, bargaining council agreements, or trade unions). Here it is evident that the LSD for each SD sector compares favourably to the uncovered mean and median. In particular, the ratios of the various LSDs to the uncovered median are all above 0.7, with the exception of the domestic workers, private security and taxi sectors. Finally, we show how the current LSD wage levels measure up to mean and median wages for all formal sector workers in the country. The numbers suggest that LSD wages are between 24 and 38 percent of mean formal sector wages and between 43 and 68 percent of median formal sector wages. Overall, what the table suggests is that there is large variation across SDs, reinforcing the evidence from Figure 8, above. In addition, the table provides a relatively detailed picture of the current LSD wage levels relative to average wages of other cohorts in the labour market.

## Sectoral Minimum Wage Dispersion: Potential Co-ordinates for a National Minimum Wage

Table 11. Sectoral Determination Wages: Ratios to Selected National Wage Estimates (2015 prices<sup>53</sup>)

Sector	Lowest SD (LSD)	LSD/ SD Workers Mean	LSD/ SA Mean <sup>54</sup>	LSD/ Formal Mean	LSD/ Uncovered Mean	LSD/ SA Median	LSD/ Formal Median	LSD/ Uncovered Median
Agriculture	R2 607	0.80	0.41	0.35	0.52	0.82	0.62	0.77
Forestry	R2 607	0.80	0.41	0.35	0.52	0.82	0.62	0.77
Domestic Workers	R1 813 <sup>55</sup>	0.56	0.28	0.24	0.36	0.57	0.43	0.53
Private Security	R2 067 <sup>56</sup>	0.64	0.32	0.28	0.41	0.65	0.49	0.61
Wholesale and Retail	R2 514 <sup>57</sup>	0.78	0.39	0.34	0.50	0.79	0.60	0.74
Taxi	R2 113	0.65	0.33	0.28	0.42	0.67	0.51	0.62
Hospitality	R2 761	0.85	0.43	0.37	0.55	0.87	0.66	0.81
Contract Cleaners	R2 844 <sup>58</sup>	0.88	0.44	0.38	0.56	0.90	0.68	0.84
<b>Average</b>	<b>R2 522</b>	<b>0.75</b>	<b>0.38</b>	<b>0.31</b>	<b>0.47</b>	<b>0.76</b>	<b>0.58</b>	<b>0.71</b>

Source: LMDS (2014), StatsSA (2015), own calculations

This introductory discussion highlights the two main NMW options that will be explored in more detail below, using empirical estimates and drawing on minimum wage levels in other countries. It also serves to emphasise that the intended role of a NMW must be carefully defined *a priori*. Which institutional model of a minimum wage is ultimately chosen, and the unitary or dual nature of the policy, will have a key bearing on the impact of a NMW in South Africa. Specifically, the ratio of the relevant minimum wage to mean or median wages is an important determinant of the social and economic impact of the minimum wage.

In addition, the distance of the minimum wage from average wages has an impact on compliance, and in South Africa the existing labour market conditions must be taken into account. As emphasised by the ILO, "an excessively high minimum wage in light of the economic and social situation of the country concerned is at greater risk of non-compliance than if its amount is determined taking into account the various [micro and macro-economic] considerations" (ILO, 2014: 163). To add to the variety of options presented, the Box below introduces a proportional approach to setting minimum wages.

<sup>53</sup> 2014 LMDS data inflated to 2015 using annual CPI

<sup>54</sup> Mean wage for South Africa only includes employees. Does not include employers or self-employed.

<sup>55</sup> Domestic workers who work fewer than 27 hours a week are excluded from this calculation.

<sup>56</sup> This figure only includes private security guards.

<sup>57</sup> This figure excludes the legislated wages for a Manager, Assistant Manager, Supervisor and Trainee Manager, which are far above the other legislated wages in the Wholesale and Retail Sector.

<sup>58</sup> The contract cleaning SD only specifies a minimum hourly wage. To convert this hourly wage to a monthly wage, it was assumed contract cleaners work for 8 hours a day for 21.6 days a month.

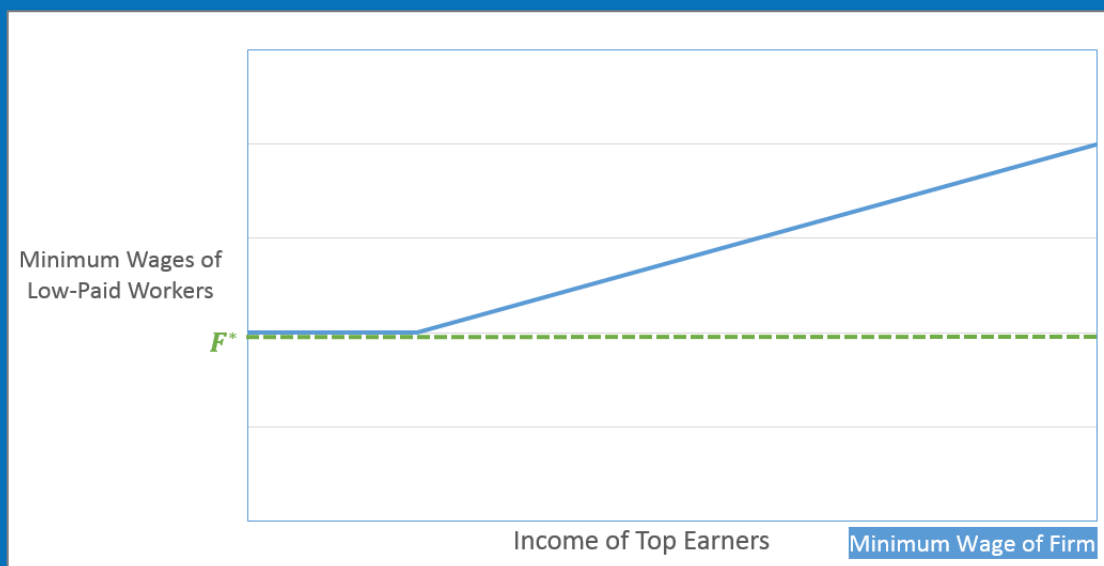
## Box 2. A Proportional Approach to the National Minimum Wage

An effective national minimum wage policy can result in large gains for workers, negligible employment effects, and a more equal wage distribution. However, the difficulty of setting a single wage for all workers and firms is clear, and the level at which to set such a wage is perhaps the main point of contention in the policy debate. On the one hand there is a desire to propose a relatively high wage that raises incomes for those in low-wage employment and redistributes earnings from those at the top of the income distribution. But this must be squared against the potential negative employment consequences of legislating wages above what certain firms can afford or worker productivity warrants. The current existence of 124 different legislated wage rates in SDs is partial recognition of the large variation in worker and firm conditions across a range of sectors and regions. An additional concern with setting a single minimum wage for many firms and workers, and one often cited by DoL officials, is that legislated wage rates are invariably treated by firms as the 'going rate' that should be paid rather than a *minimum* wage from which to bargain upwards. An alternative and original system may provide solutions to this suite of problems.

The main target of minimum wage legislation in South Africa is workers who fall outside of collective bargaining or union security. The ideal level of the minimum wage would be that which protects workers from egregiously low pay, but at the same time takes into account employers' 'ability to pay'. Ideally the law would require more productive firms to pay their workers above the minimum, while ensuring that struggling firms at least adhered to a single wage floor preventing poverty wages. Such a policy would be relatively simple in theory. It would involve setting a single, universal wage floor for the country, as well as introducing legislation that required the pay of the lowest earning workers in a firm to be proportional to others in that same firm – either as a proportion of average wages or as a proportion of the earnings of low-paid workers' higher-earning colleagues (for example the top 50 percent of earners in a firm). This would achieve three objectives: It would directly address wage inequality and raise the wages of low-paid workers in many cases, it would set a single floor that applied to all workers, and finally it would also account for firm heterogeneity and remove the risks associated with forcing struggling firms to pay wages above their threshold (see Figure 12).

The Figure below presents a theoretical picture of the proposed proportional wage-setting system. On the y-axis are the wages of low-paid workers in a particular enterprise (minimum wages), while on the x-axis are the earnings at the upper end of an enterprise's pay scale, this could be the top 50 percent of earners as mentioned above, for example.

Figure 12. Minimum wages in a proportional system



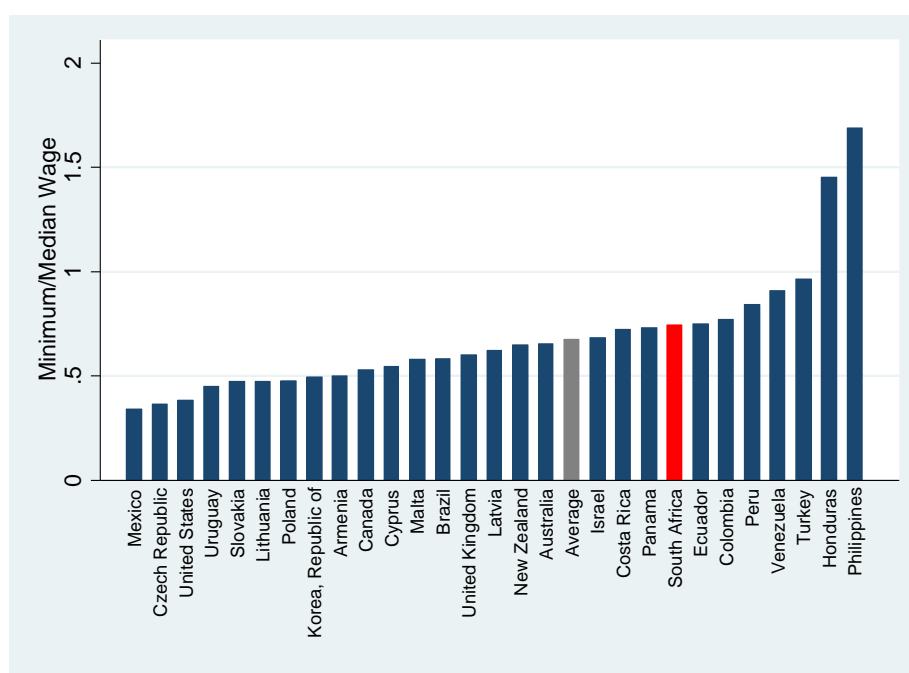
The green line at  $F^*$  represents the universal wage floor that would be set for all workers. The blue line, however, shows how the proportional wage systems would link minimum wages to the wages of higher earners in a given enterprise. As earnings for higher earners rise, the minimum wage would also rise. To create a more realistic, applied picture, it would be necessary to establish the current level of minimum-to-average (or upper) earnings across a selection of firms, and in this way develop a schedule of proportions. This would then serve to inform a benchmark proportion that could be applied to all firms in the manner described above and shown in Figure 1. The risks of such a system, however, would be whether it could be adequately monitored (through the tax system, for example), whether firms would find ways around the law, and the fact that in some cases such a system would appear to violate the idea of 'equal work for equal pay'.

## 2.6 The Ratio of Minimum Wage to Mean/Median Wages: An Anchor for a National Minimum Wage

The median wage is the wage ‘in the middle’ of a country’s wage distribution – that is, half of workers earn below this level and half of workers earn above this level. The mean wage, on the other hand, is the average wage of all workers in a country – that is, the sum of all wages divided by the number of total wage earners in a country. Typically, in countries with high income inequality, the mean wage will be disproportionately higher as high-income earners pull up the average. Thus, the median wage within a country is usually a better representation of what the majority of wage earners’ income is within a country – especially, for developing countries. In Figure 13 and Figure 14, below, where data is available, we present cross-country comparisons of minimum-to-median wages and minimum-to-mean wages, respectively. This provides baseline or reference estimates for thinking about comparative parameters for a NMW in South Africa.

Examining Figure 13, below, it is apparent that there are a wide range of minimum wage to median wage ratios at the country level. The median wage figures are for all wage-earning employees in each country. Mexico has the lowest minimum to median wage ratio of 0.34, while Turkey’s figure close to 1 suggests that the minimum wage is equal to the median wage. The average minimum-to-median wage ratio of 0.67 suggests that minimum wages are set at a level close to three-quarters of the median wage across countries. Notably, it can be seen from the figure that developing countries tend to have higher minimum-to-median wage ratios than developed countries – likely due to the fact that developing countries have a large low-income population compared to developed countries. South Africa’s minimum-to-median wage ratio of 0.74 is close to the average and similar to many Latin American countries with the exception of Brazil (0.58) and Mexico (0.34).

Figure 13. Ratio of Minimum to Median Wages, Selected Countries<sup>59</sup>

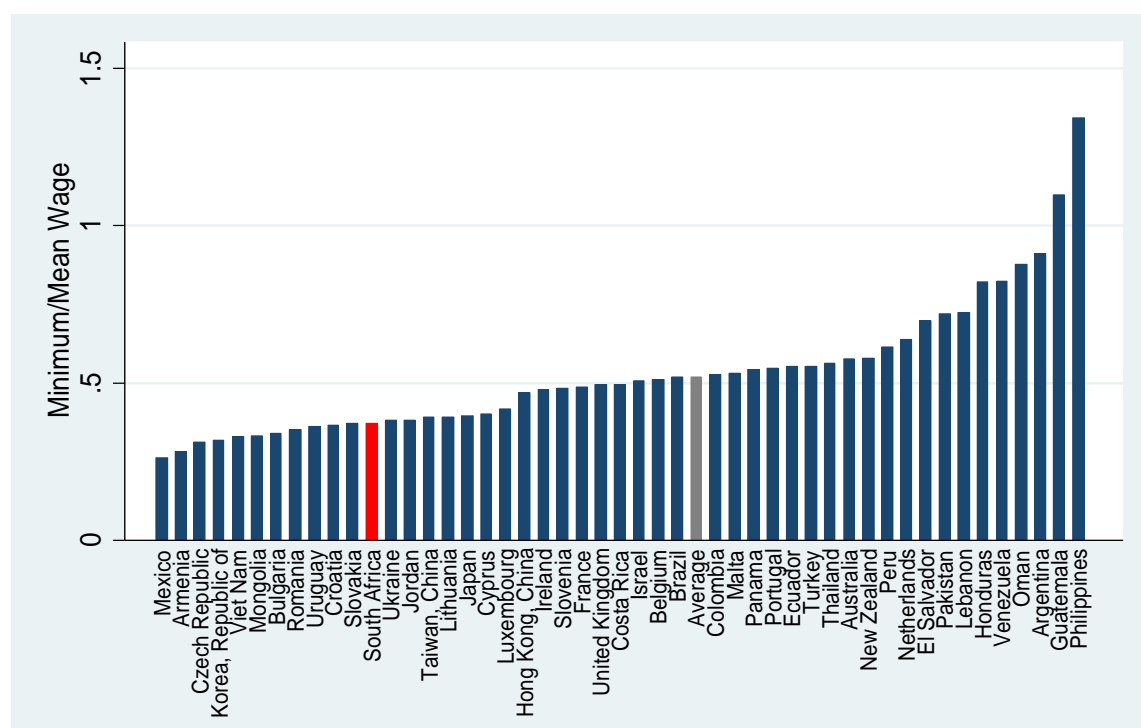


Source: ILO Global Wage Database (2015b)

Figure 14, below, examines the minimum-to-mean wage ratios across selected countries. As we can see with South Africa, this ratio is substantially lower than the minimum to median ratio presented in the previous figure – 0.37 versus 0.74, respectively. This is due to the fact that there is high income inequality in South Africa – a small group earning very high incomes increase the mean wage of the country substantially compared to the median wage, which is a more accurate reflection of the majority of wage earners. In this context, South Africa is below the average minimum-to-mean wage ratio of 0.51 for selected countries.

<sup>59</sup> Latest available estimates.

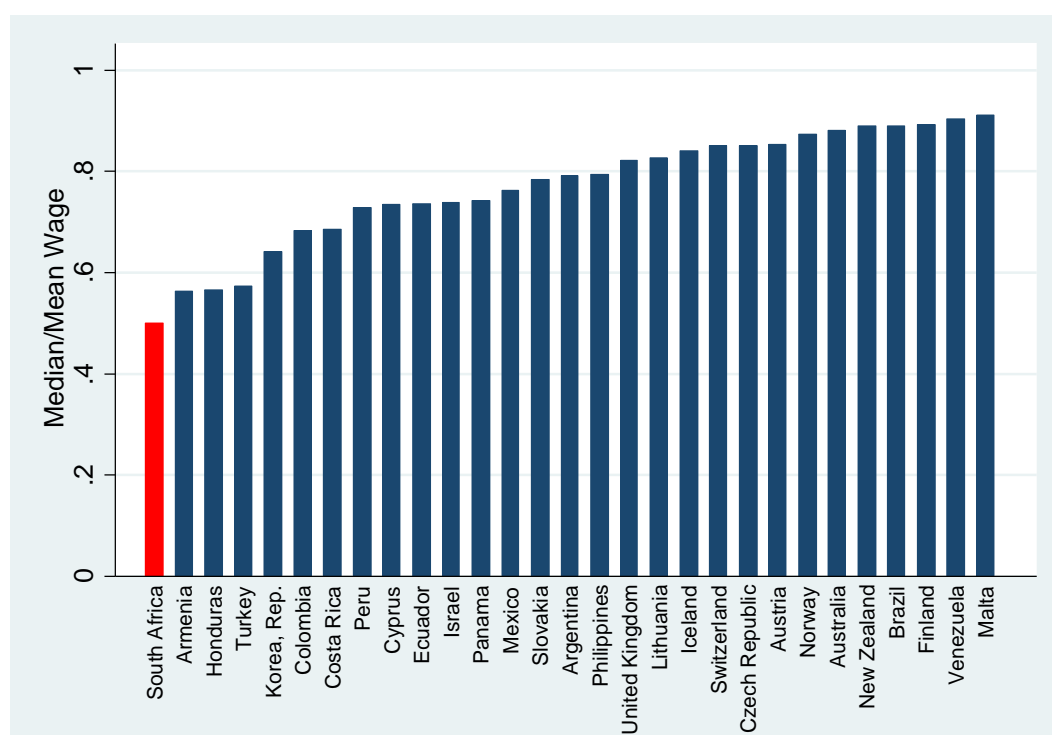
Figure 14. Ratio of Minimum to Mean wages, Selected Countries



Source: ILO Global Wage Database (2015b)

To drive this point further, in Figure 15, below, we compare median-to-mean wage ratios of selected countries for which data is available. This figure represents the wage earned by a worker ‘in the middle’ of all wage earners in a given country over the average (mean) wage paid in the same country; and is a measure of wage inequality – the lower the ratio, the higher the wage inequality. Out of all countries in the figure, South Africa has the lowest median-to-mean wage ratio of 0.50 and the highest wage inequality. Thus, again, using the minimum-to-mean wage ratio gives a better representation of the level of minimum wages to the wages earned by the majority of workers in South Africa, and this ratio is 0.74.

Figure 15. Ratio of Median to Mean Wages, Selected Countries



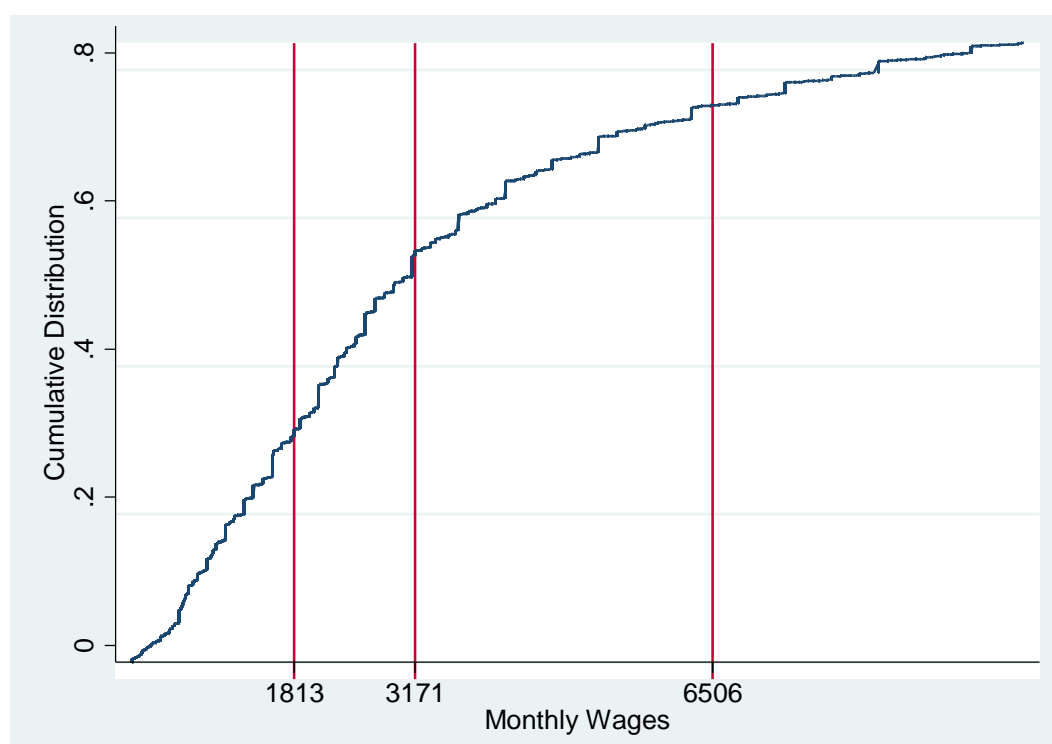
Source: ILO Global Wage Database (2015b)



Figure 16, below, presents the cumulative hourly wage distribution for all employees in South Africa – showing the proportion of workers at varying monthly income levels. In the figure, there are three vertical lines depicting specific income levels of interest. The first line at R1 813 represents the current lowest SD minimum wage – paid to rural domestic workers – and is at the point where the cumulative distribution function is 0.30. That is, 30 percent of South African workers earn at or below this income, while 70 percent of South African workers earn above it. The second line at R3 171 represents the South African median wage for the full sample of employees, and is at 0.50 of the cumulative distribution. The third line at R6 506 represents the current highest SD minimum wage – paid to retail managers – and is at 0.73 of the cumulative distribution. Therefore, if you set the NMW at the South African median wage (R3 171), this would mean raising the wages of about 50 percent of all existing South African workers.

Two potential outcomes must be considered for this (and all other NMW levels which are provided here): Firstly, it is difficult to predict the effects of an immediate and large wage increase. The literature in Section 1 reveals a range of impacts on employment, hours of work and other non-wage benefits (either immediately or in the medium term) that depend heavily on the level of increase required. Secondly, coupled with a new minimum wage, prior results for South Africa, and country comparative work, would suggest that non-compliance levels will be higher for those workers whose pre-law wage is further away from the mandated minimum wage.

Figure 16. Possible Minimum Wage Values across the South African Employee Wage Distribution (2015 prices)



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)

Looking at Figure 16 more closely, it appears that setting the NMW above the South African median wage in the short term will, to all intents and purposes, be unfeasible. Over 50 percent of all workers are getting paid below that figure, and setting the wage floor any higher runs the risk resulting job losses, albeit unevenly distributed across firms and sectors. Most employers could almost certainly absorb a *marginal* increase, but not a *substantial* increase.

## 2.7 Conclusion

Whilst the above has stopped short of proposing a precise NMW level, it has attempted to provide a set of analytical and empirical co-ordinates within which a more concrete set of decisions can hopefully be taken around the promulgation of a NMW. In the first instance, the basic theory input is key: It illustrates that a minimum wage set at different absolute levels, and in turn, adjusted at different rates *will* have contrasting outcomes. In turn, past responses should not be linearly applied to future wage-setting. A minimum wage increase of 5 percent in an industry will *not* result in the same employment

outcomes if the increase is doubled to 10 percent, or indeed if the same increase of 5 percent is applied to a different industry or nationally. Predicting the outcomes of minimum wage policy, and in our case here, the setting of a national minimum, is thus treacherous empirical territory. We should tread carefully when trying to gain *a priori* assurance from the economic outcomes of a NMW.

In this spirit, we have presented three main conceptions to identify the range within which a NMW can be set. Firstly, current sectoral minimum wages range from R1 813 to R6 506 per month, for full-time workers. This range in turn may provide us with a broad guideline for a NMW,<sup>60</sup> in that these estimates represent between 57 percent and 203 percent of the national median wage. Secondly, a NMW could also be set in relation to the relevant distribution of wages in an economy. In this conception, the anchor could be the relative value of minimum wages to the mean in, for example, a sample of representative middle-income countries. Here, evidence indicates that, on average, developing countries set the minimum wage at 73 percent of the median, compared with 52 percent for high-income countries. Thirdly, the national minimum could be set at a specific percentile, or as a set percentage of the relevant in-country mean or median wage. Ultimately though, whether a NMW is set in relation to the existing SD architecture or at a level relative to in-country or cross-country mean or median – the consequences for the employed and firms must of course be foremost in the minds of policy makers.

---

<sup>60</sup> This assumes a single NMW that would cover all workers without tiers or exclusions.

## 3 Modelling Potential Employment and Welfare Effects

### 3.1 Background

In this section we present a set of estimates for the potential employment and welfare effects of a NMW. There are several important factors to consider in such an analysis. In the first instance one needs to know what the current wage levels are, relative to a given NMW level. We have already provided some information above, on current wage levels and we pick up on this again here in reference to the wage levels selected below. This will show, at least at the aggregate sectoral level, who stands to gain from a NMW and how much that gain could potentially be. We also analyse this across income quintiles.

In addition, workers earning less than the stipulated minimum wage will only gain if their employers comply with the minimum wage law, and if they do not lose their jobs as a result of the required increase. These are factors we try to take into account in the simulations we conduct here. We assume an average level of non-compliance across all sectors, which is based on estimated levels of non-compliance in 2014.<sup>61</sup> We also assume that there is a small effect of the NMW on workers earning wages just above the NMW.<sup>62</sup> Once we have calculated the estimated impact of a NMW on the wages for all potentially affected workers we can calculate the impact on average wages in each sector. This then, together with a set of assumed wage-employment elasticities, determines the employment impacts.

For the modelling exercises in this section we assume two minimum wage levels (Figure 17), and three employment elasticities at each level. We report wage levels in 2015 prices, based on wage data from the LMDS (2014). The modelling itself was done using hourly wages to avoid having to introduce full-time equivalents, or remove any part-time workers. We do, however, report the monthly equivalents of the hourly wages selected, and where this is done we assume a 45-hour work week.

The first wage level we select is the median hourly wage for workers currently covered by a SD, which is R12.55/hour. Approximately 32 percent of workers in South Africa earn less than this amount per month. Assuming a full-time worker, this translates to R2 447. The second wage level we select is the median wage of all workers in South Africa, which is R17.44/hour. Again assuming a full-time monthly equivalent this translates into R3 400. At each selected level we analyse the potential impacts assuming three employment elasticities. The elasticities we model are -0.1, -0.3 and -0.5, based on the international and country-specific evidence presented in Section 1. In addition we examine an additional lower and upper bound using the lowest SD and the highest SD.<sup>63</sup> These estimates are presented in Appendix D.

Figure 17. Two Minimum Wage Scenarios

Scenarios	Wage Level (2015 prices)	Coverage	Wage/SA Median	Wage/SA Mean
Scenario 1: SD Median	R12/hour (R2 447/month for a fulltime worker)	32%	0.78	0.39
Scenario 2: SA Median	R17.44/hour (R3 400/month for a fulltime worker)	50%	1	0.53

Source: LMDS (2014), own calculations

This section is structured as follows: We use estimates presented in Section 2 on who is currently covered by some form of minimum wage setting procedure and who is not, in order to show how these currently covered workers map onto a broader sectoral breakdown of employees. This is important because a NMW will apply to all workers in all sectors, and it allows us to see what extending coverage in this way will mean. We then present figures showing the average wage levels in each sector, and how many workers currently earn below R2 447.

Following this we introduce and discuss the macro-modelling strategy used to estimate the employment impact of a setting the minimum wage at the two levels noted above. Information about the strengths and weaknesses, as well as the key

<sup>61</sup> This is based on previous work by Borat et al. (2012).

<sup>62</sup> This is based on previous work by Borat et al. (2015).

<sup>63</sup> Here we use the 2014 SD rates to compare most accurately with the 2014 LMDS wage data.

assumptions of the model are presented and discussed. It should be noted at the outset that the modelling procedure is a static model – it provides estimates of what happens in response to a once-off 'shock' to wages in the economy, where this shock then permeates through a general equilibrium model. Unlike other models which may focus on the medium term, this model estimates the initial, short term effects of a wage increase.

We then present a summary of the key results in two parts: Firstly, we show the employment impacts across sectors, where we show the potential job losses at each elasticity level both in overall and percentage terms. Secondly, we examine the potential impacts of the NMW on working poverty and wage inequality at each wage and elasticity level. It is important to stress here that we use the LMDS to run our poverty and inequality estimates. Critically, this means we are restricted to using wages as the only form of income – we have no data on other income sources. As a result, the indicators presented cannot be interpreted as general poverty and inequality measures, rather, they are indicators of wage or working poverty, and wage inequality. We stress this in our interpretations.

## 3.2 Sectoral Coverage Rates

Table 12, below, shows the number of employees in the eight SDs cross-tabulated with the ten main industries in South Africa. As in Section 2, 'Other covered workers' include those employees who have their wages determined by a Bargaining Council, belong to a trade union or are part of the public sector. This gives an indication of current coverage rates. The industry breakdown used here is the same as the one used in the macro-modelling analysis conducted later. It shows how a NMW would extend the current coverage regime.

Looking at the table it is evident that where an existing SD maps closely to the sectoral definitions we see high coverage rates. High coverage is also evident in sectors with high levels of unionisation, and bargaining council coverage. The sectors with the highest coverage rates under the existing arrangements are agriculture (85.8 percent), mining and quarrying (89.2 percent), CSP (90.7 percent), and private households (99.3 percent).

However, it is important to note that high coverage rates do not necessarily imply higher wages. As seen in Section 2 the mean wages in agriculture and private households (the industry in which domestic workers reside) are the lowest when compared to all other sectors in the economy. This is partly by design, in that SDs were introduced in sectors that were seen as vulnerable, low-wage sectors. In contrast, the sectors which appear to have the lowest coverage rates are manufacturing (36.2 percent), construction (13.9 percent) and transport (34.7 percent). These low coverage rates might be explained either by workers who for various reasons are less likely to join a trade union or be covered by a bargaining council, or a higher proportion of workers being self-employed. The latter explanation may apply to the Wholesale and Retail sector, for example.

Table 12. Coverage Rates by Sector

Sector	Wholesale and Retail Sector	Agriculture	Forestry	Hospitality	Taxi	Domestic Worker	Private Security	Contract Cleaning	Other Covered Workers	Total Covered Workers	Self-Employed	Other Uncovered Workers	Total Uncovered Workers	Total Workers	Total Sectoral Coverage
Agriculture; hunting; forestry and fish	0	516 437	38 710	0	4 067	0	3 888	5 092	27 550	595 744	51 557	46 931	98 488	694 232	85.80%
Mining and Quarrying	0	392	0	0	817	0	2 923	52 011	236 920	293 062	466	35 062	35 528	328 590	89.20%
Manufacturing	0	8 102	0	0	15 649	0	5 941	45 100	451 389	526 181	208 248	719 467	927 715	1 453 896	36.20%
Electricity; gas and water supply	0	2 242	0	0	1 378	0	2 786	3 141	44 889	54 436	533	24 320	24 853	79 289	68.70%
Construction	0	4 005	0	0	4 291	0	9 111	21 008	116 185	154 599	306 924	648 839	955 763	1 110 362	13.90%
Wholesale and Retail Trade	1 376 034	7 445	0	333 009	27 689	0	24 622	107 133	46 206	1 922 139	878 572	250 515	1 129 087	3 051 226	63.00%
Transport; storage and communication	0	2 263	0	0	161 658	0	13 897	19 139	196 040	392 997	124 975	613 799	738 774	1 131 772	34.70%
Financial Services	0	40 337	0	0	12 373	0	386 821	151 735	193 164	784 429	239 302	14 642	253 944	1 038 372	75.50%
CSP	0	86 521	0	0	23 748	0	71 863	336 417	2 041 722	2 560 270	260 750	1 567	262 318	2 822 588	90.70%
Private Households	0	0	0	0	322	1 126 567	1 383	0	3 505	1 131 777	7 750		7 750	1 139 527	99.30%

Source: LMDS (2014).

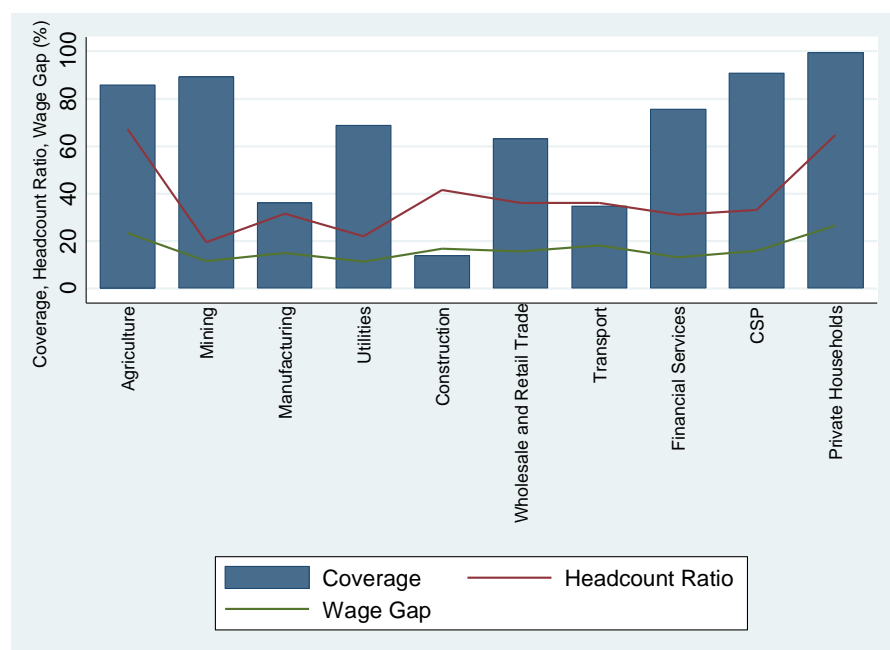
### 3.3 Wage poverty and the wage poverty gap

As noted previously, the level of the NMW, the share of workers below that level, and the average distance of wages below that level are important to the overall impact of the law. For a given industry we measure this by the percentage of workers earning below a given per capita wage poverty line (the 'wage poverty ratio'), and the gap between an individual's wage and this line (the 'wage poverty gap'). Put differently, the wage poverty ratio is the proportion of workers in a particular sector who earn below a selected wage, while the wage gap is the average distance between the level of the minimum wage and an individual's wage, in each sector. Here we take the lower of our two NMW levels – R2 447 in 2015 prices – to examine how wage poverty is impacted.

Figure 18 and Figure 19, below, provide several interesting details. Figure 18 shows the current coverage rates in bars, which were also presented in the table above. Coverage rates are measured in percentage terms on the y-axis. The figure also shows the wage poverty ratios, and these are represented by the red line. Here we see that sectors such as Agriculture and Domestic Work have both high coverage rates, but at the same time very high wage poverty ratios. Put differently, while almost all workers in these sectors are covered by minimum wage laws many earn below R2 447 – the lower level for our estimations in this section. There are other sectors such as mining where most workers are covered by some form of wage legislation (usually union bargained collective agreements) and most workers earn above the wage floor selected here.

The estimates for the wage poverty ratio range from 0.2 in mining to 0.67 in agriculture but the bulk of workers lie within the 0.2 to 0.35 band. There is also a strong correlation between the wage poverty ratio and wage poverty gap, where the gap shows how far below the chosen wage level workers' wages are. Private households have the highest wage poverty gap (0.27), followed by agriculture (0.24), transport (0.18), construction (0.17) and CSP (0.16).

Figure 18. Coverage Rate, Wage Poverty Ratio, Wage Poverty Gap (R2 447 - scenario)

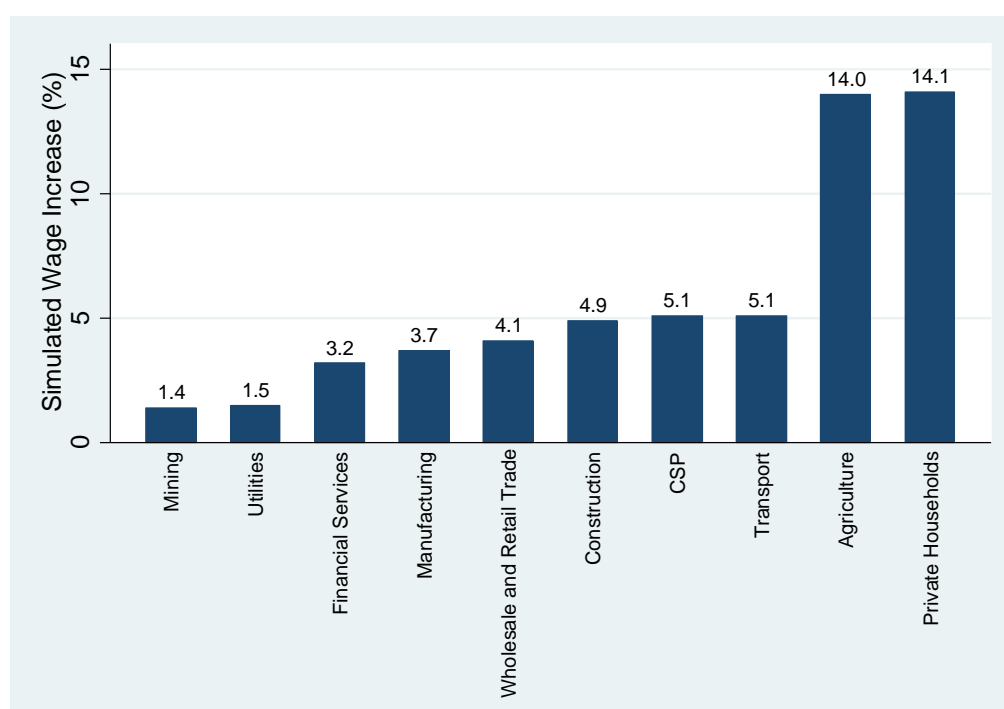


Source: LMDS (2014), own graph.

Given that private households and the agricultural sector have high wage poverty ratios and high wage poverty gaps, along with high coverage rates, it is expected that these two sectors would require the biggest wage increases if a NMW was implemented. This is confirmed by Figure 19. The graph shows that the average wage bill could increase by 14 percent in both agriculture and private households if we assume a wage level of R2 447. Despite a relatively high wage poverty ratio in the CSP sector, the average wage bill is only expected to increase by 5.0 percent in this sector at the given NMW level.



Figure 19: Simulated Wage Increase, By Sector (R2 447 Scenario)



Source: LMDS (2014), own graph.

This example illustrates the importance of taking into account all factors – coverage rate, wage poverty ratio and wage poverty gap – in determining the extent of the wage increase. In turn, the magnitude of the wage increase will also impact on the wage-employment elasticity, and we discuss this shortly.

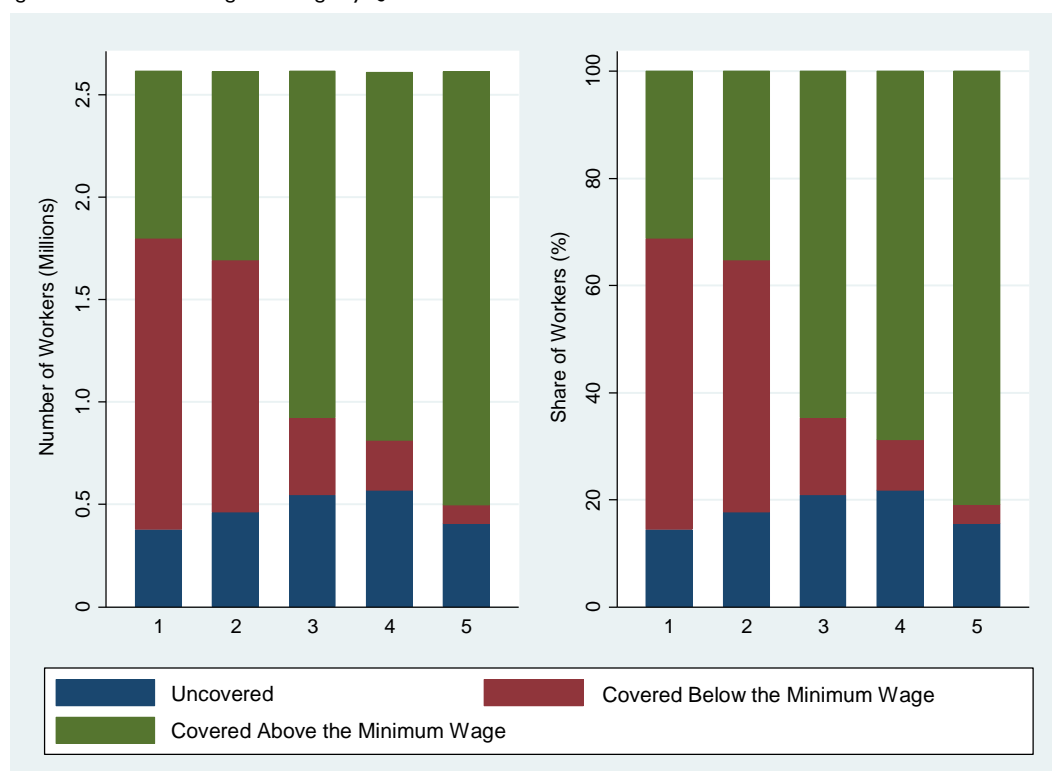
### 3.4 Potential Household Income and Poverty Effects

One of the principle aims of introducing a NMW is to raise the incomes of workers and as a result reduce poverty and inequality. Therefore, it is useful to briefly consider the linkages which exist between poor households and the labour market.

In Section 2 we showed data on average household size and average number of earners by household income quintile. We observed that poorer households have more household members and that the average number of earners in a household increases with income quintile. The evidence suggested that poorer households are less reliant on wages as a source of income, being more reliant on grant and other income sources, and therefore a proposed NMW will have a muted impact on the overall outcomes of households in the poorest quintiles. However, also of interest is how low-income workers – and particularly those who are earning below the proposed NMW – are distributed across the different household quintiles. These workers are likely to be the beneficiaries of an increase in, and an extension of, the minimum wage.

The left-hand panel of Figure 20, below, shows the distribution of uncovered workers and covered workers above and below a NMW of R2 447, by household income quintile. Again, we use the same definition of covered and uncovered as previously. The number of uncovered workers, and those in covered sectors but earning above the minimum wage, rises gradually across the quintile (with quintile 5 being the exception as the number of uncovered workers is lower than in quintile 4).

Figure 20. Minimum Wage Coverage by Quintile



Source: LMDs (2014), Quarter 4. Own graphs

Looking at the right-hand panel of Figure 20, we can see that poorest quintile would benefit the most from a NMW as over 54 percent of workers in this quintile are currently being paid below R2 447 a month in a covered sector. In quintiles 3, 4 and 5, the majority of workers are in a covered sector but are earning above R2 447 a month. In other words, many employees in these quintiles will not be directly affected by a NMW.

### 3.5 The CGE MODEL: A Brief Overview<sup>64</sup>

Estimating the economy-wide impact and of a NMW in South Africa is challenging and there are a variety of ways in which this can be done. Here we apply a standard Computable General Equilibrium (CGE) model in order to assess potential changes in employment across all sectors in response to a minimum wage. CGE models are most often used to analyse the potential impact of macroeconomic policies (trade, tax, and environmental policies). When a microeconomic policy may have measurable indirect effects a CGE is appropriate as a method of analysing the impact of microeconomic policies. The microeconomic foundations of the model derive from standard neoclassical economic theory, with "households assumed to maximise utility in their consumption decisions, while firms' employment decisions are based on a profit-maximising motive" (Pauw, 2009:78).

CGE models have been widely used when exploring policy questions. They are particularly suited for 'what if' questions, since they provide a consistent framework where all variables, other than those being investigated, are held constant. The main advantage of CGE models is that the effects of policies can be analysed without the oversimplification of partial equilibrium analysis. CGE models are based on a complex economy-wide framework and capture linkages between different agents and markets in the economy. These include the linkages between sectoral and national growth, household incomes and poverty, and importantly for this analysis the link between increases in wage rates and the impact on labour demand. CGE models are also by definition aggregate models - a necessity when trying to examine the entire economy. A disadvantage of this is that some of the nuances and more detailed effects are not captured by CGE models. However, by using the CGE model together with a microsimulation model, more detailed micro-level effects can be analysed.

<sup>64</sup> This section draws from Pauw (2009).

In the South African context, CGE models have been used for a number of policy issues including agricultural policies, international trade and trade policy, tax policy, climate change mitigation policy, and labour policy. Two main top-down approaches are generally used by economists for policy questions – macro-econometric models and general equilibrium models, in this case CGE models. The former are based on long-term time series data and offer substantial economic detail, but they tend to lack structural detail (Löschel & Conrad, 2002). In contrast, CGE models allow more structural detail to be captured and are also able to capture substantial economic detail. Given that there are a number of structural complexities and country-specific characteristics in the South African labour market, the use of a CGE model is more suited to this analysis.

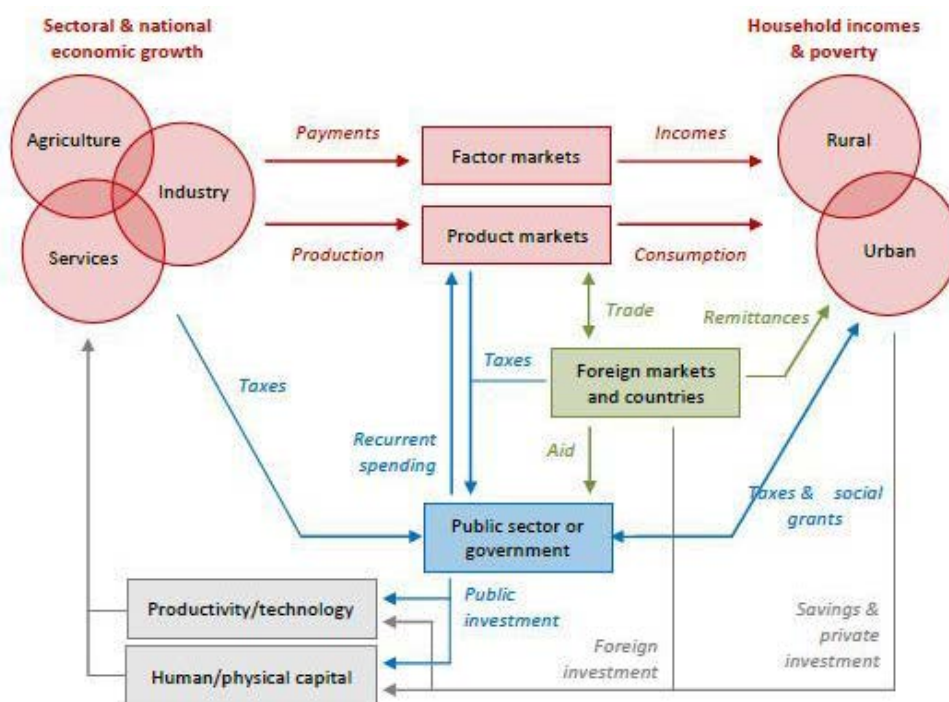
In general, CGE models capture the inter-dependencies between different product markets, factor markets, and public and private sectors in the economy, enabling analysis of how a policy change targeted in one part of the economy will affect the rest of the economy. Crucially, in this case, the impacts of wage changes on employment vary based on the level at which the minimum wage is set (where a higher wage is more likely to induce disemployment effects) and the wage-employment elasticity (where a higher elasticity results in larger disemployment effects). In Appendix E we provide a list of basic assumptions made by the CGE model in this regard. This analysis incorporates household-level information using a similar methodology to that used by Pauw and Leibbrandt (2012). The results will then feed back to the micro/household level to determine exactly where jobs are mostly likely to be shed, and what the likely poverty and inequality trade-offs would be.

### 3.5.1 Methodology

A standard static CGE model, similar to the model described in Lofgren et al. (2001), is used in this analysis, and it is a descendent of single country models that follow the approach set out in Dervis, de Melo and Robinson (1982). The CGE model is calibrated with a social accounting matrix (SAM) for South Africa using 2009 as the base year (Davies and Thurlow, 2009). The main sources of data for the SAM are the Labour Force Surveys (LFS), Income and Expenditure Surveys (IES), national accounts, supply and use tables from Stats SA, and other relevant industry data. The SAM can be viewed as a snapshot of all payments and receipts for the economy in 2009, and serves as the base structure for the model. The level of inflation (Consumer Price Index) is the numeraire, and therefore there is no impact from inflation, and the results are seen as real effects.

Static models are different to fully dynamic and dynamic recursive models in that they do not account for the aspect of time – static models simulate the changes made to an economy from one ‘shock’, or rather one policy change in its entirety. Dynamic models on the other hand, are more suited to the analysis of policies that require a time element, for example, the introduction of a carbon tax that is ramped up over time. Given that the introduction of a NMW is modelled as a ‘once-off’ change to the wage structure, the static model is more suited to this analysis.

Figure 21. CGE Economy-wide Linkages



South Africa's unique economic structure determines the various direct and indirect transmission channels that exist between sector-level growth and household incomes (Arndt, Davies, & Thurlow, 2011). Both production and consumption linkages are captured within the CGE model when analysing the effects of introducing a NMW. Figure 21, below, illustrates the links that exist in the CGE.

### 3.5.2 Economy-wide framework and linkages in the CGE

A number of segments in the economy can be identified in the figure above, namely: industry, government, foreign markets, factor markets, product markets and households. The interactions, or linkages, between these blocks are shown by the arrows that join the different segments in the figure above. Production and consumption linkages represent the two main types of linkages; the former describes the flows between sectors and technologies, whereas consumption linkages describe the flows between household incomes and product markets. The interactions and flows between the various blocks in the economy are important for CGE modelling. These flows are represented by a number of economic equations that govern the model.

In order for the model to run there are certain categories that must be created to delineate the labour force, and several key assumptions are made. These are usually called 'closures', and we list them here:

- Investment is savings driven and there are scaled marginal propensity-to-save rates for selected institutions,
- The exchange rate is flexible and a trade deficit is maintained,
- Government savings are flexible and the direct tax rate is fixed.

### 3.5.3 Labour Market Assumptions

There are a number of complexities and rigidities that exist in South Africa's labour market. Pauw (2009) outlined a number of these complexities and, using LFS and IES data, introduced these complexities and rigidities into South Africa's standard CGE model. There are four main labour categories in the CGE model, disaggregated by educational attainment – unskilled labour being those that have not completed a Matric, semi-skilled labour being those that have a Matric and skilled labour those that have a tertiary education.

There are a number of additional labour market assumptions that one can make in the CGE model to allow the model to replicate the 'real world' labour market, or to allow one to answer specific policy questions. Given that South Africa has high levels of unemployment, in the CGE model we assume that there is unemployment for unskilled labour, and therefore labour supply changes to meet demand, whilst wages remain fixed. At the same time, semi-skilled and skilled labour are fully employed and mobile across sectors, and wages are allowed to adjust for the labour market to reach equilibrium. Figure 22, below, provides more detail on the basic labour market assumptions for the economy and specific sectors.

Figure 22. Basic Labour Market Assumptions

	Mobile	Sector Specific
Fully Employed	<ul style="list-style-type: none"> <li>• Total labour supply is fixed.</li> <li>• The economy-wide average wage is allowed to adjust.</li> <li>• Sectoral wage distortions are fixed.</li> </ul>	<ul style="list-style-type: none"> <li>• Total labour supply is fixed.</li> <li>• The economy-wide average wage is fixed.</li> <li>• Sectoral wage distortions are allowed to adjust.</li> </ul>
Unemployed	<ul style="list-style-type: none"> <li>• Total labour supply is allowed to adjust to meet demand.</li> <li>• The economy-wide average wage is fixed.</li> <li>• Sectoral wage distortions are fixed.</li> </ul>	-

Source: Author's assumptions.

The labour force in the CGE, using 2009 data, includes all workers - those that work in the informal sector and those that are part-time workers -, with a total labour force of 13 445 352 workers (Figure 23). The sectoral breakdown of this employment is shown below, by skill level.

Figure 23. CGE Labour Market by Industry and Skill Level

Industry	Unskilled	Semi-Skilled	Skilled	Total
Agriculture; hunting; forestry and fishing	435 888	187 477	57 706	681 071
Mining and Quarrying	150 884	84 524	81 317	316 725
Manufacturing	778 481	644 935	426 973	1 850 390
Electricity; gas and water supply	36 171	23 993	37 647	97 811
Construction	790 739	221 339	120 468	1 132 547
Wholesale and Retail Trade	1 246 549	1 232 382	495 742	2 974 673
Transport; storage and communication	295 978	247 860	218 789	762 627
Financial Services	249 942	799 723	718 365	1 768 030
CSP	469 520	757 556	1 061 415	2 288 491
Private Households	1 001 933	425 627	145 427	1 572 987
<b>Total</b>	<b>5 456 085</b>	<b>4 625 416</b>	<b>3 363 849</b>	<b>13 445 352</b>

Source: QLF5 (2009)

Since the labour force in the CGE model differs from the sample of workers that would be affected by a NMW in the micro-simulation, and because the CGE is based on data for 2009, a simple mapping exercise is required to ensure that the simulations are capturing the correct changes to the labour market.

### 3.5.4 Scenarios and mapping to CGE

There are two different scenarios that we focus on here, as noted above: One where the NMW is equal to R2 447 (the fulltime monthly equivalent of the hourly median wage of all workers currently covered by a SD in 2015) and one where the minimum wage is R3 400 (the fulltime monthly equivalent of the hourly median wage for all workers in South Africa in 2015). In order to calculate the simulated wage increase for each sector we make two key assumptions. Firstly, we assume that all workers below the minimum wage are 'eligible' for a wage increase, but that workers earning slightly more than the minimum wage will also observe wage increases. We apply this to workers earning 10 percent more than the minimum wage. Thus overall, workers earning 10 percent more than the minimum wage and below are in our group of workers that could be impacted by a minimum wage. Secondly, we do not assume that all employers will pay the minimum wage. Based on previous work (Bhorat et al. 2012b) and calculations of non-compliance using the LMDS (2014) we assume an average compliance rate of 60 percent. That is to say, we assume that only 60 percent of employers will in fact increase workers' wages all the way up to the minimum wage.

Table 13 below, shows how many workers are covered by the chosen wage levels (R2 447 and 3 400), what the mean wages of these covered workers are, and what the average wage increase required is for each sector. It is clear from the table that there are large sectoral variations, both in coverage and the required wage increase. The two lowest earning sectors – Domestic work and Agriculture – have the highest required increases in both scenarios. In the R2 447 scenario, the wages of covered workers in agriculture and domestic workers (private households) would on average have to increase by 14 percent. These figures rise to 33 percent and 30 percent in the R3 400 scenario, respectively.

Table 13. Two NMW Scenarios

Median SD Wage: R2 447 (2015 Rands)			
Sector	Number of Workers Impacted	Current Mean Wage of Impacted Workers <sup>65</sup>	Simulated Wage Increase <sup>66</sup>
Agriculture	417 946	R 1 271	14.0%
Mining and Quarrying	56 703	R 838	1.4%
Manufacturing	409 395	R 1 033	3.7%
Electricity; gas and water supply	17 165	R 911	1.5%
Construction	331 071	R 1 193	4.9%
Wholesale and Retail Trade	718 952	R 1 154	4.1%
Transport; storage and communication	244 083	R 1 012	5.1%
Financial Services	441 259	R 1 159	3.2%
CSP	850 752	R 1 027	5.1%
Private Households	717 657	R 1 165	14.1%

Median SA Wage: R3 400 (2015 Rands)			
Sector	Number of Workers Impacted	Current Mean Wage of Impacted Workers	Simulated Wage Increase
Agriculture	487 724	R 1 894	32.7%
Mining and Quarrying	80 192	R 1 738	2.6%
Manufacturing	570 460	R 1 902	7.4%
Electricity; gas and water supply	25 682	R 1 899	2.8%
Construction	460 104	R 2 046	11.3%
Wholesale and Retail Trade	1 066 041	R 2 085	8.4%
Transport; storage and communication	301 489	R 1 711	8.9%
Financial Services	668 363	R 2 094	7.3%
CSP	1 040 808	R 1 707	9.9%
Private Households	879 176	R 1 852	30.1%

Source: LMDS (2014), own calculations

The number of workers whose wages would increase is also driven by the size of the sector itself, and we see that the Wholesale and Retail sector, CSP and Private Households (Domestic workers) have the largest share of workers likely to see wage increases in both scenarios. As has been discussed, the level of increase required is likely to impact on the wage-employment elasticity – where a larger increase engenders larger disemployment effects.

However, given the uncertainty associated with the wage elasticity, and noting that elasticity assumptions drive the results, the two wage scenarios are run with three different wage elasticities: -0.5, -0.3, -0.1. These are informed by the international and South African literature and are a subset of the levels used in Pauw and Leibbrandt (2012). In relation to the literature we view an elasticity of -0.5 as an upper bound and -0.1 as a lower bound. Combining the elasticity assumptions with the predicted wage increases across each sector we are able to use the CGE to produce a set of predicted employment effects. These are now presented and discussed.

A general equilibrium approach differs to that of a partial equilibrium approach in that it allows the evaluation of an impact of one factor's wage rate change on not only the employment of that factor, but also the employment of other factors and the knock-on effects of employment of all factors in other sectors. For this reason, employment changes in general equilibrium models depend on the elasticity of substitution (EOS) and not the wage elasticities, as is the case with partial equilibrium models. Given the uncertainty associated with the wage elasticity and noting that elasticity assumptions drive the results, the

<sup>65</sup> This figure was calculated by taking the mean wage of workers who earn wages below the selected NMW.

<sup>66</sup> This figure was calculated by multiplying the mean hourly wage by the number of employees in each labour category (primary, incomplete secondary, secondary and tertiary) to obtain a 'weighted' mean hourly wage. This figure was then multiplied by 195 hours to obtain a monthly figure.

two wage scenarios are run with three different wage elasticities: -0.5, -0.3, -0.1. These are similar to those used in Pauw and Leibbrandt (2012). Based on the international and South African literature we view an elasticity of -0.5 as an upper bound and -0.1 as a lower bound. Combining the elasticity assumptions with the predicted wage increases across each sector we are able to use the CGE to produce a set of predicted employment effects. These are presented and discussed below.

### 3.5.5 Employment Effects

As explained above the CGE produces sectoral estimates of employment impacts based on a given wage level and the three elasticity assumptions. We use the proportional employment impacts per sector, calculated by the CGE, and apply this to the LMDS (2014) data to determine the sectoral employment impacts presented below. It is important to note that in some cases the sectors used in the CGE are not directly comparable to those in the LMDS. For example, the 'private households' sector is part of a category called 'other services' sector in the CGE. As a result, in this case there are additional workers, besides domestic workers, who are part of this sector and we try to account for this. Furthermore, to clarify, the job losses outlined below only relate to wage-earning employees and do not apply to or include any employers or self-employed.

There are several issues to keep in mind when interpreting these results. The first is that this is at present a static CGE model, it does not take into account potential long term shifts in the economy which may include sectoral growth or decline, changes in the skill levels of the labour force or population structure, increases or decreases in investment and so forth. We also do not account for any possible external economic shocks apart from the imposition of a minimum wage. Only the wage level is changed and all else is held constant. The model is thus useful in the sense that it predicts the effects of a wage increase under specific assumptions and in this way adds to our understanding of possible outcomes.

Table 14 shows the estimated employment impacts by sector and elasticity for the two selected scenarios. Both the total number of jobs and the percentage change in that sector is shown. The model predicts a fall in employment in all cases, but this impact differs considerably across sectors and according to the elasticity assumptions.



Table 14. Potential Job Losses by Sector and Elasticity

Sector	$\varepsilon = -0.1$		$\varepsilon = -0.3$		$\varepsilon = -0.5$	
	R2 447	R3 400	R2 447	R3 400	R2 447	R3 400
Agriculture	-8 948 (-1.4%)	-19 773 (-3.0%)	-27 240 (-4.1%)	-57 816 (-8.8%)	-45 125 (-6.9%)	-93 128 (-14.2%)
Mining	-933 (-0.2%)	-1 162 (-0.3%)	-3 072 (-0.7%)	-5 764 (-1.3%)	-5 475 (-1.3%)	-10 371 (-2.4%)
Manufacturing	-11 659 (-0.7%)	-23 339 (-1.5%)	-28 336 (-1.8%)	-56 565 (-3.6%)	-43 110 (-2.8%)	-85 557 (-5.5%)
Utilities	-284 (-0.2%)	-540 (-0.5%)	-1 276 (-1.1%)	-2 484 (-2.1%)	-2 459 (-2.1%)	-4 784 (-4.1%)
Construction	-3 147 (-0.3%)	-7 010 (-0.7%)	-5 730 (-0.6%)	-13 041 (-1.4%)	-8 066 (-0.9%)	-18 740 (-2.0%)
Wholesale and Retail Trade	-16 413 (-0.7%)	-33 581 (-1.5%)	-43 902 (-1.9%)	-88 815 (-3.8%)	-69 568 (-3.0%)	-139 681 (-6.1%)
Transport	-6 454 (-0.8%)	-10 918 (-1.3%)	-19 731 (-2.4%)	-33 998 (-4.2%)	-32 307 (-4.0%)	-55 712 (-6.9%)
Financial Services	-10 308 (-0.6%)	-23 048 (-1.3%)	-30 746 (-1.7%)	-67 616 (-3.7%)	-51 779 (-2.8%)	-112 223 (-6.2%)
CSP	-20 446 (-0.6%)	-40 690 (-1.2%)	-60 928 (-1.9%)	-119 798 (-3.7%)	-99 170 (-3.0%)	-192 861 (-5.9%)
Private Households	-21 855 (-1.8%)	-44 917 (-3.6%)	-60 145 (-4.9%)	-120 209 (-8.1%)	-94 011 (-7.8%)	-184 012 (-14.9%)
<b>Total</b>	<b>-100 446 (-0.8%)</b>	<b>-204 977 (-1.6%)</b>	<b>-281 106 (-2.1%)</b>	<b>-566 107 (-4.3%)</b>	<b>-451 072 (-3.4%)</b>	<b>-897 068 (-6.8%)</b>

Source: Own calculations, LMDS (2014).

We see that in absolute number, the biggest potential job losses are in the private households, CSP, wholesale and retail and manufacturing sectors.<sup>67</sup> One of the issues that should be considered here is the relationship between capital and labour in a given sector and how easy it is to substitute one for the other, which has implications for whether higher production costs introduced by wages are absorbed or passed on to consumers. The modelling takes this into account but it is worth noting that, for example, private households generally employ low-skilled workers, and little to no capital. Additionally, there is no real sense in which substitution can take place. In this case production costs may lead more directly to employment decreases given that the effect is driven almost entirely by the wage-employment trade off and not the elasticity of substitution. In agriculture, the dynamics would be different, with greater possibility of capital-labour substitution and of passing on higher production costs to consumer to some extent.

Looking at the relative changes we see that in the mining, utilities and construction sectors, the number of potential job losses, across most elasticities and wage levels is very low. The private households and agriculture sectors have the highest number of relative job losses, with each sector expected to shed between 2 and 15 percent of employees. Although the agricultural sector is characterised by low wages similar to the domestic worker sector, the absolute number of jobs lost in this sector is substantially below that of private households.

<sup>67</sup> It should be noted that because these are broad industries covering the entire South African economy, there are workers who are covered by a Sectoral Determination but fall into a different sector. For example, there are many security guards who would be classified under the 'Financial Services' sector as they work for security companies whose primary purpose is to protect financial assets.

Finally, we see that across all wages levels and elasticities, the potential number of employees who could lose their jobs ranges from 0.8 percent to 6.8 percent. This wide variation in potential job losses shows us that assumptions – in particular, the elasticity level – can have a substantial effect on the outcome.

### 3.6 The Working Poor and Wage Inequality

After establishing the number of jobs which could potentially be lost, we move on to estimate how these job losses would likely be allocated across the households in each sector. We then estimate what the combined impact of decreases in employment and increases in wages would have across households, in terms of changing levels of wage income and changes in the levels of wage inequality.

To this end, a Heckman probit two-step estimator (which accounts for selection into the labour force) was used. Put simply, this allows us to use households survey data (LMDS, 2014) to estimate the probability of being employed across the full labour force, which we can then use to set up a weighting structure, with which to allocate job losses. We do this based on five individual characteristics: race, gender, education level, residing in an urban or rural area, and age group. The wages earned were then also taken into account, where the further away a worker's wage is from the given minimum wage, the more likely they are to lose their job (taking hours of work into account). Wage were normalised to be between 0 and 1, with 0 being the lowest wage and 1 being the highest. Multiplying the probability of being employed (emerging from the regression approach) with the normalised wage gives an overall probability of an individual remaining employed in the face of a legislated wage increase. Obtaining the unemployment probability is simply 1 minus the conditional probability of being employed.

Using the numbers from the CGE model above workers were either assigned to the job loss or wage increase category, keeping in mind that non-compliance was controlled for in the CGE inputs. Employees then lost their jobs until according to the overall probabilities of losing a job, where those who had the highest probability of losing their jobs lost their jobs first until the total number of job losses were reached in each sector. Individuals who lost their job had their monthly wages set to zero. Thus we do not assume that in the short run these workers are re-employed elsewhere. Wage earners who remained in their jobs and earned below the proposed NMW (either R2 447 or R3 400) saw their incomes increase. Again, the possibility that a minimum wage increases the wages of those earning just above the minimum was taken into account in the CGE modelling. Employees who earned more than 10 percent above the minimum wage were not at risk of losing their jobs and earned the same wage as before. Finally, individuals who were unemployed at the time of the survey were assumed to remain unemployed. Using these assumptions, we look at how a proposed NMW could affect working poverty, and the per capita wage distribution.

In presenting the results here, we divide the analysis into two sample groups. The first group only includes households with at least one wage earner<sup>68</sup> before the simulation was done.<sup>69</sup> Thus our focus is restricted to what happens to working households – those directly affected by a NMW. The second group includes all those in the first group as well as households where no wage income was recorded. Here we are interested in how the wage poverty and wage inequality effects change when households not directly affected by the NMW are included in our sample. In both instances, we assumed that total wage earnings are shared equally among all members of the household, and to reiterate, we only use wage incomes.

#### 3.6.1 Wage Income Households

Figure 24, below, shows the level of wage household income if a NMW of R2 447 was introduced under the assumptions explained above. We choose two 'low-income lines' to measure the levels of working poverty. These are R671<sup>70</sup> (lower bound) and R1 309<sup>71</sup> (upper bound), which come from the poverty lines produced by Budlender, Leibbrandt and Woolard (2015) and have been adjusted to 2015 prices. In the figure below, the blue line indicates the current distribution of household wage income per capita. Before the minimum wage is introduced we observe that approximately 35 percent of the population live in households which are below the lower-bound cut-off of R671. This rises to around 55 percent if the upper-bound cut

<sup>68</sup> This includes employees, employers and the self-employed.

<sup>69</sup> Wages were imputed, using a Mincerian regression, for those who said they were employed but recorded no wage.

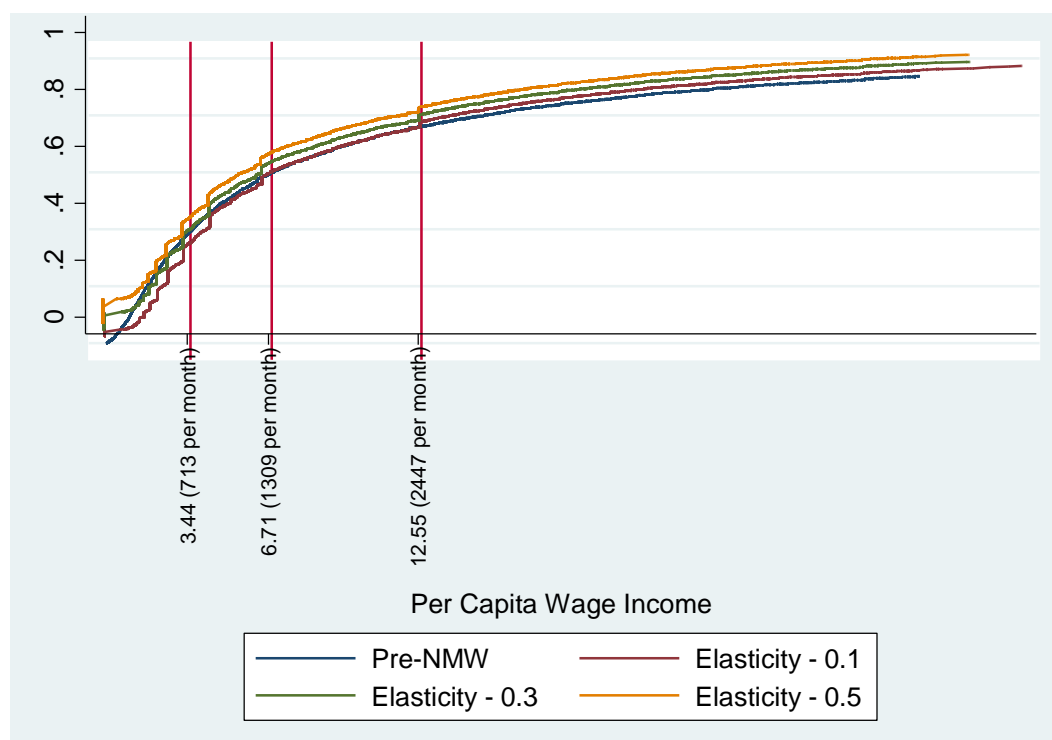
<sup>70</sup> Equivalent to R3.44 an hour assuming 195 hours a month.

<sup>71</sup> Equivalent to R6.71 an hour assuming 195 hours a month.

off of R1 309 is used. It is important to note here that we are only looking at households with at least one income earner – households with no wage income are excluded.

The graph shows the predicted level of wage income per capita at the household level, for the pre-NMW distribution and then according to a chosen wage-employment elasticity. The shape of the three post-NMW curves can be accounted for by how the new wage income per capita was calculated. As previously mentioned, those employees who lost their jobs had their wages set to zero. If there were no other wage earners in the household (or other earners in the same household lost their job as well), then the household wage income per capita would be zero. To be clear, we only use information on wage income – there is no accounting for other income sources.

Figure 24. Change in per capita Household Wage, by Elasticity Value, R2 447 Scenario

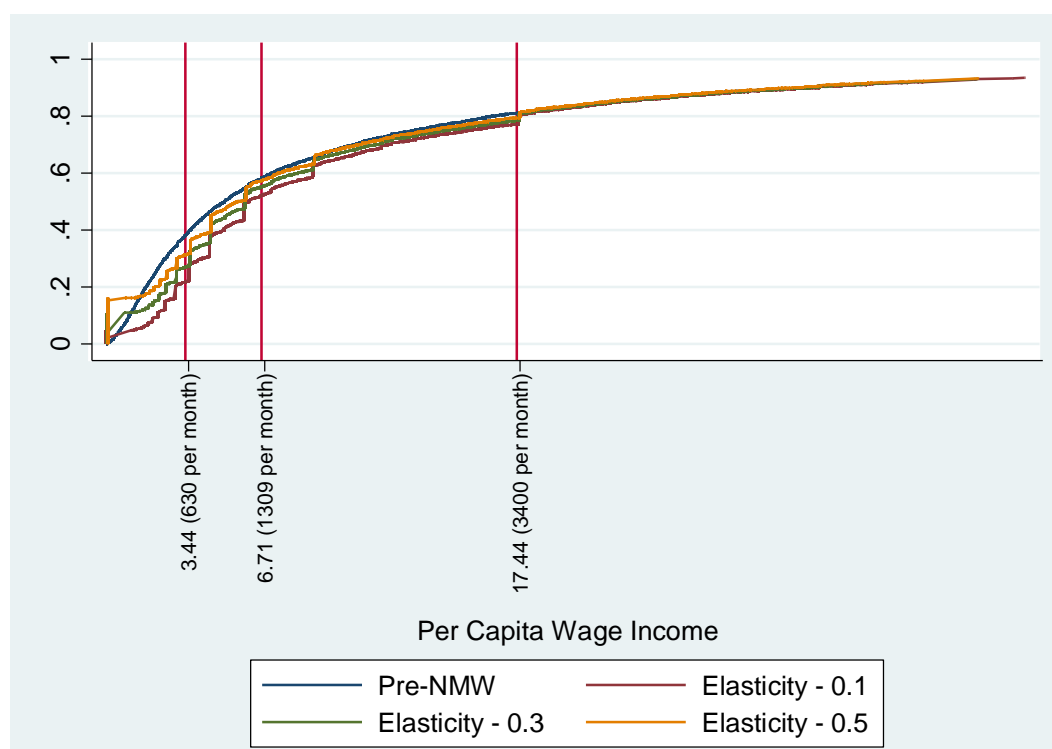


Source: Own graph, LMDS (2014), Quarter 4.

Looking at the figure it is clear that for most of the lower part of the income distribution the three curves remain below the pre-NMW curve and remain so until R1 309 is reached. Between R1 309 and R2 447, the three elasticity curves are on, or just below, the pre-NMW curve. There is a small spike at R2 447 (the proposed minimum wage). This indicates that a significant number of employees who previously earned below R2 447, are now earning a higher wage, which increases per capita incomes. Furthermore, the fact that the three curves lie below the pre-NMW curve before R2 447 suggests that there are fewer households who are in working poverty. After R2 447, the three elasticity curves and the pre-NMW line follow the same path. Since our model assumes no differences in earnings for those more than 10 percent above the NMW, this is to be expected.

Figure 25, below, then examines the outcome of a NMW set at R3 400. The three curves (one for each assumed elasticity level) have a 'step' formation and lie below the pre-NMW curve up R3 400 per month. This again suggests that fewer households are in working poverty after the NMW is introduced. From R3 400 onwards, the elasticity curves follow the same distribution as the pre-NMW curve.

Figure 25. Change in per capita Household Wage, by Elasticity Value, R3 400 Scenario



Source: LMDS (2014), Quarter 4, own graph.

We now turn our attention to estimates of per capita wage income poverty, using a wage poverty ratio ( $E_0$ ) for those below our 'low earnings line', and the wage poverty gap ( $E_1$ ) to measure how far below the line individuals earn on average (See Table 15). We do this for the two wage scenarios above and each of our three elasticities. Firstly, we show estimates for the working poor in the current, 'pre-NMW' scenario. The wage poverty ratio, using the lower-bound low earnings line of R671 per month, is 35 percent and rises to 55 percent when the upper-bound of R1 309 is considered. Similarly, the wage poverty gap rises from 0.18 to 0.32 when comparing across the two chosen low-earnings lines. Recall that these working poverty estimates only focus on households that had at least one income earner in the pre-NMW case, and that only wage income is considered here.

When we examine the wage poverty ratios and wage poverty gap for the different scenarios we see that in the R2 447 scenario, across all wage elasticities (except when the elasticity is -0.5), both ratios are lower than in the pre-NMW case. The decrease in working poverty is larger in the case of a lower elasticity, given that lower elasticities results in smaller employment losses. This suggests that the 'cost' – the number of individuals who lost their jobs – does not outweigh the benefit – those who earned below R2 447 in the pre-NMW scenario but now have higher wages – of the simulated minimum wage policy. In the R3 400 scenario, we see a dramatic drop in both the wage poverty ratios and the wage poverty gaps when the lower bound 'working poverty' line is considered and under the assumption that the elasticity is either -0.1 or -0.3. These results are replicated when the upper bound 'working poverty' line is considered, although the decline in the wage poverty ratio and the wage poverty gap is not as pronounced.

Table 15. Wage Poverty and Wage Poverty Gap Ratios, for Wage Earning Households

Scenario	Elasticity	R671 (Lower Bound)		R1 309 (Upper Bound)	
		E <sub>0</sub>	E <sub>1</sub>	E <sub>0</sub>	E <sub>1</sub>
Current (Pre-NMW)	-	0.35	0.18	0.55	0.32
R 2 447	-0.1	0.29	0.11	0.53	0.26
	-0.3	0.32	0.15	0.54	0.29
	-0.5	0.35	0.19	0.56	0.32
R 3 400	-0.1	0.21	0.10	0.49	0.23
	-0.3	0.28	0.18	0.54	0.30
	-0.5	0.35	0.26	0.58	0.37

Source: Own calculations, LMDS (2014), Quarter 4.

Note: E<sub>0</sub> measures the number of people with per capita wage income below our 'low earnings' lines. E<sub>1</sub> measures the average distance of per capita wage income from the low earnings lines, for those below the line. The sample only includes households who had at least one income earner in the pre-NMW period, and only measures wage incomes.

With a change in minimum wage, there are concurrent effects which serve to both increase and decrease poverty. On the one hand, the new minimum wage will increase the wages of a proportion of the working poor who are earning below the new minimum wage to such an extent that they are no longer living in poor households. On the other hand, and depending on the elasticity assumed, a proportion of the working population will lose their jobs, which will both push previously non-poor households into poverty and increase the extent of poverty amongst the already poor.

These opposing effects will work in different proportions to determine the changes in the wage poverty ratio and wage poverty rate due to an increase in the minimum wage. For example, the difference in the decrease in the lower-bound wage poverty ratio between the two minimum wages is relatively large at an elasticity of 0.1. The wage poverty ratio decreases from 0.35 to 0.29 at a minimum wage of R2 447, and further decreases to 0.21 at a minimum wage of R3 400. Although more workers lose their jobs at the higher minimum wage (increasing poverty as their income becomes zero), this effect is smaller than those workers, who as a result of the new higher minimum wage (R3 400), have been lifted out of poverty. However, as the elasticity increases, the difference between the wage poverty ratio at the lower and higher minimum wage decreases. This is because the difference in the absolute number of individuals losing their job at the lower (R2 447) and higher minimum wage (R3 400) is increasing as the elasticity increases. Therefore, the job-loss effect which serves to increase poverty becomes more dominant at the higher minimum wage as the elasticity increases.

Looking at the wage poverty gap, this measure takes into account distance from the poverty line as well as the absolute number of individuals below the poverty line. Now, the difference between the wage gap poverty at the lower and higher minimum wage is relatively small. This is because, even though more individuals are not in poverty at the higher minimum wage, there is also a larger movement of individuals going from earning a wage to earning zero as they lose their job. This poverty measure takes into account this severe fall in earnings, depressing the benefit of the higher minimum wage when using this measure. In fact, as the elasticity increases, the force of these lost earnings becomes large enough that the wage poverty gap between the lower and higher minimum wage is the same at an elasticity of 0.3 and actually *larger* at the higher minimum wage at an elasticity of 0.5.

In Table 16 we provide a basic overview of the effect of the proposed NMW s on wage inequality, i.e. we only consider wages per capita without including other sources of income. We see that currently the wage Gini coefficient is 0.62, and ranges from 0.59-0.61 in the R2 447 scenario, and from 0.56 – 0.62 in the R3 400 scenario. Overall then, there is a significant decline in inequality.

Table 16. Wage Gini Coefficient by Scenario, Wage Income Households

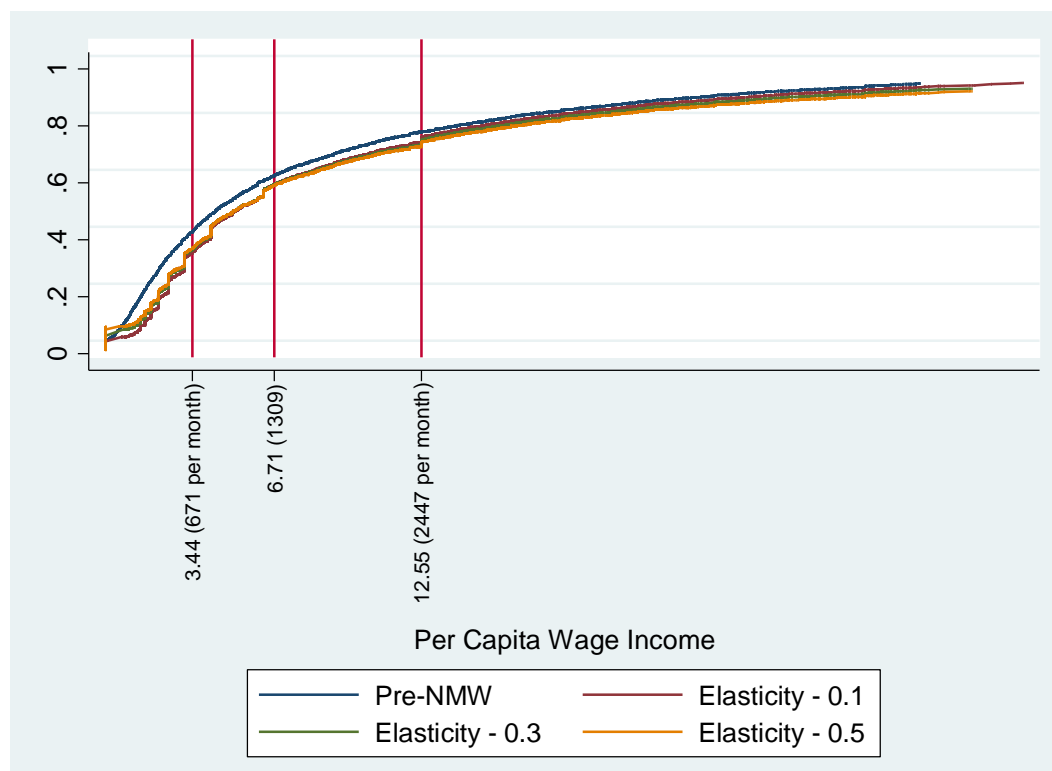
Scenario	Elasticity	Wage Gini Coefficient
Current (Pre-NMW)	-	0.62
R2 447	-0.1	0.59
	-0.3	0.60
	-0.5	0.61
R3 400	-0.1	0.56
	-0.3	0.60
	-0.5	0.62

Source: Own Calculations, LMDS (2014), Quarter 4.

### 3.6.2 Wage Income Households and ‘Unemployed’ Households

In this section, in addition to households who have at least one wage earner, we include households where no-one is employed. These are referred to as ‘unemployed’ households. Figure 26 shows the distribution of household per capita wage income in the case of a NMW of R2 447. The blue line, as in previous figures, represents the distribution of household per capita income before a R2 447 NMW is introduced. The other three lines represent the R2 447 NMW, at various elasticity levels. Compared to Figure 24, there are slightly more ‘zero income’ households. Besides this difference, the shape of the curves are similar to that of Figure 25, with the elasticity curves being below or equal to the pre-NMW curve up until R2 447, with a small spike at R2 447. This indicates, as before, that there are fewer households in working poverty than in the ‘pre-NMW’ case.

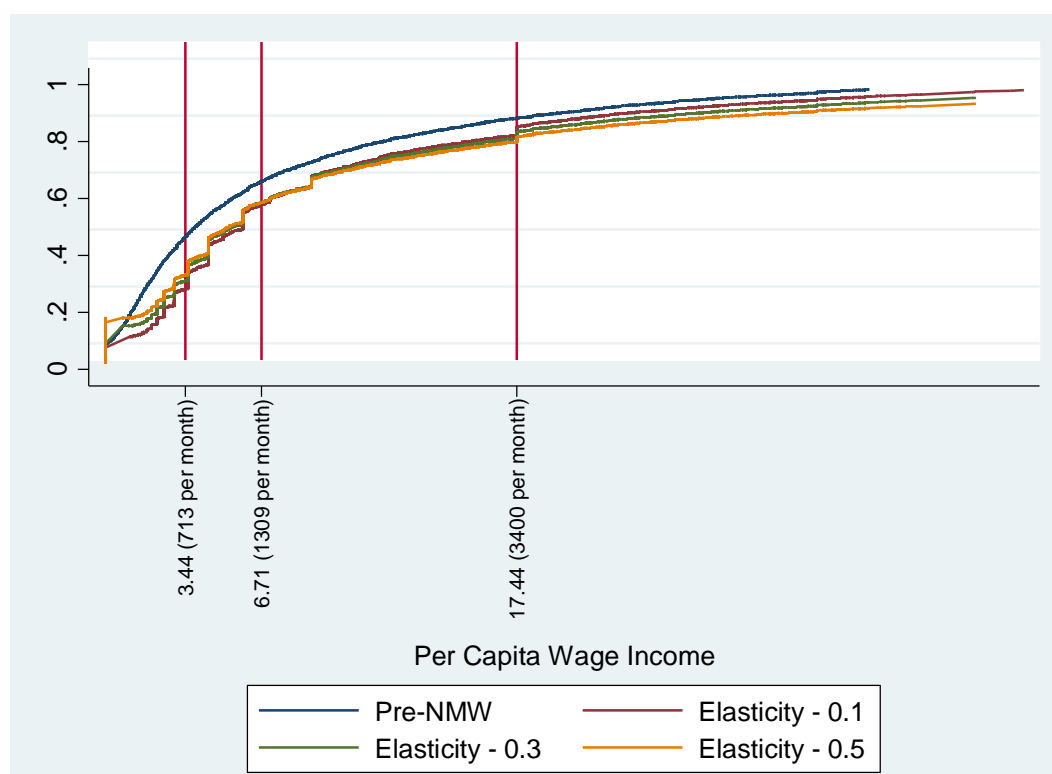
Figure 26. Change in per capita Household Wage, by Elasticity Value, R2 447 Scenario



Source: LMDS (2014), Quarter 4, own graph.

Figure 27 shows the distribution of wage income per capita for the R3 400 scenario. The proportion of zero-income households is slightly greater than in the R2 447 scenario as a result of more individuals losing their jobs. The stepped formation, present also in Figure 27, remains. Furthermore, the three elasticity curves are below that of the pre-NMW curve up until R3 400. From R3 400 onwards, the four curves are indistinguishable from each other. In other words, there are fewer households in working poverty when both the lower-bound and upper-bound working poverty lines are considered.

Figure 27. Change in per capita Household Wage, by Elasticity Value, R3 400 Scenario



Source: LMSD (2014), Quarter 4, own graph.

As with the previous section, we measure the wage poverty ratio ( $E_0$ ) and the wage poverty gap ( $E_1$ ) to examine the effect of a NMW on working poverty. It is important to note that those who are currently unemployed are assumed to remain unemployed in these simulations. Using the lower-bound earnings line of R671 per month, we see that the wage poverty ratio is 0.62, and rises to 0.74 when looking at the upper bound of R1 309 per month. The wage poverty ratio at the lower bound is now 0.27 points higher than when only wage earners were considered, while the ratio at the upper bound is 0.19 points higher. This is to be expected as 'unemployed' households, by definition, have no wage income and are therefore automatically below the 'low-earnings' lines. The wage poverty gaps are also larger by a similar margin, as compared to the 'wage earner' group.

Apart from the higher wage poverty ratios and wage poverty gaps, Figure 17 follows a similar trend to Table 15 – at least with respect with the R2 447 scenario. In other words, the wage poverty ratios and wage poverty gaps do decrease as compared to the pre-NMW scenario (with the exception being when an elasticity of -0.5 is considered), although the effect is marginal. In contrast, while the wage poverty ratios and wage poverty gaps in the R3 400 scenario are below that of the pre-NMW case, the decrease is not as substantial as when only wage earners were considered.



Table 17. Wage Poverty and Wage Poverty Gap Ratios, Wage Earning Households and 'Unemployed' Households

Scenario	Elasticity	R671 (Lower Bound)		R1 309 (Upper Bound)	
		E <sub>0</sub>	E <sub>1</sub>	E <sub>0</sub>	E <sub>1</sub>
Current (Pre-NMW)	-	0.62	0.52	0.74	0.60
R 2 447	-0.1	0.59	0.49	0.73	0.58
	-0.3	0.60	0.51	0.74	0.59
	-0.5	0.62	0.53	0.75	0.61
R 3 400	-0.1	0.54	0.48	0.71	0.56
	-0.3	0.58	0.52	0.73	0.59
	-0.5	0.62	0.57	0.76	0.63

Source: Own calculations, LMDS (2014), Quarter 4.

Note: E<sub>0</sub> measures the number of people with per capita wage income below our 'low earnings' lines. E<sub>1</sub> measures the average distance of per capita wage income from the low earnings lines, for those below the line. The sample includes all households, and only measures wage incomes.

Finally, in Table 18, we examine the effect of the two scenarios on the Gini coefficient. Firstly, we observe that the Gini coefficient is considerably higher – regardless of scenario – than when only wage earners were considered because we have included zero wage households. Secondly, while wage inequality continues to decrease in each scenario, this decrease is smaller than in the case above.

Table 18. Wage Gini Coefficient by Scenario, Wage Income Households and 'Unemployed' Households

Scenario	Elasticity	Wage Gini Coefficient
Current (Pre-NMW)	-	0.80
R2 447	-0.1	0.79
	-0.3	0.79
	-0.5	0.80
R3 400	-0.1	0.77
	-0.3	0.79
	-0.5	0.80

Source: Own Calculations, LMDS (2014), Quarter 4.

### 3.7 Conclusion

A NMW has the potential to positively impact on a large number of low-wage workers. Our modelling exercise in this section aims to take account of both the possible employment and income effects of a NMW, making a variety of assumptions in order to incorporate some of the realities of the South African labour market. In pursuit of this, the CGE model and the results presented, provide an aggregate picture of how wage increases translate into employment shifts, and in this case decreases in employment. These job losses are then applied to the LMDS data and we model how they could be allocated across households – based on individual characteristics and the required wage increase for each individual, where a larger required increase is associated with a higher probability of losing a job.

Our CGE model predicts that a NMW, at the levels modelled here (R2 447/month and R3 400/month), will have a negative impact on employment. The size of this negative impact though, will differ considerably across sectors, and depends crucially on the wage-employment elasticity assumed – where a lower employment elasticity results in lower employment impacts. As noted in Section 2, this elasticity itself depends on the level of the wage increase required, where a larger wage increase will lead to a larger elasticity. An additional point to make is that while higher wages translate into employment losses here, firms may also adjust by changing hours of work in order to stabilise their wage bill, or by passing on the cost of higher wages along their supply chain to where this is possible.

At the household level, the majority of employees will earn higher wages as a result of the NMW and this comes through in our analysis of per capita wage income. We select two working poverty lines to assess the changes in wage income per capita and our results suggest that in almost every case working poverty falls. These decreases are larger when a lower elasticity is assumed because this is associated with lower employment losses. At an elasticity of -0.5 our estimates show moderate increases in working poverty. Looking at changes in wage inequality the effects of a NMW appear to be positive in all our scenarios.

## 4 Implementation and Enforcement

### 4.1 Global Examples of National Minimum Wage Implementation

Once a country decides to pursue a NMW there are a set of important considerations that determine how this policy will operate in practice. This set includes legislative changes; institutional modifications or creations to oversee, monitor, evaluate, and enforce the NMW; mechanisms decided upon to set the NMW and adjust it in the future; phase-in periods; and exclusions or lower wage rates for certain groups or sectors. In order to inform the implementation of a NMW in South Africa this section draws on detailed country examples to explore these considerations. Below we reflect on country examples from the United Kingdom (UK), Germany, and Malaysia, and how a NMW was introduced in each case.<sup>72</sup> Additional country examples are also introduced when helpful. We begin by discussing issues of implementation and enforcement in the three countries noted above, before focusing directly on the South African situation.

#### 4.1.1 Legislative and Institutional Adjustments

The introduction of a NMW usually builds on, or supersedes, existing wage legislation. Institutions that monitor, evaluate, recommend, and enforce NMW policy can be newly created, while pre-existing institutions can be adjusted to support the policy. Here we describe the evolution from pre- to current NMW legislation and institutions for the UK, Germany, and Malaysia.

In the United Kingdom a NMW was introduced in 1999. The previous system of wage councils,<sup>73</sup> which set wage rates for various industries and occupations, were seen to be ineffective at improving pay for low-income earners and the system became complex to manage. After the abolition of wage councils in 1993 the country relied solely on collective bargaining to determine minimum wages, but growing evidence after 1993 showed that wages were falling in low-wage sectors and employment growth was stagnating (Finn, 2005). Thus, the newly elected Labour government in 1998 created the Low Pay Commission (LPC) and passed the National Minimum Wage Act (Metcalf, 1999). The LPC was central to the UK's NMW strategy, its initial terms of reference were to:

- recommend the initial level of the NMW;
- make recommendations on lower rates or exemptions for those aged 16–25;
- consider and report on any matters referred to the LPC by Ministers; and
- monitor and evaluate the introduction and impact of the NMW following its introduction.

In terms of enforcing the NMW, the Inland Revenue and Customs and Excise department<sup>74</sup> was chosen to be the enforcement agency, and the Employment Tribunal was the judicial body dealing with issues related to the NMW (UK Low Pay Commission, 1998).

Similar to the UK, Malaysia has a wage council system which was found to be ineffective.<sup>75</sup> The National Wages Consultative Act (2011) replaced this system and introduced a NMW. A council was created to advise government on all matters relating to minimum wages. The Department of Labour was assigned to enforce the new wage legislation by employing inspectors and processing cases against employers who violated minimum wage legislation (Ministry of Human Resources, 2015).

In Germany, prior to the NMW legislation, which was passed in 2014, collective bargaining through industrial councils was the sole means of negotiating wages. Unlike in the UK and Malaysia, where wage councils were created and managed by government, industrial councils were operated only by employees and employers (Addison, Teixeira, Evers, & Bellman, 2013). While keeping the industrial collective bargaining legislation and institutions intact, the German government created the Minimum Wage Act and a Minimum Wage Commission, to introduce a NMW that superseded collective agreements and applied to all workers. The Commission is autonomous and monitors, evaluates, and sets the NMW. The Customs Administration, Financial Control of Illegal Employment division was given the responsibility as the enforcement agency as it was already enforcing collective agreements (Addison, Schnabel, & Wagener, 2001).

---

<sup>72</sup> These countries have implemented NMW policies relatively recently and the processes undergone are well documented.

<sup>73</sup> Wage councils were established by the Minister of Labour and comprised of industry employee and employer representatives, together with independent members.

<sup>74</sup> Now the HMRC.

<sup>75</sup> A study by Ministry of Human Resources in 2009 found that 33.8 percent of private sectors workers in Malaysia earned less than MYR700, relative to the Poverty Line Income of MYR800 (Ministry of Human Resources, 2015).

We go on to examine each of these cases in more detail according to key elements of a NMW, but some of the main features of an implementation process should include the:

- promulgation of NMW legislation which repeals or supersedes disaggregated collective agreements;
- establishment of an institution to monitor, evaluate, and influence the NMW; and
- adjustment of previously established institutions to enforce NMW policy.

#### 4.1.2 Defining the Minimum Wage

In order to establish a NMW, core components of the wage (and the reference time period for the NMW) need to be defined. In the table below we list various countries and their respective minimum wage definitions and reference time periods.

Table 19. Minimum Wage Definitions and Reference Time Periods - Global Evidence

Country	Definitions of the Minimum Wage	Reference Period of Minimum Wage
Belgium	Basic 'core minimum salary', normally excludes premia, bonuses and allowances unless they can be defined as remuneration for the normal performance of work. Different arrangements can be negotiated at either sectoral or company level.	Monthly (averaging a 38 hour week, but can vary slightly by sector)
Canada	Basic wage. Varies according to Province; legislation usually covers gratuities, call-in pay and deductions	Hourly
France	Earnings, including bonuses, tips and commission, and accommodation and meals; but excluding profit sharing bonuses, overtime, weekend working and night working premia and other compensatory payments	Hourly
Germany	Basic wages, bonuses, profit sharing, commission, and in-kind payments to seasonal workers are included. Expense allowances, saving scheme contributions, and in-kind payments to full-time workers are excluded.	Hourly
Greece	Minimum wage excludes overtime hours and commission	Blue collar: per day; white collar: per month
Japan	Minimum wage excludes bonuses, overtime, holiday pay and night working premia	Alternatives: per hour, per day, per week, or per month
Malaysia	Basic wages, excluding any allowances or other payments	Per month for full time employees, per hour for part time employees
Netherlands	Earnings, including holiday, meals and housing allowances; but excluding all additional overtime and shift premia, bonuses and other compensatory payments.	On basis of full month's work: disaggregated as necessary into weekly or daily rate. No hourly rate/
New Zealand	Minimum wage can include piecework; but not merit bonuses, tips or other gratuities. The inclusion or exclusion of all other additional payments (such as premia, allowances and supplements) within the minimum wage is decided by the parties to the employment contract. Deductions can be made for board or lodging up to a maximum figure.	Alternatives: per hour, 8 hour day, or 40 hour week
Portugal	Minimum wage does not include premia, bonuses, or other allowances, except sales commission and production bonuses. It can include the value of any food and lodging provided.	Monthly (or annual average where weekly hours are available)
Spain	Basic wage, including piecework earnings, excluding all other payments. Overtime, shift and unsociable hours premia, profit shares, and all allowances (except sick pay, holiday pay and maternity pay) are excluded.	Alternatives: per day or per month
United Kingdom	Basic pay, bonuses. Commission, organised tips/gratuities, and benefits are included. Allowances and supplements, overtime and unsocial hours premia, shift premia, and cash tips are excluded	Hourly
United States	A specific hourly amount, including incentive pay, tips and accommodation and meals; but excluding overtime, shift or unsociable hours premia, and all other allowances	Hourly

Source: ILO Travail Database (2015a); The Federal Ministry of Labour and Social Affairs (2015); Ministry of Human Resources (2015); UK Low Pay Commission (2014)

Note: The table summarises detailed regulations and should be regarded as illustrative.

Establishing a precise and manageable definition of the minimum wage is an important factor that influences the success of a NMW. Overly detailed definitions of pay components, or reference time periods, could create confusion among employers and contribute to noncompliance. However, definitions that are too broad could allow employers to circumvent the law (Schulten, 2015a).

### 4.1.3 Setting the Initial Level of a NMW and Estimating Coverage

Establishing a regulatory framework to set the level of a NMW, which has been discussed and agreed on by social partners, is crucial for success of a NMW policy. Even where a country's legislation does not specifically provide for consultation, in practice it is rare for some sort of official or informal consultation to be totally absent. Conversely, it is also important to establish the extent to which an obligation to consult social partners, or a specialized committee, actually limits the decision-making power of the public authority. In this respect it is useful to distinguish between two procedures: Either the government proposes the minimum wage rate and consultations take place based on its proposal ("government decision following consultation"), or the minimum wage is determined by a specialized body which recommends a rate to the government for its final decision and implementation ("government decision based on recommendation") (Eyraud & Saget, 2005).

In the case of the UK, Germany, and Malaysia, the latter procedure is followed. In the table below these countries are listed with the consultative and quantitative approaches conducted to establish the initial level of the NMW.

Table 20. Consultative Processes and Qualitative Analysis to Establish NMW Level

Country	Consultative Processes	Quantitative Analysis
United Kingdom	<ul style="list-style-type: none"> <li>• Written and Oral Evidence</li> <li>• Site Visits</li> <li>• Discussion and Arguments within the LPC</li> </ul>	<ul style="list-style-type: none"> <li>• Previous Wage Council Rates</li> <li>• International Wage Evidence</li> <li>• Coverage and Cost of Various Potential NMWs</li> </ul>
Germany	<ul style="list-style-type: none"> <li>• Trade Union Negotiations</li> </ul>	<ul style="list-style-type: none"> <li>• Wage Level Comparison to EU</li> <li>• Coverage of NMW</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• Public Consultation through Workshops and Clinics</li> <li>• Focus Group Meetings</li> <li>• "Minimum Wage Lab" with the World Bank</li> </ul>	<ul style="list-style-type: none"> <li>• International Wage Evidence</li> <li>• Coverage of NMW</li> <li>• Poverty Line Income</li> <li>• Employer's Ability to Pay</li> <li>• Real Unemployment Rate</li> <li>• Inflation</li> <li>• Productivity Growth</li> </ul>

Source: UK Low Pay Commission (1998); Ministry of Human Resources (2015); Schulten (2015b)

Note: The table summarises detailed regulations and should be regarded as illustrative.

In the UK, the LPC's recommendation for the initial level of the NMW drew on three strands of consultation: written and oral evidence, site visits, and discussions and arguments within the LPC. Overall, the LPC invited evidence from nearly 600 employer organisations, trade associations, unions, voluntary organisations, pressure groups, and academics. In total, written evidence was received from around 500 organisations and formal oral evidence was taken from 47 representative groups of employers, unions, and pressure groups. Moreover, over 200 meetings with relevant stakeholders were conducted during 61 site visits across the UK. Lastly, debates within the LPC were held between two subgroups: the Economist sub-group which covered employment, inflation and distributional issues; and the Youths and Training sub-group which dealt with issues surrounding a lower rate for youths and apprentices.

Overall, this consultative process led to agreement on a wage of £3.60 per hour for adults (Metcalf, 1999). The quantitative analysis that was conducted by the UK LPC to establish this initial level included examining the previous wage rates of Wage Councils; international evidence of minimum wage levels; and the coverage and costs of various potential NMWs. The LPC held that the Wage Council rates at the time of their abolition in 1993 provided an example of minimum wage rates that had no significant impact on employment (Metcalf, 1999).<sup>76</sup> The employment-weighted council rate at the time of abolition was £3.90 (in 1999 prices), just above the first NMW level. Examining international evidence, minimum wage rates as a proportion of full-time median earnings was between 30 and 60 percent in OECD countries – this gave the LPC a range between £2.40 and £4.80 for the UK. In terms of coverage, the LPC believed the NMW should cover around 10 percent of the working population. Lastly, after consultative and technical assistance from the Bank of England and the Treasury, the LPC agreed that the cost of the NMW should be below 1 percent of the wage bill to avoid wage inflation (Metcalf, 1999). In light of these inputs, the rate recommended by the LPC was £3.60 for adults, and £3.00 for 18 to 21 year olds.<sup>77</sup>

<sup>76</sup> This is instructive in the South African case where, for the most part, the SDs appear to have had no negative effects on employment.

<sup>77</sup> This consideration of a lower rate for youth will be given greater detail in the exclusions/lower NMW subsection below.

In Germany, the process conducted to determine the initial NMW level was not as robust as that of the UK. According to Dr. Thorsten Schulten of the Hans Böckler Foundation, establishing the NMW level was more of a political decision than one made by consultation with social partners or economic analysis. In the early 2000s, trade unions began to advocate for a NMW, and by 2006 they had proposed a rate of €7.50. This rate was informed by two considerations: 1) minimum wages in other Western-European countries at the time were between €7 and €8; and 2) minimum wages established in some sectors by industrial councils were deemed to be insufficient to cover the basic expenses of workers. Through discussions between trade unions, employer organisations, and government the final figure agreed on was €8.50 – about 50 percent of the median wage in the country – which laid the basis for the Minimum Wage Act (Schulten, 2015b).

In Malaysia, the Ministry of Human Resources (MoHR) began to advocate for a NMW in 2010. This spurred a consultative process by the MoHR which included government workshops; focus group meetings with employer and employee representatives, government agencies, and academics; and a ‘minimum wage lab’ with the World Bank which covered issues of policy design and potential impacts on the economy. From this consultative process, a report<sup>78</sup> was published by the World Bank in coordination with the MoHR, which established a wage level based on technical inputs and a range of factors.<sup>79</sup> Moreover, given that Malaysia is a country divided by the China Sea which separates Peninsular Malaysia from the Sabah and Sarawak regions, the World Bank recommend differentiating the NMW between these two regions of the country. From this process, Malaysia’s National Wages Consultative Council was formed and the technical committee of the Council formulated an equation to determine the initial wage rates (Equation 1). These were set in 2012 to be RM900/month (RM 4.33/hour) for Peninsular Malaysia and RM800/month (RM3.85/hour) for the Sabah and Sarawak regions. Equation 1 shows the factors influencing how these wages were set.

Equation 1. Malaysia’s National Wages Consultative Council

$$MW = Average \left( \frac{PLi}{Average\ workers\ per\ household} + Median\ Wage \right) \times \left[ 1 + \left( \frac{Pi}{100} \right) + \left( \frac{CPI}{100} \right) + \left( \frac{UEi}{100} \right) \right]$$

MW = Minimum Wage Rate in Malaysian Currency

PL = Poverty Line Income (Poverty Line Threshold)

P = Productivity Growth (%)

CPI = % Change in Consumer Price Index

UE = Real Unemployment Rate (%) Defined as Actual Unemployment Rate Minus National Unemployment Rate of 4%

Importantly, in all of these countries, the coverage of the NMW was a strong consideration when deciding on the initial level. Put differently, a higher minimum wage covers a larger proportion of workers, and require larger increases in the overall wage bill. In the table below the initial NMW rates, the minimum-to-median wage ratios, and the estimated coverage are presented for the UK, Germany, and Malaysia.

Table 21. Coverage of NMW - the UK, Germany, Malaysia

	Initial Minimum Wage Level (per hour)	Minimum to Median Wage Ratios	Estimated Numbers of Workers to be Covered by the NMW	Estimated Proportion of Employment Covered by the NMW
UK (1999)	£3.60 (Adults)	46%	2.83 Million	13%
	£3.00 (18-21)	38%		
Germany (2015)	€8.50	50%	3.70 Million	9%
Malaysia (2012)	RM4.33 (Peninsular Malaysia)	60%	3.20 Million	26%
	RM3.85 (Sabah & Sarawak)	53%		

Sources: Zimmerman (2014); Heng Gule (2012); Department of Statistics, Malaysia (2014); and calculations by author made from the 2014 European Central Bank Statistics and 2015 ILO Global Wage Database

Overall, the UK, Germany, and Malaysia set their respective initial national minimum wages at a level around 50 percent of their median wage. The UK and Germany had a relatively low level of workers initially covered by the NMW. Conversely, the initial NMW level in Malaysia covered a large portion of total employment due to the fact that the country has a larger low-income population.

<sup>78</sup> World Bank, 2011 - “Optimal Design for a Minimum Wage Policy in Malaysia”

<sup>79</sup> These were: productivity levels, the producer price index, wage competitiveness, the size of the informal economy, unemployment, GDP growth, and the consumer price index.

#### 4.1.4 Adjusting the Minimum Wage

After a NMW is implemented, how this wage is adjusted over time differs across countries. Below we present a selection of countries and how their respective national minimum wages are adjusted.

Table 22. Adjustment of Minimum Wages Globally

Argentina	Adjusted through executive decree any time at the request of any social partner - legislation does not specify frequency of adjustment.
Australia	Each year the Expert Panel of the Fair Work Commission reviews minimum wages and sets a national minimum wage order for employees not covered by enterprise agreements or modern awards. The decision and order generally come into operation on 1 July each year.
Bahamas	Adjustments take place automatically as rates are indexed to the cost of living. In addition every 2 years a national intersectoral agreement is entered into by social partners – setting the max margin of increases in labour costs.
Belgium	The minimum monthly average guaranteed income is set for the private sector by collective labour agreements made at the National Labour Council (social partners). All workers benefit from salary indexation (i.e. adjustment for inflation)
Brazil	Adjusted annually by executive decree taking into consideration CPI and production.
Canada	Rates are set independently by each of the 13 provinces/territories, resulting in various dates for increases. Of those, British Columbia and the Northwest Territories are the only ones that do not have a formal mechanism for calculating and adjusting the minimum wage.
Chile	Adjusted annually by congress – taking into consideration inflation, productivity, and employment.
France	The minimum wage is re-assessed each year on 1 January. It is uprated in line with inflation (for the 20 per cent of households with the lowest incomes), plus half of the increase in purchasing power at the average hourly wage for industrial and services workers (i.e. not professional or senior roles). The wage is automatically raised in-year if the CPI rises by 2 per cent or more compared with anticipated inflation. In this case, the minimum wage is increased at the same rate. The Government can also increase the minimum wage at any time
Germany	Trade unions and employers in the Minimum Wage Commission will consult for the first time in 2016 on how high the minimum wage will be as of 1 January 2017.
Japan	The system operates regionally by prefecture. The minimum wage is reviewed and amended each autumn. The Central Minimum Wage Council makes recommendations by the end of July to 47 Regional Minimum Wage Councils, comprising representatives of labour unions, employees and public agencies. The final decision is made by the Regional Director of the Labour Standards Agency by around September. Industry-level minimum wages can also be set within a prefecture.
Korea, Republic of	The Minimum Wage Council deliberates every year to establish the adjusted rate, taking into consideration various economic indicators.
Malaysia	National Wages Consultative Council shall review the minimum wages order at least once in every 2 years and adjust it based on a specified calculation (Equation 1) and inputs from social partners.
Netherlands	The Ministry of Social Affairs normally uprates twice yearly (on 1 January and 1 July). The average uprating of collectively agreed wages determines the size of the minimum wage increase. Uprating twice a year is required by law and is subject to developments of the average wage (so it is not directly determined by inflation) of both the Government and the private sectors..
New Zealand	The Minister of Labour conducts annual reviews in line with the Minimum Wage Act 1983 by 31 December of each year, with changes effective from the following April.
Portugal	Since 2007, a tripartite committee (representatives from the Government, unions and employers) has monitored economic conditions to consider the social and economic impacts of the minimum wage and recommend an annual uprating.
Spain	The minimum wage is set once a year on 31 January by the Government in consultation with the social partners, although it can be reviewed after six months if the Consumer Prices Index is higher than the Government's forecast. To calculate the increase, the Government takes certain economic indicators (CPI, national productivity, national income) into account.
USA	Changes to the federal minimum wage are voted on by Congress intermittently. Most states have their own national minimum wage rates. Where federal and state laws stipulate different rates, the higher rate applies. Cities and municipalities can also legislate to impose local minimum wage rates.
UK	The Government considers recommendations from an independent Low Pay Commission (comprised of employers, unions and independents), which reports each February following wide-ranging consultation. Since the minimum wage was introduced in 1999 there have been annual upratings.

Source: ILO Travail Database (2015a); UK Low Pay Commission (2014); The Federal Ministry of Labour and Social Affairs (2015); Ministry of Human Resources (2015)

Note: The table summarises detailed regulations and should be regarded as illustrative.

What is clear from the table is that the actors which decide on wage adjustments vary between a designated council/commission (e.g. the UK Low Pay Commission), a government department, and/or an executive decision. In other cases the rate is linked directly to an index. The economic indicators taken into consideration for minimum wage increases typically centre around CPI, production indices, and some measure of the potential employment effects of an increase in wages. In the current context of South Africa's sectoral determination system – adjustments are only made with respect to the CPI. This may warrant revisiting, based on global best practice.

#### 4.1.5 Phase-in and Transition Periods



The time between the passing of NMW legislation by government and when the legislation is actually put into full effect is a careful consideration most countries have integrated into the implementation process. The rationale for integrating a 'phase-in' or a transition period into the implementation process is so that employees, employers, government, and other relevant stakeholders can prepare for, and adjust to, the new legislation. Additionally, longer phase-in and/or transition periods across countries appear to be given to sectors most sensitive to wage adjustments or those that have relatively low base wages compared to the proposed national minima.

In the table below, the UK, Germany, and Malaysia are listed with the transition/phase-in periods given for specific employer groups.

Table 23. Phase-in/Transition Periods of NMW - the UK, Germany, Malaysia

Country	Date NMW Legislation Passed	Effective Dates Applicable to Specific Employer Groups	Transitional/Phase-in Periods of a National Minimum Wage
United Kingdom	31 July 1998 (National Minimum Wage Act passed)	1 April 1999 (Applicable to All Employers)	8 Months
Germany	15 August 2014 (Minimum Wage Act promulgated)	1 January 2015 (Applicable to Most Employers)	4 ½ Months
		31 December 2016 (Applicable to Collective Agreements and Temporary Workers)	16 ½ Months
		1 January 2017 (Applicable to the Newspaper Deliverers Sector Following Stepwise Implementation)	32 ½ Months
Malaysia	16 July 2012 (Minimum Wage Order gazetted)	1 January 2013 (Applicable to Employers with 6+ Employees or Who Work in a 'Professional Capacity')	5 ½ Months
		31 March 2013 (Applicable to Security Services and Bus Services Sectors)	7 ½ Months
		1 April - 1 October 2013 (Applicable to 632 Employers, Effective Dates Between 01/04/2013 and 01/10/2013)	7 ½ to 14 ½ Months
		1 July 2013 (Applicable to Employers with 5(-) employees)	11 ½ Months
		30 September 2013 (Applicable to the Hotel Sector)	13 ½ Months
		1 January 2014 (Applicable to SMEs with foreign employees)	17 ½ Months

Source: UK Low Pay Commission (1998); The Federal Ministry of Labour and Social Affairs (2015); Ministry of Human Resources (2015)

Note: The table summarises detailed regulations and should be regarded as illustrative.

In the UK, the National Minimum Wage Act – which provided powers to implement the NMW – received royal assent on 31 July 1998; Regulations were made on 6 March 1999; and the NMW came into full effect in 1 April 1999. Therefore, within 8 months, employers had to ensure they were paying all employees at or above the NMW, and government institutions had to ensure all enforcement mechanisms were in operation. Given the fact that the wage level and the proportion of workers covered were relatively low the LPC did not believe it was necessary to establish a longer phase-in/transitory period (UK Low Pay Commission, 1998).

In Germany, the Minimum Wage Act was promulgated in the Federal Law Gazette on 15 August 2014 and entered into force on 16 August 2014. With few exceptions, the law provided the effective date of the NMW of €8.50 to be 1 January 2015. Exceptions to this effective date include collective agreements made under the Posted Workers Act or the Act on Temporary Employment Business, where the NMW effective date is 31 December 2016. Certain sectors were given longer phase-in allowances. Overall, the transitional and phase-in periods of the minimum wage in Germany differ between 4 ½ months to 2 ½ years – from when the Minimum Wage Act was passed to when it becomes fully effective (The Federal Ministry of Labour and Social Affairs, 2015). The wage that will be set by the Minimum Wage Commission to be effective on 1 January 2018, however, will apply without exceptions.

In Malaysia, the National Wages Consultative Act was passed on 15 September 2011 and the minimum wage order was gazetted on 16 July 2012. The effective date of the order varied based on employer organization size, sector, individual employers, and foreign employees. Overall, what we can see from these examples is that phase-in/transitional periods of NMWs are typically established to ensure there are not immediate negative impacts for vulnerable sectors, which typically employ low wage workers. Parallel to this rationale, some worker groups are permanently excluded from receiving the NMW or paid sub-minimums, as we discuss next.

#### 4.1.6 Exclusions and Lower NMWs

Due to the fact that there are different groups of workers within a population, exclusions or lower rates of pay are integrated into NMW policy across many countries. These groups could include those who are: more vulnerable, less productive or experienced, do not earn incomes through fixed wages or salaries, live in a geographic area with lower costs of living, and/or cannot have their working hours firmly defined. The table below shows selected countries and the various exclusions or lower-rates-of-pay that exist in each case.

Table 24. Exclusions and Sub-Minimum Groups of NMWs Globally

Country	Excluded NMW Groups	Lower NMW Groups
Argentina	<ul style="list-style-type: none"> <li>• Under 18 years of age</li> <li>• Civil servants</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic Workers</li> <li>• Agricultural Workers</li> <li>• Apprentices</li> </ul>
Australia	<ul style="list-style-type: none"> <li>• Some(well-paid) professional industries</li> </ul>	<ul style="list-style-type: none"> <li>• Vocational Placement Workers</li> </ul>
Brazil	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Canada	<ul style="list-style-type: none"> <li>• Apprentices</li> <li>• Certain groups of agricultural, hunting and fishing workers</li> <li>• Various categories of workers in Manitoba and Ontario</li> </ul>	<ul style="list-style-type: none"> <li>• Younger than 18 years of age in Ontario</li> <li>• Liquor vendors in Ontario</li> <li>• Disabled individuals in Manitoba</li> </ul>
Chile	<ul style="list-style-type: none"> <li>• Mentally disabled workers</li> </ul>	<ul style="list-style-type: none"> <li>• Younger than 18 years of age</li> <li>• Apprentices</li> </ul>
France	<ul style="list-style-type: none"> <li>• Public-sector workers</li> </ul>	<ul style="list-style-type: none"> <li>• Younger than 17 years of age</li> <li>• Disabled workers</li> <li>• Apprentices</li> </ul>
Germany	<ul style="list-style-type: none"> <li>• Trainees</li> <li>• Volunteers</li> <li>• Interns</li> <li>• Home workers</li> <li>• Self-employed</li> <li>• Under 18 years of age with no vocational training</li> <li>• Disabled workers</li> </ul>	<ul style="list-style-type: none"> <li>• Long-term unemployed for the first six months of employment</li> </ul>
Japan	<ul style="list-style-type: none"> <li>• Persons employed in a business using only relatives living together</li> <li>• Domestic workers</li> </ul>	<ul style="list-style-type: none"> <li>• Disabled persons</li> <li>• Workers in probationary periods</li> <li>• Apprentices</li> <li>• Workers engaged in "light work"<sup>80</sup></li> </ul>
Korea, Republic of	<ul style="list-style-type: none"> <li>• Persons employed in a business using only relatives living together</li> <li>• Disabled persons</li> <li>• Domestic Workers</li> </ul>	<ul style="list-style-type: none"> <li>• Apprentices</li> <li>• Persons engaged in surveillance or intermittent work</li> </ul>
Malaysia	<ul style="list-style-type: none"> <li>• Domestic Workers</li> <li>• Apprentices</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Netherlands	<ul style="list-style-type: none"> <li>• Younger than 15 years of age</li> </ul>	<ul style="list-style-type: none"> <li>• 15 to 23 years of age</li> <li>• Disabled persons</li> </ul>
New Zealand	<ul style="list-style-type: none"> <li>• Younger than 16 years of age</li> <li>• Apprentices</li> <li>• Prisoners</li> <li>• Volunteers</li> <li>• Film Production Workers</li> </ul>	<ul style="list-style-type: none"> <li>• Disabled persons</li> <li>• 16 to 17 years of age</li> </ul>
Portugal	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Apprentices</li> <li>• Disabled workers</li> </ul>
Spain	<ul style="list-style-type: none"> <li>• Public servants</li> <li>• Executive directors</li> <li>• Unpaid family workers</li> <li>• Volunteers</li> </ul>	<ul style="list-style-type: none"> <li>• Apprentice</li> <li>• Temporary workers</li> </ul>

<sup>80</sup> As provided for by Ordinance of the Ministry of Health, Labour & Welfare

USA	<ul style="list-style-type: none"> <li>• Some categorisations of professional employees</li> <li>• Seasonal amusement or recreational establishments (summer camps)</li> <li>• Certain fish farming employees</li> <li>• Certain agricultural employees</li> <li>• Certain small newspaper employees</li> <li>• Certain switchboard operating employees</li> <li>• Certain criminal investigators</li> <li>• Computer systems analysts and programmers</li> <li>• Seamen on foreign vessels</li> <li>• Casual domestic workers</li> </ul>	<ul style="list-style-type: none"> <li>• Apprentices</li> <li>• Under 20 years of age (lower rate for first 90 days of work)</li> <li>• Disabled workers</li> <li>• Full-time students</li> <li>• Tipped employees</li> </ul>
UK	<ul style="list-style-type: none"> <li>• Under 16 years of age</li> <li>• Self-employed</li> <li>• Company directors</li> <li>• Workers on a government employment programme</li> <li>• Persons employed in a business using only relatives living together</li> <li>• non-family members living in the employer's home who share in the work and leisure activities, are treated as one of the family and aren't charged for meals or accommodation</li> <li>• higher and further education students on a work placement up to 1 year</li> <li>• workers on government pre-apprenticeships schemes</li> <li>• Workers in certain EU programmes</li> <li>• Armed forces</li> <li>• Share Fisherman</li> <li>• Prisoners</li> <li>• People living and working in a religious community</li> </ul>	<ul style="list-style-type: none"> <li>• 16 to 18 years of age</li> <li>• 18 to 21 years of age</li> <li>• Apprentices</li> </ul>

Source: ILO Travail Database (2015a)

Note: The table summarises detailed regulations and should be regarded as illustrative.

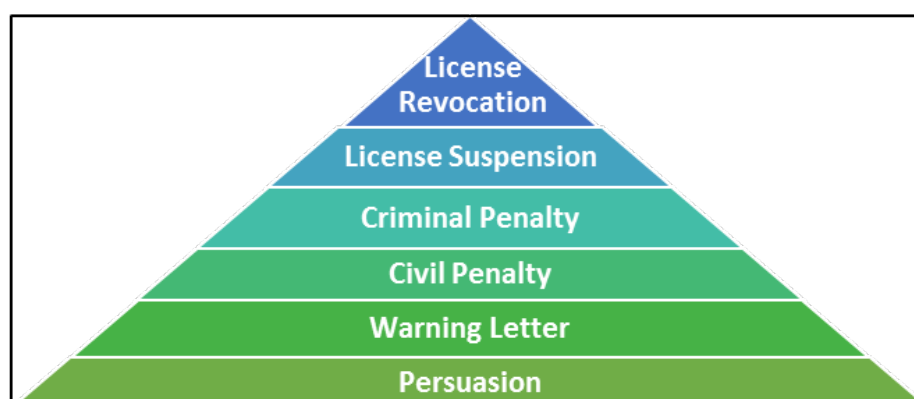
What we can observe from the table above is that self-employed workers, certain professional employees, public/civil servants, volunteers, those under the legally-required school age, family run and operated businesses, and prisoners are typically excluded from NMW legislation. In addition, apprentices, interns, and those under the age of 18 are typically given lower minimum wages. In some countries, it is often that disabled workers, domestic workers, and agricultural workers are either excluded or given a lower relative minimum wage – but this depends on the country in question.

## 4.2 Global Examples of Minimum Wage Enforcement Mechanisms

The introduction of a NMW cannot be divorced from the mechanisms through which it is implemented and enforced. Implementation, or introducing a new NMW in this case, has been discussed above, and we turn now to issues of enforcing the law keeping in mind that in addition to a well-designed NMW system enforcement is crucial to ensure widespread compliance.

One way of understanding the enforcement process in theory, or the possible steps to ensure compliance, is as a “pyramid of severity of regulatory orders” for employers, as shown in Figure 28 (Braithwaite, 1985). According to this pyramid, cooperation, including persuasion and capacity building, is at the base of the pyramid and is typically used as a “preventive” and initial measure to encourage compliance (Gallina, 2005). In cases of repeat or severe violation, the severity of regulatory responses to non-compliance moves up the pyramid to the point where employers can have their licenses revoked, and in some countries employers can face criminal prosecution (Ayres & Braithwaite, 1992; Braithwaite, 1985).

Figure 28. Pyramid of Severity of Regulatory Orders



Source: Ayres & Braithwaite (1992)

The structure of such a pyramid, and the emphasis placed on the various levels, will of course differ across countries. In this regard Piore and Schrank (2008) identify two different ‘styles’ of minimum wage enforcement that apply in different contexts. They define a ‘Latin’ model and an ‘Anglo-American’ model as two distinct approaches to the problem of enforcement and compliance. The Anglo-American approach – identified most clearly in North America – treats non-compliance as the result of rational, utility-maximising calculations by individual firms, and thus adopts a punitive approach to violations in order to encourage compliance. This is akin to a simple reading of the ‘pyramid approach’ shown above, when non-compliance is observed. Within this approach, labour inspectors generally have very little leeway when faced with a case of non-compliance – they are expected to simply enforce the law – and if an employer violates the law they are punished accordingly. The appeal of this approach for policymakers is that it generally requires a less-skilled inspectorate and also limits the potential for corruption and bribery. However, the concern is that in developing countries a strict punitive approach risks driving emerging firms into the informal sector, and it may also increase unemployment effects and ability to monitor is limited.

The Latin model, on the other hand, is an approach where enforcement agencies tend to treat non-compliance as less of a ‘calculated firm decision’ but rather as an outcome resulting from a range of possible factors, including limited capabilities on the part of some employers. Here the response to non-compliance takes on a more ‘conciliatory and tutelary’ approach, aiming to assist non-compliant firms to become compliant over time (Piore & Schrank, 2008). In the Latin model inspectors are generally charged with a broader mandate of improving compliance levels, rather than enforcing a law, and are given more freedom to approach each situation differently in order to achieve this. This approach requires skilled inspectors, with a comprehensive knowledge of applicable labour laws, who can weigh up infringements on a case-by-case basis. However, this also invites greater risks of bribery and corruption on the part of inspectors. Nonetheless, the Latin approach can allow for a more effective evolution toward compliance over time by encouraging sustainable compliance without hurting employment or overburdening new firms, while at the same time punishing firms who refuse to comply.

In practice most countries apply some combination of the Anglo and Latin approaches to enforcement, and while careful planning of enforcement strategies is necessary it is often a lack of skills and resources that tend to dictate enforcement policy. With reference to Figure 28, some of the most common ‘soft’ enforcement mechanisms, such as persuasion and education, as well as the ‘hard’ enforcement mechanisms of legal action and fines are discussed below.

#### 4.2.1 Persuasion, Information Dissemination, and Capacity Building

A low-cost strategy for facilitating self-enforcement of minimum wages at the firm level is to establish a ‘culture of compliance’ among employers. For example, Braithwaite (1985) suggests that British and U.S. coal mines from the 1960s to 1980s held ‘open and frank’ discussions between labour inspectors and managers, and that this created high levels of wage compliance and safety provision. More recently, in the 1990s, the U.S. government discourse tended to support the idea of a living wage as a means of achieving individual independence, and many U.S. municipalities passed living wage bills which required government-commissioned businesses to pay wages above the NMW (Levin-Waldman, 1999).

A crucial foundation for any persuasive process of minimum wage implementation is to ensure effective dissemination of information – a clear understanding of the minimum wage among employees, employers, and inspectors is necessary for compliance. Across ILO countries, minimum wage information is typically disseminated through official government channels,

the printed press, official minimum wage websites,<sup>81</sup> and radio and television media. In some countries employers are responsible for disseminating minimum wage information to employees.<sup>82</sup> Additionally, some countries have set up services such as dedicated telephone hotlines to allow anyone to obtain information on minimum wages, or receive assistance and advice.<sup>83</sup> Public campaigns around minimum wages have also been effective options in certain countries. Below, in Box 3 we illustrate how Costa Rica's public awareness campaign improved compliance with minimum wages in the country.

### Box 3. Public Awareness and Enforcement: Evidence from Costa Rica

Increasing public awareness of minimum wage legislation is an additional comprehensive approach to improve compliance. It extends beyond the focus on work of labour inspectors and puts the enforcement power in the hands of citizens. Here we discuss the case of a public campaign in Costa Rica to encourage compliance with labour regulations – in particular minimum wages – of which lessons can be drawn for South Africa.

Gindling et al. (2014) provide one example of how a State-led public campaign to increase awareness around minimum wages and improve compliance had substantial, empirically measurable impacts. The so-called *Campaign for Minimum Wages* was introduced in Costa Rica in 2010 with the explicit aim of increasing compliance with minimum wage laws. This was in an economy with relatively high levels of non-compliance, estimates by Gindling et al. (2014) suggesting that 30 percent of workers were earning less than the minimum wage. The focus of the State's campaign was threefold: To encourage workers to report any employees who were violating the minimum wage legislation, to raise public awareness over minimum wage regulations, and to increase inspections focused on minimum wage violations. The campaign was well-funded and announced by both the Minister of Labour and the President of the country, and came partly in response to research which documented high levels of minimum wage violation (Gindling et al., 2014).

In order to facilitate awareness and encourage people to report violations a toll-free call center was created and the number (0800-TRABAJO<sup>84</sup>) was widely publicised. Gindling et al. (2014) note that this publicity included, "announcements in the press, 1,800 prime time radio commercials, US\$1,500 spent on television commercials, several web sites, over 130 billboards at bus stops and other public places, posters at work places, over 30,000 pamphlets, and widely distributed t-shirts" (pg. 8). The authors track earnings, inspection and compliance data over time to analyse the impact of the campaign. Their findings show that the campaign resulted in greater levels of compliance with minimum wage laws and a rise in earnings of approximately 10 percent for workers who had been earning less than the minimum wage relative to those earning above it. Moreover, Gindling et al. (2014) find positive spill-over effects of the campaign where compliance with non-wage labour standards also rose.

In addition to public information campaigns, naming and shaming, and boycott campaigns against companies who pay employees below the minimum wage are another effective and low-cost enforcement mechanism in certain cases. By making public the names of companies that pay sub-minimum wages, serious damage can be done to their reputation, which usually entails market losses for the company (Benassi, 2011). In Indonesia and Brazil, the government 'blacklists' and makes public the names of all companies that are found to pay below the minimum wage. Companies that want to be dropped from the list must confess to being guilty, make a public apology, and pay all fines and recovered wages of workers (Rama, 2001; Brasil, Repórter, 2010).

Lastly, training for employers, workers, and their representatives should be provided to guarantee that non-compliance is not due to a lack of capacity or knowledge of the law. In Quebec, Canada, the government's *Commission des relations du travail* has a well-developed training programme and organises, upon request, informative meetings with employers, workers, and other societal groups (Gallina, 2005). Similarly, an ILO project called "Better Factories Cambodia", which aimed to improve compliance with labour standards in the garment industry, provides another example of a capacity building initiative. Notably, the minimum wage compliance in the garment industry increased for regular workers from 93 percent to 100 percent, and the rate for casual workers from 74 percent to 89 percent between 2006 and 2009 (Gallina, 2005; Skidmore, 1999).

Overall, the goal of persuasion, information dissemination, and capacity building in the context of minimum wages is to ensure that the minimum wage system within a given country itself is transparent, fair, and effective.

## 4.2.2 Monitoring, Legal Sanctioning and Action

Given the binding nature of minimum wages in most countries – that minimum wages have the force of law – the authority to monitor and supervise the application of minimum wage provisions, impose penalties for noncompliance, and protect

<sup>81</sup> This is the case in Australia, Belgium, Chile, China, Costa Rica, El Salvador, France, Germany, Guatemala, Hungary, Malaysia, Nicaragua, Panama, Poland, Portugal, Spain, United Kingdom and United States. (ILO, 2014).

<sup>82</sup> Employers are required to post notices in their places of work in Antigua and Barbuda, Burundi, Cameroon, Central African Republic, El Salvador, Gambia, Honduras, India, Israel, Madagascar, Mali, Nicaragua, Niger, Thailand, Togo, United States and Uruguay (ILO, 2014).

<sup>83</sup> For example, in Belgium, Chile, Germany, Malaysia, and the UK, hotlines have been set up for individuals to call in to request minimum wage information and/or report violations. (ILO, 2014).

<sup>84</sup> Meaning 'work'.

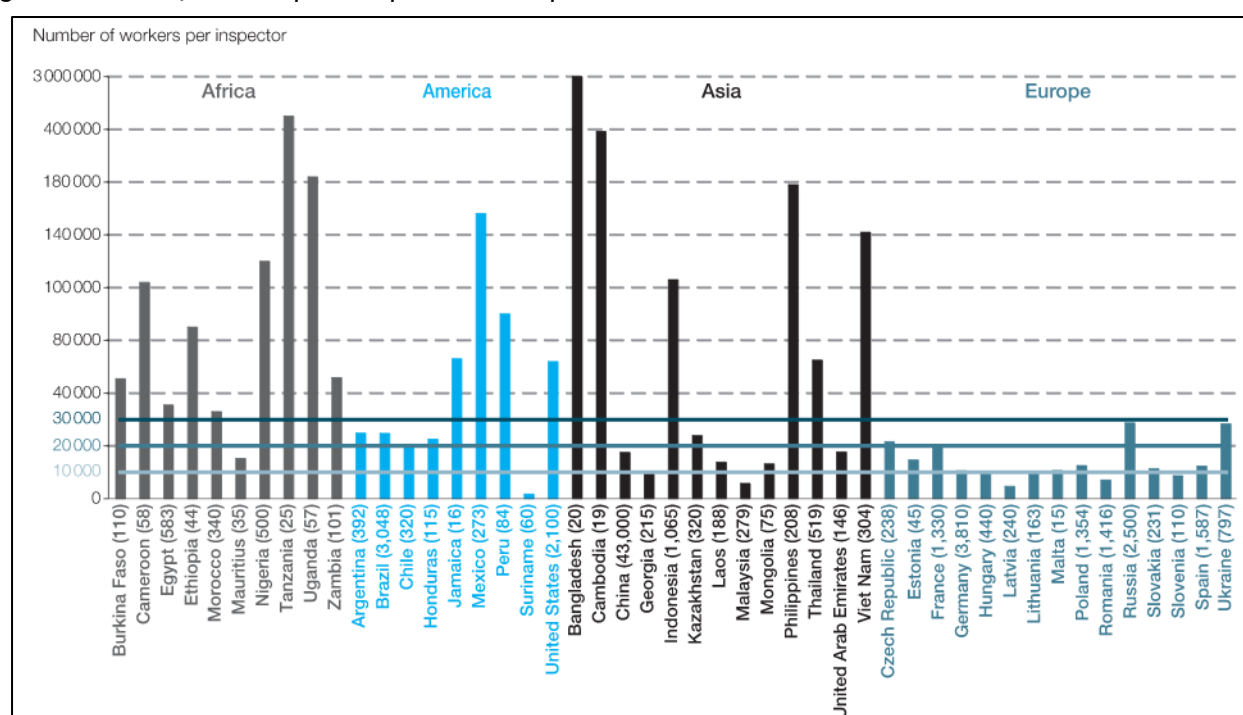
workers' rights is essential.<sup>85</sup> In a large number of countries, the monitoring and enforcement of minimum wage legislation is assigned to labour inspectors, who are usually officials with special status in the civil service (ILO, 2014). In most cases legislation grants labour inspectors far-reaching powers including:

- the authorisation to enter workplaces freely;
- carrying out any examination, test or inquiry which they may consider necessary to ensure that legal provisions are being strictly observed;
- requiring the production of any books, registers or documents, the keeping of which is prescribed by the labour legislation; and
- enforcing the posting of rules and notices required by the legal provisions.

Labour inspectors also usually draw up written observations, warnings and violation reports, and in some countries inspectors can impose penalties for violations.<sup>86</sup> In a small subset of countries, government authorities other than the labour inspectorate enforce labour legislation, including minimum wage laws. This is the case in the UK and Germany, where the customs administrations enforce minimum wage laws. In Tunisia and Mauritania, minimum wage legislation provides that the police have powers to search and punish labour legislation offences (ILO, 2014).

Two of the main challenges facing effective enforcement are the fact that inspectors are often underpaid (and thus at higher risk of corruption), and that labour inspection is a costly exercise that is usually underfunded (Gallina, 2005; Skidmore, 1999). Brazil has tackled the first problem of corruption among labour inspectors by assigning them to sub-regions for periods of no more than 12 months, in order to avoid the creation of cliental relations. Also, labour inspectors receive a fairly high salary through performance-based rewards (Almeida & Carneiro, 2009). The second problem which includes the low ratio of labour inspectors to workers, and a lack of resources and training is common across many developing countries. Figure 29, below, shows the ratio of the active working population per labour inspector for a sample of 47 countries and reveals large differences.

Figure 29. Ratio of Active Population per Labour Inspector - International Evidence



Source: ILO (2006), figure taken from Weil (2008).

The penalties for employers who violate minimum wage laws also differs substantially across countries but provides some evidence of how seriously violations are treated. Typically, penalties include pecuniary fines and back-pay compensation to

<sup>85</sup> The binding nature of the minimum wage is established in the legislation of many countries, including (but not limited to): Armenia, Australia, Benin, Brazil, Costa Rica, Germany, Guyana, Indonesia, Iraq, Latvia, Lebanon, Luxembourg, Malaysia, Mexico, Niger, Russian Federation, South Africa, Tunisia, Ukraine, United Kingdom and United States. In other countries, the legislation does not contain provisions explicitly mentioning the binding nature of minimum wages, although it is implied by the imposition of penalties in the event of non-compliance. (ILO, 2014).

<sup>86</sup> This is the case, for example, in Albania, Burkina Faso, Lithuania, Nepal, Netherlands, Nicaragua and Romania. (ILO, 2014).



workers for first time offenders, and can progress to imprisonment and/or revocation of business licence for multiple offences. Severe fines are key to the effectiveness of the enforcement system, because only consistent losses represent a deterrent to non-compliance for employers. As Benassi (2011) argues, the costs of non-compliance should always outweigh the benefits. In the table below, countries are listed with their respective penalties for minimum wage violation – with the US\$ figure in brackets.<sup>87</sup>

Table 25. Minimum Wage Violation Penalties - International Examples

Country	Penalty for MW Violation (USD\$ PPP, 2014)
Brazil	Fine of R\$52,000 (US\$36,400) for first offence and R\$104,000 (US\$72,800) for second offence
France	Fine of € 1,524 (US\$1,676) for each worker that has been paid a lower rate, applied to as many times as there are violations
Germany	Fine up to €500,000 (US\$5000) for the organisation and can be excluded from tendering public contracts
Japan	Fine of no more than ¥500,000 (US\$500,000) and/or up to 6 months in prison
Malaysia	Fine up to 10,000 ringgit (US\$4,000) for each employee paid below the minimum wage and recovering of wages for affected employees for the first offence, 1,000 ringgit (US\$400) for each day the offence continues after conviction, fine up to 20,000 ringgit (US\$8,000) or imprisonment up to 5 years
Netherlands	Fine of €6,700 (US\$7,370) per employee affected for first offence, €10,050 (US\$11,055) for second offence with 24 months of the first offence
Nigeria	Fine of N20,000 (US\$10,000) for first offence, and N100 (\$50) for each day the offence continues
Spain	Fines can range from €40 (US\$36) to €37,920 (US\$34,120) depending on seriousness of offence
United Kingdom	Fine calculated at a rate equal to twice the hourly amount of the NMW for each employee for each day each employee was paid below the NMW, and a £5,000 (US\$6,000) fine
United States	Fine up to US\$10,000 and/or up to 6 months in prison
Uruguay	Fines between 50 (US\$40) and 500 (US\$400) pesos for each infraction

Source: ILO Travail Database (2015a); The Federal Ministry of Labour and Social Affairs (2015); author converted LCUs to US\$PPP, 2014 from World Bank conversion factors.

In addition to legal sanctioning and fines, labour unions often play a role in protecting workers by representing them in negotiations and providing members with information and advice. For workers to feel comfortable to report employers who are violating minimum wage laws it must be ensured that workers are protected against victimization and have the right to recover wages owed to them. Many countries (Australia, Barbados, Canada, and the United States) have anti-retaliation legislation to protect employees from being discharged or discriminated against for filing a complaint against an employer (ILO, 2014). Moreover, the protection of workers would not be effective if the imposition of sanctions were not accompanied by measures to ensure that workers recover the amounts by which they have been underpaid. We now turn to the case of minimum wage setting, governance and enforcement in South Africa.

### 4.3 Minimum Wage Implementation in South Africa

The Employment Conditions Commission (ECC) is the independent statutory body established in terms of Chapter 9 of the BCEA (1997), designed to advise the Minister of Labour on the process of Sectoral Determination minimum wage formulation in South Africa. Despite the Commission being relatively unknown (compared to say its sister organ, the Employment Equity Commission) – it is effectively responsible for the wage and conditions of employment setting for approximately 4.8 million workers in South Africa, constituting 46 percent of the low-paid workers in the country.<sup>88</sup> As noted above, the structure and functioning of the ECC is crucial given the prospect of introducing a NMW in South Africa. The ECC consists of five members (and two alternate members): two members (and two alternate members) nominated by organised business and organised labour respectively (but serving in their private capacity), and three members (typically academics) who are knowledgeable about the labour market. The Minister determines the terms of office of members, which may not be more than three years. The commissioners are all part-time and the ECC is supposed to meet once a month in person, with frequent contact via email and teleconference. There is a full-time ECC Secretariat at the National Department of Labour, consisting of about six staff members. They are responsible for: the management of outsourced research, doing desktop research, writing the first draft of the ECC reports, organizing and attending relevant public hearings, and liaising with external stakeholders.

As explained in Section 1 the ECC oversees the SDs. The process of establishing a SD begins with the Minister of Labour, as Figure 30, below, indicates. The Minister will typically trigger an investigation into a sector based on a formal request from a relevant interest group (Step 1). The Minister would then request the ECC to investigate the feasibility and desirability of promulgating a minimum wage for the relevant cohort of workers (Step 2). The ECC at this time is able to quickly assess

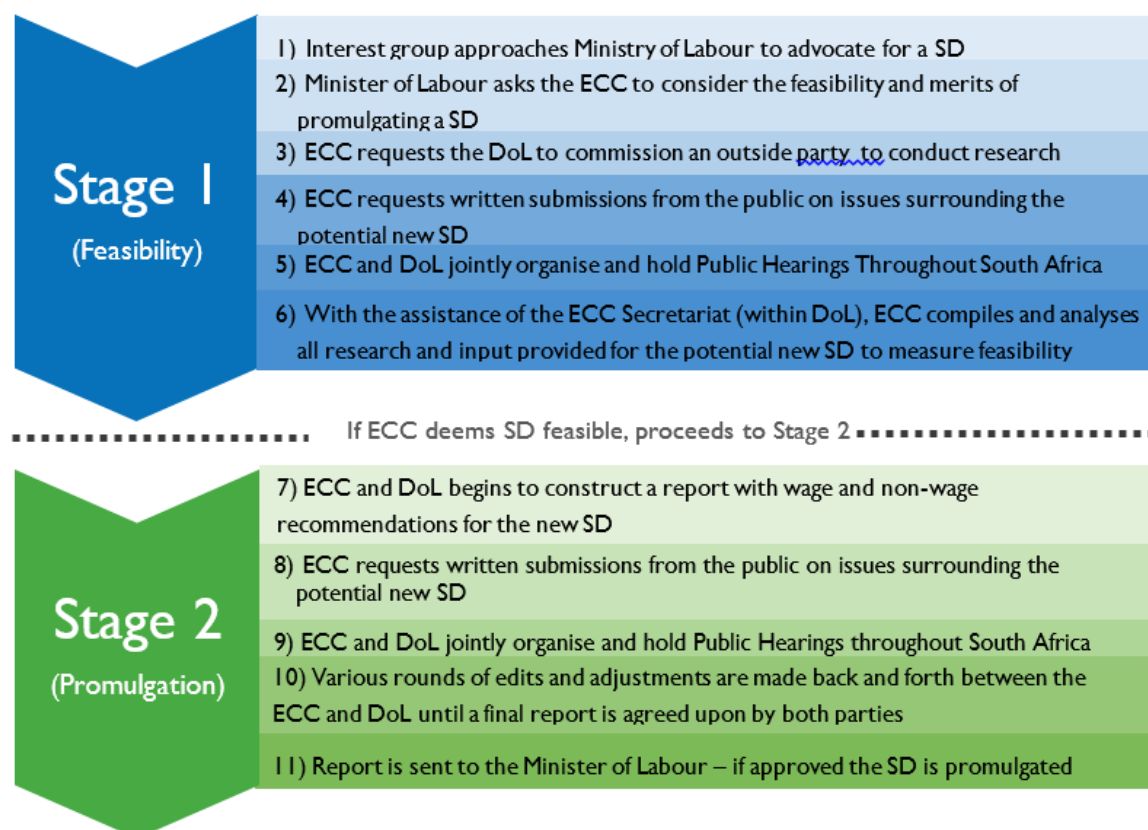
<sup>87</sup> The South African fines schedule is presented shortly, although it does not contain maximum fines as many of the country schedules below do.

<sup>88</sup> In this context, low- paid workers constitute those who earn less than the 2014 BCEA cut-off.



whether or not an SD within a sector is necessary and makes a recommendation to the Minister before continuing on to commission research around a potential SD. If it is agreed that a sector may require a SD the ECC will commission research (Step 3). This desktop review ordinarily deals with both generic and specific issues in relation to the possible instituting of a minimum wage for the group of affected workers.

Figure 30. The Sectoral Determination Process



Source: Discussions with past and current members of the ECC.

Next, the ECC secretariat publishes a notice in the Government Gazette calling for written submissions to the ECC on any issues relevant to the new SD (Step 4). Typically, very few submissions are received but these are all scrutinized by the Secretariat and the ECC. Following this, the Secretariat arranges around 10 public hearings around the country where provincial offices assist in publicising the hearings (Step 5). During the hearings, a senior member of the Department of Labour will make a presentation outlining current legislation around wages and non-wage issues in the sector. At this point any specific changes that are being contemplated for the new SD based on the findings of the first and second components in the process are introduced. The floor is then open for discussion to employers, employees, and others. Typically, public hearings do not yield adequate representation by many of the key stakeholders.<sup>89</sup>

ECC members spend time managing the research produced and the input gained from the public hearings to assess the overall feasibility of the proposed SD (Step 6). If the ECC deems the SD feasible the Secretariat then develops a Report of Recommendation from the ECC to the Minister of Labour (Step 7). Following this the ECC again publishes a notice in the Government Gazette calling for written submissions from relevant stakeholders and holds public hearings throughout the country to incorporate such input in the report (Steps 7 and 8).

The report is then subject to various rounds of comment from the ECC, which in most cases capture the key points of disagreement between the Commissioners (Step 10). In cases where the Commissioners nominated by business and labour are in disagreement, these areas of contention would then be subject to informal bargaining between the representatives. The agreement reached on the SD, is thus ultimately, a negotiated sectoral minimum wage. In many senses, the ECC pattern reflects a sequential process of research or intelligence gathering, debate and negotiation amongst party representatives, and ultimately an agreement on the SD. Notably, the ECC's final recommendation is contingent upon approval by the Minister.

<sup>89</sup> This is based on input from the ECC and Department of Labour.

If the Minister does not agree with the recommendation the report will be sent back for further deliberation. The Minister cannot reject the recommendation and make an alternative determination. If the Minister agrees with the recommendation, then a SD is promulgated (Step 11).

Overall, when advising on setting the level of a minimum wage the Commission is required to take into account clause 54 of the BCEA and give consideration to a series of factors:

- the ability of employers to carry on their “business” successfully;
- the operation of small, medium or micro-enterprises, and new enterprises;
- the likely impact of any proposed condition of employment on employment levels;
- the cost of living;
- alleviation of poverty;
- conditions of employment;
- wage differentials and inequality;
- the possible impact of the proposed conditions of employment on employees’ health, safety and welfare;
- the departmental report; and
- any other relevant information made available to them.

Thus, for each of the SDs, there is a lengthy process of research, debate, negotiation, and ultimately agreement that has to be undertaken. For example, the SD for domestic workers was initiated in May 1999, and it was only in 2002 that this Minister approved the final report. In the process a total of 253 written submissions had been scrutinized, a national workshop was held, a telephonic survey of 1 500 workers had been completed; an economic analysis exploring the potential impacts on employment and poverty had been submitted by an independent research unit; and 64 public hearings had been conducted across the country’s nine provinces.

#### 4.3.1 Adjusting Sectoral Minimum Wages

Each established SD is usually set for three years. For the first year of a new SD, the wage(s) set are established without reference to the movement of the Consumer Price Index (i.e. inflation). The adjustments for the second and third years are typically set with reference to CPI in the month of adjustment, usually in the form of CPI plus a low single-digit increase.<sup>90</sup> Factors that determine the ‘CPI plus’ factor for these wage adjustments include how well the sector in question is performing and what the wage(s) in the sector are – relative to other sectors. Moreover, in SDs that set different regional wage rates the ECC may attempt to narrow the wage gap between ‘rural’ and ‘urban’ areas, by increasing the rural rate by more. After 18-24 months the SD rate (s) is reviewed. Provision is also made in the BCEA for a SD to be reviewed before the three-year period is up. A SD cannot be altered within the first 12 months after promulgation but can be reviewed at any time after this. This provision is rarely utilized but there are instances where this has occurred. For example, in the case of Private Security there was a change to the SD in 2013 after only one year as it came to the attention of the ECC that the overtime provisions within the SD were inconsistent with the BCEA.

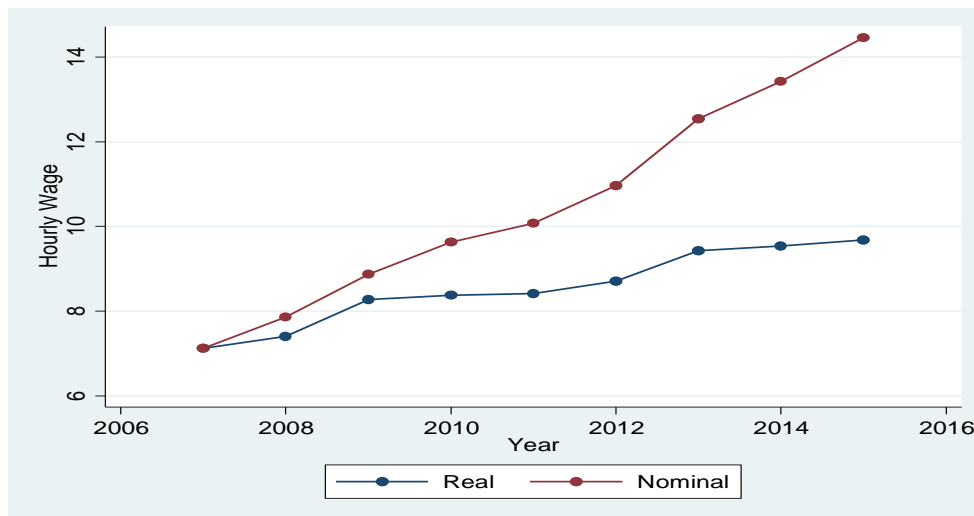
##### 4.3.1.1 Exploring Alternative Minimum Wage Adjustment Mechanisms for South Africa

Since the implementation of the most recent SD (for the hospitality sector) in 2007, the average real value of all SD minimum wages has increased steadily. This is shown in Figure 31, below.

---

<sup>90</sup> For example, if inflation at the end of year one is 7 percent then adjustments to the wage can be 7 percent or inflation plus one or two percent.

Figure 30. Average Sectoral Determination Nominal and Real Wage



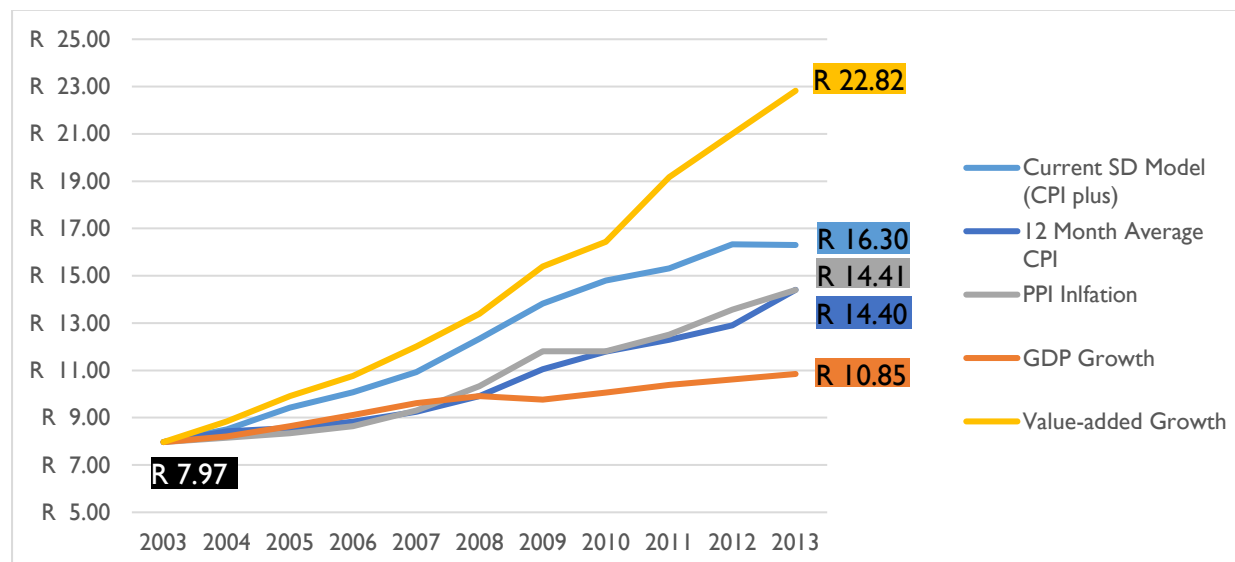
Source: Department of Labour (2015a) Legislated Sectoral Determinations, own calculations.

Note: These real and nominal trend lines represent the average of all SD wage rates.

These aggregate increases have been based on the 'CPI plus' adjustment mechanism described in the previous sub-section. However, there are a variety of minimum wage adjustment mechanisms in other countries and we can explore what minimum wage trends might look like in South Africa if alternative minimum wage adjustment mechanisms instead of 'CPI plus' were used. As we note in Table 22 (in Section 4.1.4) the most common considerations for adjusting wages amongst countries include economic growth, sectoral value added, the annual average of CPI, and costs for firms.

By using the Wholesale and Retail sector as an example, in Figure 32 we present the actual trend of the minimum wage since 2003, alongside a set of hypothetical trends if alternative benchmarks were used (GDP growth, sectoral value-added growth, the 12-month average of CPI, and Producer Price Index (PPI)). Each wage scenario was calculated by growing the base wage (R7.97)<sup>91</sup> by each of the respective indicators from the previous financial year.

Figure 31. Exploring Alternative Minimum Wage Adjustment Mechanisms - The Wholesale &amp; Retail Sector



Source: Current SD Model (DoL), 12 Month CPI Average (taken from StatSA), PPI (taken from StatsSA), GDP Growth (taken from World Bank Development Indicators), Value Added (taken from South African Reserve Bank), own calculations.

<sup>91</sup> This was the average wage for the initial wholesale and retail SD in 2003.

From the figure above, we can see that the current model, which uses CPI plus one or two percent, is higher than most other hypothetical wage adjustment mechanisms, except for value-added growth. Using value-added growth as the main wage adjustment mechanism for the wholesale and retail SD minimum wages produces an average minimum wage for the sector in 2013 that is 40 percent higher than the current SD model average minimum wage for 2013. The PPI and 12-month average CPI wage adjustment trends that were calculated for the sector were similar and produced the same wage level for 2013 – 12 percent less than the current SD model average wage. The GDP growth wage level was 33 percent less than current SD model average wage.

Overall, the purpose of this exercise is to present alternatives to the current ‘CPI plus’ SD wage adjustment mechanism used in South Africa, and consider if these alternatives would be useful in the context of a NMW in South Africa.

#### 4.3.2 Strengths and Weaknesses of Minimum Wage Formulation

From analysis of ECC reports, as well as interviews the DPRU conducted with former and current ECC commissioners,<sup>92</sup> a set of strengths and weaknesses of the current institutional setting emerges.

A significant strength of the current ECC structure appears to be having commissioners who hold expertise in labour market issues together with others that separately represent employees and employers. This allows for informed disagreement and debate when setting minimum wages. Interviewees noted that there was always a vibrant debate on various issues surrounding wage setting but also a strong desire by all parties to reach consensus. A related weakness of the ECC, especially when negotiating on minimum wages, was found to be the dearth of available data and information needed to analyse and assess each sector appropriately. When comparing the ECC reports to those of the United Kingdom’s LPC it is clear that the LPC is able to base its decisions on a much firmer foundation of empirical evidence.

When asking interviewees if they believed a NMW would be better than the current SD system, responses were split. Some believed that the current sectorally differentiated system was the best possible option, while others believed that a NMW would be a better fit for South Africa. On other issues such as how minimum wages are updated, it was noted that additional economic indicators such as GDP, are not systematically factored into the current system and this has created a two-sided problem. In times of recession, wages continue to be increased as normal in sectors that are struggling, which puts strain on employers. In times of economic boom, increases are not affected, and employers are typically reluctant to raise wages. Simply put, many Commissioners agreed that CPI should not be the only factor observed when setting and adjusting wages.

Issues of enforcement and compliance were also noted as a challenge, both by Commissioners and in various ECC reports, and we will expand on this in sub-section 4.4 below. This is an area in which a single NMW may be a significant improvement given that complex minimum wage schedules make enforcement much more difficult. As Table 26, below, shows, South Africa has more wage schedules than several other African countries. The suggestion implicit in this, is that a reduction in complexity would improve compliance

---

<sup>92</sup> A total of eight former and current commissioners were interviewed.

Table 26. Minimum Wage Schedules across African Countries

Country	Number of Wage Schedules
Uganda	1
Mali	1
Ghana	1
Malawi	1
Nigeria	2
Botswana	10
Zambia	10
Tanzania	29
Namibia	32
Kenya	55
Ethiopia (public sector)	57
South Africa	124
<b>Average</b>	<b>27</b>

Source: Borat, Kanbur, & Stanwix (2015)

Linked to this point, one former commissioner who advocated strongly for a NMW explained how the current system was too complicated and poorly understood by both workers and small firms. Other commissioners also noted substantial gaps in coverage of vulnerable workers in the current system, which a NMW would address.

#### 4.3.3 National Minimum Wage Implementation in South Africa: An Institutional View

As noted in Section 1, the 2014 amendment of the BCEA provides for the establishment a cross-sectoral minimum wage, or indeed a NMW. Much of the focus around a NMW has been on the level at which such a wage would be set, and how this would affect workers and employers. While these aspects are critical, it is also important that a discussion and debate is encouraged around the institutional configuration within which a NMW would be promulgated.

Looking at successful and capable institutions such as the UK's LPC, it is certain that the ECC is crucial to the NMW discussion. It is possible though, that should a NMW be promulgated, the configuration and design of the ECC may need re-engineering in order to improve its ability to service this new piece of active labour market policy.

Core areas that need to be examined include:

- improving the Commission's research and technical capacity;
- identifying its engagement with enforcement of wage legislation; and
- addressing current membership configuration of the ECC and its independence.

All former and current ECC commissioners who were interviewed for this report noted that the lack of research and technical capacity hampered the Commission's ability to confidently make decisions based on evidence. Thus, it is paramount that the DoL employ at least two to three staff who are professional economists and/or statisticians to undertake the requisite data analysis, interpret economic reports, and manage outsourced research. There is a significant amount of available data that could be analysed if the DoL had capacity to do so. For example, the Unemployment Insurance Fund (UIF) and Employment Equity data that is collected by the DoL could provide valuable insights into wage trends. Currently, this administrative data is not exploited.

Minimum wage regulations in South Africa are currently enforced by labour inspectors in the IES arm of the DoL. However, at present the ECC plays no role in inspection and enforcement, and has relatively little knowledge of noncompliance levels or trends across sectors. This is an area which should inform deliberations on wage setting and to some extent reveal the effectiveness of the SDs set by the ECC.

Lastly, the membership configuration of the ECC could potentially be restructured to ensure that conflicts of interest from organised labour and/or business commissioners will not delay or influence ECC deliberations - leading to inappropriate legislative conclusions. Again, by observing the UK Low Pay Commission, having an independent wage body with independent members that can call on labour experts for opinion, avoids political influence and ensures that empirically-based decisions are made. If complete independence for the ECC is not feasible, then allowing for typically marginalised views to engage in deliberations is paramount. This could be achieved in way of creating additional ECC member roles to be filled by, for example, the small business community and representative from smaller, less powerful unions. The latter, though, could be drawn in for specific minimum wage decisions.

## 4.4 Enforcement and Compliance in South Africa

As noted above, minimum wage regulations in South Africa are currently enforced by labour inspectors who conduct workplace inspections based on a well-developed procedure. Individual inspectors are located at labour centres across the country and, put simply, their job is to conduct workplace inspections and ensure that employers are complying with the BCEA and relevant SD legislation. In particular, they check that employees are not being paid sub-minimum wages in sectors where there is a SD.

In a standard case the inspection procedure operates as follows: an inspector arranges to visit a workplace by sending a 'notice of visit' to the employer, this could be in reaction to a complaint lodged at a labour centre or it could be a proactive inspection guided by management at the Labour Centre or province level. The inspector will then visit the workplace, speak to the employer, interview a selection of workers, and review documentation on employment contracts, salary slips and other relevant records. If any violations are discovered a Written Undertaking is issued to the employer, which details the violations found and gives the employer a specified time in which to comply. The inspector then returns to check whether the employer has subsequently complied. If the inspector finds that the employer has failed to comply they issue a Compliance Order, which refers the employer to the schedule of fines that must be paid<sup>93</sup>, and allows for 21 days to comply. Failure to comply at this point results in the case being referred to the Labour Court, after which the sheriff can attach the assets of the employer. The IES also tries to ensure compliance through a combination of various other initiatives in addition to workplace inspections which include advertising, advocacy sessions with workers, and employer information and training sessions.

### 4.4.1 The Inspection and Enforcement Services in South Africa

In 2012 the Development Policy Research Unit (DPRU) conducted a survey of 180 labour inspectors in South Africa to investigate enforcement practices and understand more about the inspectorate (Development Policy Research Unit, 2012). The survey was nationally representative (taking into account the local and provincial placement of inspectors) and the sample comprised approximately 20 percent of the full complement of labour inspectors in the country. Respondents filled out a detailed questionnaire and were asked to enter inspection data from their previous month's records where applicable.<sup>94</sup> We present some of the main descriptive results here to provide an overview of the labour inspectorate in South Africa, its activities, and some of the constraints it faces.

We begin by providing a range of individual inspector characteristics in Table 27. The average inspector is 37 years old and has at least a Matric education – with 54 percent having a qualification above Matric. The earnings of inspectors range from close to the mean wage in South Africa to double the mean wage, and most inspectors have a substantial amount of experience. However, there is substantial variation in the level of experience – around 20 percent of inspectors having been in their job for two years or less – and it was noted that there is a relatively high job turnover. On average, inspectors work more than 40 hours per week and are able to conduct about 22 inspections in a month. The firms inspected are in some cases relatively far away from the Labour Centre, with inspectors spending a substantial amount of time travelling, on average, 256 km per week.

Table 27. Demographic Characteristics of Labour Inspectors

Variable	Mean
Age	37.5
Gender	57%
Years of Education	12 (Matric)
Income	R6 401 - 12 800/month
Hours	41.7
Tenure	7.5 yrs.
Inspections per month	22.3
Firm size	35 (med. Size)
Distance travelled last wk.	256kms

Source: Development Policy Research Unit (2012)

<sup>93</sup> We present details on the fine schedule shortly.

<sup>94</sup> All data collected refer to questions about the previous month of inspection activities, unless otherwise stated.

According to the most recent administrative data there are 1 056 labour inspectors stationed at 128 Labour Centres across the country. Table 28, below, shows that the number of inspectors varies considerably across provinces and labour centres. Perhaps most importantly, the number of labour inspectors per 100,000 employees in each province also varies widely and it is not clear whether a coherent formula for staffing labour centres is followed.

Table 28. Number of Labour Inspectors and Labour Centres

Province	Labour Inspectors	Labour Centres	Inspectors per LC	Inspectors per 100 000 Employees
Eastern Cape	119	16	5.7	10.9
Free State	87	11	6.6	13.3
Gauteng	224	26	7.2	5.5
KwaZulu Natal	231	16	11.6	10.8
Limpopo	111	13	6.3	12.3
Mpumalanga	80	16	4	8.5
Northern Cape	44	8	4.1	15.2
Northwest	66	10	5.1	8.7
Western Cape	94	12	6.4	4.9
<b>Total/Average</b>	<b>1056</b>	<b>128</b>	<b>6.3</b>	<b>10</b>

Source: Department of Labour (2015b)

Note: Labour Inspectors include Team Leaders but not OHS, nor EE inspectors.

The Western Cape and Gauteng, for example, have the lowest number of inspectors per 100 000 employees – less than half of the South African average of 10. With the dearth of labour inspectors, work by Bhorat et al. (2012a) finds that the number of inspectors appears to have no significant impact on compliance with minimum wage regulations.

#### 4.4.2 Minimum wages and compliance

What then are the levels of compliance with minimum wages in South Africa? Table 29, below, uses a ‘violation index’ to report both the level of non-compliance and depth of non-compliance, for a set of covered sectors. The level of non-compliance, or  $V^0$ , is simply the percentage of workers who earn below the minimum wage that applies to them. The depth of this non-compliance, or  $V^1$ , measures how far below the minimum wage these workers earn, on average.

Table 29. Level and Depth of Violation, 2013

Sectoral Determination	$V^0$	$V^1$
Agriculture	0.65	0.26
Forestry	0.75	0.33
Domestic Workers	0.40	0.14
Private Security	0.65	0.28
Wholesale and Retail	0.47	0.24
Taxi	0.38	0.18
Hospitality	0.37	0.16
Contract Cleaners	0.56	0.24
Average	0.53	0.23

Source: LMDS (2013), own calculations

The numbers are striking. On average the data suggest that 53 percent of workers covered by an SD report earning wages below the legislated minimum wage, and among those earning sub-minimum wages the average distance from the minimum wage is 23 percent. These averages, though, mask large inter-sectoral differences in compliance rates. The highest rates of



non-compliance are found in the Forestry sector where approximately 75 percent of workers report earnings that are below the legislated minimum wage, while in the Hospitality sector this figure falls to 37 percent. The depth of non-compliance also differs significantly by sector and is smallest in the Domestic worker sector and highest among workers in Private Security.

Bhorat, Kanbur, & Mayet (2011) explore the relationship between non-compliance and other factors and find that both unemployment and the ratio of minimum to median wages in the labour market are significantly correlated with the level and depth of compliance within South Africa. This suggests that in areas where unemployment is higher, workers are more likely to earn sub-minimum wages. Moreover, as noted by Rani, Belser, & Oelz, (2013) the complexity of South Africa's minimum wage system is likely a contributing factor to low compliance levels.

While the main focus of the IES is to ensure that covered workers are paid at least the minimum wage, inspectors also check that employees have written contracts, are registered for Unemployment Insurance (UI), and have employment conditions in line with the relevant labour legislation.<sup>95</sup> Critically, compliance with these non-wage issues appear to be closely linked to wage compliance – that is to say workers who do not have contracts or UI registration are also more likely to be paid sub-minimum wages and vice versa. This could be understood as a difference between workers who are formally employed – where 'formal' means having a written contract and being registered for UI, and 'informal' means having neither contract nor UIF registration.

Table 30, below, illustrates this point more directly and compares levels of violation between 'formal' and 'informal' workers. The differences in both the levels and depth of non-compliance, between formal and informal workers, are immediately clear. On average formal workers are far less likely to earn sub-minimum wages. The data suggest that 31 percent of formally employed workers earn less than the specified minimum wage, while this figure is 59 percent for informal workers. For those workers earning sub-minimum wages the depth of non-compliance is also much higher among informal workers (0.25), almost double the figure for formal workers (0.14).

Table 30. Non-compliance and the Depth of Non-Compliance<sup>96</sup>

Sectoral Determination	V <sup>0</sup>		V <sup>1</sup>	
	Formal Employment	Informal Employment	Formal Employment	Informal Employment
Agriculture	0.33	0.63	0.14	0.22
Forestry	0.32	0.61	0.14	0.27
Domestic Workers	0.19	0.39	0.09	0.15
Private Security	0.37	0.66	0.17	0.30
Wholesale and Retail	0.28	0.53	0.13	0.24
Taxi	0.27	0.57	0.12	0.22
Hospitality	0.35	0.62	0.15	0.29
Contract Cleaners	0.37	0.67	0.17	0.31
<b>Average</b>	<b>0.31</b>	<b>0.59</b>	<b>0.14</b>	<b>0.25</b>

Sources: LMDS (2014), own calculations.

Note: The sample has been restricted to employees who earn less than the BCEA income cut-off. Where the schedule is complex we take the lowest SD.

The data presented here suggests that despite a well-developed inspection procedure, the number of labour inspectors may be too low, and the levels of noncompliance with minimum wage laws are extremely high. Indeed, they are highest for workers who are employed informally. The following section explores some of the factors driving high non-compliance from an inspection and enforcement perspective.

#### 4.4.3 Obstacles for the IES

There are a variety of reasons that can be explored to explain the high levels of non-compliance, some of these are external to the inspectorate (the high rate of unemployment, for example), but many challenges to effective enforcement are internal. Below we focus on several of these important challenges. We also examine the incentives facing employers with regard to compliance and suggest that there are a number of factors that contribute to the cost of non-compliance being low, perhaps most importantly the relatively low penalties for violation.

It is important to be cognisant of the fact that inspection and enforcement in South Africa take place in a high-unemployment environment in which jobs are scarce. This creates a challenge for enforcement because without any enforcement workers

<sup>95</sup> According to IES officials, complaints about wages form the majority of complaints cases received at the Labour Centres in South Africa.

<sup>96</sup> Where the minimum wage schedule is complex we take the lowest legislated minimum wage.

will be underpaid but at the same time enforcement that is too stringent could result in firms laying off workers in some cases. Labour inspectors do, however, appear to be familiar with these trade-offs. For example, when asked whether they would enforce the SD codes to the 'letter of the law' if they knew that this would result in the closure of a firm, only 30 percent said they would do so (Development Policy Research Unit, 2012). The majority said they would seek guidance from their superiors, or delay enforcement. Where possible, IES strategies should clearly attempt to strike a careful balance between not discouraging employment-generating growth, whilst on the other hand protecting the employee rights contained in the BCEA.

The unemployment rate in a given area is also directly linked to the probability that enterprises in that area will comply with the law. Bhorat et al. (2012a) show that a higher "local unemployment rate has the effect of significantly increasing the severity of [minimum wage] violation" (pg. 13). Responses from inspectors support this view; 81 percent of surveyed inspectors reported that enterprises in areas with higher levels of unemployment were less likely to be compliant with labour laws (Development Policy Research Unit, 2012). We now go on to list several key challenges to inspection and enforcement.

#### 4.4.3.1 Resources

A shortage of resources was identified as a key constraint within the inspectorate by 60 percent of inspectors in the DPRU survey, where access to computers, email, and a vehicle (which is usually shared among several inspectors) appear to be the main problems. In most cases having access to a vehicle is crucial and data from 2012 suggest that over 80 percent of inspectors share a car. Inspectors travel to visit workplaces for inspections and on average report travelling approximately 256 km per week for inspections. When asked about distance as a factor in inspections 40 percent of inspectors said that firms further away from a labour centre were less likely to be inspected. Distance also matters from an employer's point of view, where remote employers may be far less likely to be visited and thus less likely to comply. The lack of access to vehicles has become acute in certain areas. In KZN we were informed that according the provincial plan each inspector should be doing 2 inspections per day, but limited access to cars has made this impossible and thus the quota has been reduced to 13 per month (0.65 per day).

Another binding constraint for the IES is the lack of a computerised case management system. There is currently no central system for inspectors or managers to log and follow-up on complaints, or track the progress of inspections as they pass through their various stages. All inspection reports must be written up by individual inspectors and this data is then collated at the labour centre level into an excel document. It is collated again at the provincial level before being aggregated to create a national picture of IES activities. This is a serious challenge facing the IES that requires substantial time and effort for many people along this management chain, and according to officials often leads to reporting errors. The system, or lack thereof, also makes any monitoring and evaluation efforts extremely difficult.

In addition to the lack of inspection infrastructure, human resource capacity within the IES remains constrained, as a small and apparently under-trained inspectorate is required to cover hundreds of thousands of enterprises. In Gauteng, for example, there are approximately 224 inspectors and 650 000 registered entities, according to IES officials. This means that for all enterprises to be visited once each inspector would have to visit 2 900 enterprises, and this excludes informal enterprises. The number of inspectors in this case is simply insufficient to adequately inspect and enforce the legislation, and as we argue above, the allocation of existing human resources appears to be haphazard. This echoes the findings of an ILO (2010) technical report which stated that the "inspectorate is understaffed and under-trained and unable to ensure compliance with labour laws" (pg. 25). IES officials that we spoke to also highlighted the difficulty of enforcing a complex labour code with inspectors who often do not have post-school training and receive inadequate training on the job. This issue of expertise was highlighted by respondents in the DPRU survey and emphasised by Paul Benjamin, an experienced South African labour lawyer, who stressed that it is often at the enforcement stage that a lack of training can be particularly problematic. Benjamin noted that failure by inspectors to follow the correct procedure when issuing a compliance order led to many employers being acquitted in the labour court on technical details.<sup>97</sup> A 2014 amendment to the BCEA has relaxed some of the procedural requirements placed on inspectors at this stage of enforcement, in order to address this problem.

The lack of resources and limited number of inspectors creates incentives for inspectors to focus on formal firms. In most cases more resources are required to inspect firms in the informal sector. There are several reasons for this. Firstly, inspecting informal firms can often be an unproductive use of an inspector's time. IES officials in the Western Cape stressed that in most cases it was a waste of resources to target informal firms because in many cases they have no employees, or in cases where there are employees this is often difficult to verify due to lack of enterprise records. In particular, where family members are involved inspectors report considerable difficulty in obtaining clarity about whether the people working are in fact employees. Secondly, informal sector firms require more time and resources to locate because there is no firm registry in which they can be found and targeted. Informal firms then can only be located by inspectors driving (or walking) around

<sup>97</sup> Personal communication.

and, where possible identifying them physically. This inspection approach requires more time and vehicle resources in an already resource-constrained environment. Thirdly, and linked to this, informal firms can be mobile and thus IES officials noted that inspectors have difficulty doing follow-up visits as these firms can move location.

#### 4.4.3.2 Complexity of the Wage System

The complexity of the minimum wage system can also have an impact on compliance levels – where a more complex system is related to higher levels of non-compliance on the part of employers and is more difficult for authorities to enforce. In Brazil, for example, where a single NMW is applied to all workers in the formal and informal sector, compliance averages 80 percent. In India, where there is an extremely complex system of minimum wages that include 45 differing wage rates for 1 679 job categories, compliance average 45 percent (Rani, Belser, & Oelz, 2013). The reasons underlying this may relate to the fact that knowledge of the law plays a role and a complex schedule makes it more difficult for employers, workers and inspectors to know which wage applies to a specific worker in a given sector. This is a point emphasised by the ILO (2014). IES officials in South Africa were quick to note that the complex minimum wage schedules for certain sectors, such as Wholesale and Retail and Private Security, make enforcement more difficult.

Indeed, inspectors themselves suggest that a lack of knowledge on the part of employers plays a large role in non-compliance. When asked about the main reasons for the non-compliance they had encountered in the last month, inspectors reported that in 60 percent of the firms they had dealt with, non-compliance was due to a lack of knowledge about the law. Moreover, 80 percent of inspectors believed that increased knowledge of the law would improve compliance. This is an issue that is compounded among employers and employees in the informal sector, where detailed knowledge of the minimum wage schedules and the conditions laid out in the SDs is less likely. International best practice in this regard seems to suggest that a well-funded public campaign along with other efforts to publicise a NMW can help to solve this problem (See Box 3. Public Awareness and Enforcement: Evidence from Costa Rica

#### 4.4.3.3 Sector and firm-specific characteristics

Sector and firm-specific characteristics can also affect compliance levels. IES officials and inspectors note that the Taxi sector is extremely difficult to inspect due to violence and threats of violence against inspectors. The Domestic Work sector also presents challenges to inspection, where access to work sites is often a challenge due to home security, and identifying which homes employ domestic workers is very difficult. This is the sector with the highest proportion of informally employed workers. In Agriculture there are also challenges to inspection, often due to the distances required to travel. Finally, inspection in the Private Security industry can be complicated by the fact that there is often no fixed office environment where workers and employers can be found, as such many attempted inspections are deemed incomplete.

It is also worth noting how inspection incentives relate to firm size. Inspection targets currently apply specifically to an enterprise as a whole and not to the number of employees in an enterprise. Put differently, inspecting a large supermarket with 500 employees or inspecting a small roadside retailer with 2 employees both count as a single inspection. There is thus little incentive to inspect large firms, as this is more time-consuming. This potentially makes the inspection of smaller firms more attractive and thus favours small, potentially informal firms. However, the majority of informal workers are employed in formal firms that are typically large. This suggests that to be most effective inspectors should be incentivised to inspect firms with more employees. Related to this, where inspections are largely reactive and driven by worker complaints it is much more likely that these will be from workers in formal sector firms, according to IES officials.

#### 4.4.4 Incentives for Non-Compliance

It is useful to analyse the incentives facing employers when they choose whether to comply with labour legislation. This helps to make some sense of the high levels of noncompliance observed above, and work by Bhorat et al. (2012a), which suggests that enforcement efforts appear to have little or no observable impact on compliance.

Drawing from the work of Ashenfelter and Smith (1979), Stanwix (2012) considered the trade-off between compliance and noncompliance for a profit maximising employer who will choose not to comply if the expected benefit from paying sub-minimum wages exceeds the expected penalty. Stanwix (2012) gathered data from the IES on agricultural inspections in the Western Cape, South Africa, in 2007. To begin with, the author found that the average probability of inspection, for agricultural employers, in the province was 11 percent. Based on a set of simple assumptions Stanwix (2012) presented a set of scenarios in which the benefits of non-compliance for a typical farmer in the Western Cape were compared with the

costs. In the most plausible example, the expected annual cost of noncompliance for the average farm was found to far outweigh the costs. This implies that profit maximising farmers would rationally choose not to comply with the minimum wage law – absent of other non-financial reasons encouraging compliance. This conclusion helps to explain the high levels of noncompliance observed in the data.

These financial benefits that may accrue from non-compliance are driven in part by the low probability of being inspected, but also by the small financial penalties associated with paying workers below the minimum wage. As shown in Table 31, below, it seems clear that the penalty structure could be strengthened to increase compliance incentives on the part of employers. In a recent amendment to the BCEA, the fines associated with violations (not involving underpayment of an employee)<sup>98</sup> have been increased, and the most recent schedule is shown below. However, relative to the penalties imposed by other countries that we presented above, these fines still appear low. Indeed, several IES officials opined that the penalties associated with violation were not substantial enough.

Table 31. Schedule 2 of the BCEA (as amended 2014)

Maximum permissible fine not involving an underpayment	
No previous failure to comply	R300 per employee in respect of whom the failure to comply occurs
A previous failure to comply in respect of the same provision	R600 per employee in respect of whom the failure to comply occurs
A previous failure to comply within the previous 12 months or two previous failures to comply in respect of the same provision within three years	R900 per employee in respect of whom the failure to comply occurs
Three previous failures to comply in respect of the same provision within three years	R1200 per employee in respect of whom the failure to comply occurs
Four previous failures to comply in respect of the same provision within three years	R1500 per employee in respect of whom the failure to comply occurs
Maximum permissible fine involving an underpayment	
No previous failure to comply	25% of the amount due, including any interest owing on the amount at the date of the order
A previous failure to comply in respect of the same provision within three years	50% of the amount due, including any interest owing on the amount at the date of the order
A previous failure to comply in respect of the same provision within a year, or two provisions to comply in respect of the same provision within three years	75% of the amount due, including any interest owing on the amount at the date of the order
Three previous failures to comply in respect of the same provision within three years	100% of the amount due, including any interest owing on the amount at the date of the order
Four or more previous failures to comply in respect of the same provision within three years	200% of the amount due, including any interest owing on the amount at the date of the order

Source: Basic Conditions of Employment Act, No. 75, 1997 (amended 2014)

#### 4.4.5 Institutional and Regulatory Issues of Enforcement

In addition to the issues raised in the previous sub-section the current institutional and regulatory environment in which the IES operates could be reconsidered to allow the inspectorate to function more efficiently.<sup>99</sup> We focus on one issue here that we believe is important to consider on this topic – the extent to which the IES collaborates with institutions in order to improve enforcement efforts and levels of compliance. There are two components of collaboration that we believe are important: Firstly, the level of inter-governmental co-ordination that exists between the IES and other relevant government

<sup>98</sup> I.e. involving some other violation of the BCEA.

<sup>99</sup> An ILO (2010) Labour Administration Audit discusses some of these issues and we note them here briefly here to avoid covering the same ground:

- Restructuring the inspectorate to have separate units for Occupational Health and Safety (OHS), Employment Equity, Conditions of work etc. The report suggests that these should be separate units at the national and provincial level within the inspectorate, as they have different mandates and grouping them together impedes efficiency. In particular, the report argues that this will lead to better data collection and monitoring.
- Establishing strategic partnerships, the report recommends that the inspectorate "forge strategic partnerships with the social partners and relevant stakeholders like in the case of CCMA and UIF" (ILO, 2010:33). To this end the report suggests joint committees or conferences to facilitate dialogue across partners, and they also contend that other social partners (employers, unions, employees) be given space to give input.
- Professionalising the inspectorate, inspectors should be more highly skilled and their pay scales should reflect their 'quasi-judicial' function.
- Capacity building throughout the inspectorate, establish a training division that facilitates feedback on the functioning of the inspectorate.

departments is insufficient. Secondly, the establishment of collaboration between the IES and relevant civil society, employer, and employee groups is critical.

One of the ILO (2010) recommendations from the technical report cited above was that the IES needs to forge strategic partnerships. This report made specific reference to the Commission for Conciliation, Mediation and Arbitration (CCMA) and the UIF, but there are other government linkages that may also be relevant. The issue of collaboration is one which we discussed with IES officials in our interviews and it appears that such partnerships, where they do exist, remain informal and largely dependent on the existing management in each province. We list some of the institutions that came up in our interviews and briefly discuss their relevance to the activities of the inspectorate. We also then make note of other non-governmental partnerships that would be important in the case of a focus on the informal economy.

The CCMA and the UIF have been mentioned already and are important to the work of the inspectorate. The former would be involved in relevant cases related to employer-employee disputes that could be linked complaints received at Labour Centres and reactive inspection undertaken by labour inspectors. Similarly, the UIF, which has a substantial amount of information about registered workers in all sectors, could provide the inspectorate with important data on workers across the South African economy and feed into the monitoring of compliance. In addition to these two key government institutions there are several others that IES officials in different provinces appear to work with in some capacity. These were the South African Police Services (SAPS), the Department of Home Affairs (DoHA) and the South African Revenue Services (SARS).

Collaboration with SAPS is occasional but inspectors require police accompaniment when they are refused entry into a home (Domestic Work) or a business, or in cases where they are inspecting in an area they know is unsafe (often informal settlements according to our interviews). The necessity of this collaboration is underscored by the large number of inspectors who report that security is a concern for them during inspections – 48 percent of inspectors (Development Policy Research Unit, 2012). Collaboration with the DoHA appears to be more sporadic and is required when there are cases of undocumented workers. However, it was only in KZN where we found that the inspectorate reported a close collaboration with the DoHA. Finally, both in Gauteng and KZN we were told that the inspectorate does have links with SARS to verify information received from the UIF and collect data on firms in relevant industries.

While there can be no recommended practice on the best way to form collaborative engagements in each of these cases there does appear to be scope for more inter-governmental collaboration on issues of inspection and enforcement. This seems particularly important where data-sharing can provide information to inspectors about enterprises that should be inspected. The ILO recommendation on a joint committee or conference that involves relevant institutions seems prudent and could lead to real knowledge and efficiency gains. A new institution that could be crucial to a focus on the informal sector here is the recently established Department of Small Business. This is a focus that would be worth exploring going forward.

Beyond state institutions, however, there are other organisations that are relevant to the inspectorate's activities. Again collaboration differs markedly by province but a number of institutions are worth noting. In no particular order we found that the IES does have links to local Business Chambers to gain information on firms in different sectors, private regulatory authorities such as in the Private Security sector who work with the inspectors to ensure compliance in this sector, various private and public bargaining councils, as well as employer associations (such as AgriSA).

Absent from this group are employee representatives, including trade unions, and in particular organisations that represent the interests of low-paid and vulnerable workers, or workers in the informal economy. Such organisations are often not nationally representative and differ by region and industry; as such collaborations of this form would need to take on different models across provinces. Collaborations with organisations representing informal workers or workers in the informal sector would help the inspectorate to develop an approach to enforcement in the informal sector that is informed, works with employees and employers to foster growth, and creates a healthy and transparent regulatory environment from an IES perspective.

#### 4.4.6 Concluding Remarks on Enforcement

In general, IES procedures are well-structured to enforce the existing labour legislation, including the minimum wage laws set out in the various SDs. However, the allocation of inspectors, and DoL expenditure more broadly, could be more closely aligned with enforcement goals. We showed that in general non-compliance with the minimum wage legislation is high, particularly for informal workers. A range of factors can explain the high levels of non-compliance, which pose unique challenges for inspection and enforcement as it currently operates. Overall, the lack of IES resources and weak penalties do not provide strong incentives for employers to comply, and in terms of minimum wages the complex SD schedules may contribute to higher non-compliance. There is also scope for the introduction of a broader enforcement effort.

Crucially though, there is a potential enforcement-employment trade-off that should be kept in mind in South Africa. Strict enforcement, especially among small, emerging firms, and those in the informal sector, may have negative employment

impacts. However, it is important to note that the large majority of informally employed workers –and linked to this those earning sub-minimum wages – are found in formal sector firms. These considerations should be carefully considered when discussing resource allocation and the focus of the IES.

In terms of the current institutional frameworks it may be worth bringing in some enforcement oversight role into the ECC's set of responsibilities to better align the legislation contained in the SDs with the employer and employee realities encountered by labour inspectors. Additionally, the IES should consider the current set of state and non-state collaborations and how these can be managed more consistently at a national level, as well as ways to introduce a voice for important constituencies.

## 5 Part I Conclusion

The above has attempted to provide an extensive review of the domestic and international literature, together with a highly set of empirical estimates and simulations around a NMW. It is clear though, that this information will serve as background information to the decision which will ultimately be taken around the level at which to set the NMW in South Africa. In crafting this level, we would suggest that the following are key inputs to the final policy decision: Firstly, that minimum wage-employment Elasticities are relatively benign based on international evidence, although this comes with a strict caveat that it is not a result which will hold for any level of a minimum wage increase. Secondly, and relatedly, negative employment effects may differ by sector, over time, for certain demographic and labour market cohorts. Thirdly, our evidence shows the importance of making the right decision, in that a NMW will impact on millions of South African workers. Fourthly, Our CGE results suggest employment losses but these depend on elasticities and the level of the NMW assumed. In the R2 447 scenario, employment decreases by between -0.8 percent and -3.4 percent. At the higher wage of R3 400, the decrease is estimated as being between -1.6 percent to -6.8 percent. However, there are fairly positive impacts on the working poor as well as wage inequality although this impact is reduced when we account for 'unemployed households'. Finally, we make a strong case that the promulgation of the national minimum should be co-joined with that around how to recalibrate the state's inspection and enforcement services, as well as the monitoring and updating of the NMW. Ultimately then, whilst there is no question regarding the centrality of the NMW in pursuing a more holistic approach to worker protection and welfare enhancement, these two guiding posts must be anchored around the empirical fact that job losses through a NMW could very well undermine these goals.



# **PART II: QUALITATIVE ANALYSIS OF HOW A NATIONAL MINIMUM WAGE MIGHT AFFECT YOUNG PEOPLE'S LABOUR MARKET OUTCOMES**

## **6 Introduction**

Discussions about the implementation of a national minimum wage (NMW), and the level at which to set it, are important discussions that speak to the key issues of poverty and inequality that the country currently faces. Decisions about an NMW are likely to be shaped by economic analysis and political debate amongst representatives of government, business and unions. Within these discussions, sight should not be lost of the pressing youth unemployment challenge; for the consequences of not addressing, or inadequately addressing this challenge, both in terms of immediate concerns and longer-term cycles of poverty and inequality, are significant. Minimum wages are often predicted to have direct impacts on levels of employment. It is therefore important to understand the complexities of introducing an NMW and how it is likely to affect vulnerable populations – such as youth – that are being targeted by other labour market policies which are aimed at reducing unemployment. The most obvious example of this is the Employment Tax Incentive (ETI), which specifically intends to increase demand for youth who are disproportionately impacted by unemployment. While statistical analysis can model potential outcomes, it cannot reveal the complexity of unemployment – how it is managed, decisions about when and how to seek work, barriers to work-seeking and how such policies are viewed by those they intend to target. This qualitative component of the study aimed to understand some of these complexities for a group of people most likely to be affected by unemployment - young people.

In the first quarter of 2015, the official or narrow youth unemployment rate<sup>100</sup> was 37 percent for youth between the ages of 15 and 34, which equates to approximately 3 646 000 young people (Statistics South Africa, 2015b). This rate increased from 33 percent in 2008. One major contributing factor is that the absorption<sup>101</sup> rate of youth into the labour market declined over this period (from 36 percent to 33 percent). The data also shows that there was an increase in discouraged work-seekers (from 4 percent to 8 percent) – in other words, more young people gave up looking for work over this period (ibid). The expanded unemployment rate, which counts the discouraged as unemployed, was approximately 45 percent at the start of 2015 (ibid). This suggests that despite policy discussions and interventions, the situation for young people has worsened since 2008.

Further, the narrow unemployment rate for youth (37 percent) is substantially higher than that for other vulnerable populations. For instance, women between the ages of 35 and 64 have an unemployment rate of 18 percent and people with disabilities 15 percent<sup>102</sup> (Statistics South Africa, 2014; Graham, Moodley, Ismail, Munsaka & Schneider, 2014). Of concern is that there is a minimal shift in unemployment levels as young people age, suggesting that maturity does not necessarily lead to eventual employment (Statistics South Africa, 2015b). This is in part due to the fact that a large number of young people are not in employment, education or training and are thus 'neither improving their future employability through investment in skills nor gaining experience through employment' (ibid).

<sup>100</sup> The official unemployment rate reflects three criteria that must be met: the person must be without work, available to work, and actively seeking work (so it excludes the discouraged who have given up active job search).

<sup>101</sup> Labour market absorption is a measure of the proportion of working-age adults that are employed.

<sup>102</sup> Although people with disabilities have a higher broad unemployment rate as up to 45 percent have opted out of the labour market.

There is widespread recognition of this critical challenge and commensurate efforts to address the issue. The National Youth Policy (National Youth Development Agency, 2015) suggests identifying and supporting sectors with the highest potential to absorb youth employees; and better preparing young people with the skills required in the workplace whilst they are still in education, although implementation plans are yet to be developed. The ETI is another effort to stimulate employer demand for young workers, and the Youth Employment Accord (Department of Economic Development, 2013) identifies a number of strategies to enhance youth economic participation. These include: increasing youth employment targets; enhancing public employment schemes such as the National Youth Service, the Expanded Public Works Programme and the Community-Based Public Works Programme; supporting youth entrepreneurship and cooperative development; creating mechanisms for young people to be exposed to work; and enhancing skills development. Taken together, these represent substantial efforts to address the challenge of youth unemployment. In order to ensure that a minimum wage supports rather than counteracts such efforts, it is important to consider the likely effect of a minimum wage both on work-seeking behaviour and employers' human resourcing behaviour.

For this reason, the study undertook a qualitative component comprising focus group discussions and in-depth interviews aimed at understanding:

- The experience of unemployment and work-seeking from the perspective of young people aged 18 to 25.
- The ways in which a national minimum wage is likely to impact on the labour market outcomes of young people in, or (potentially) looking for, low-wage jobs in South Africa. These outcomes include participation in the labour market, employment and unemployment, and wages. Our focus on low-wage jobs is due to the recognition that (a) the majority of South Africa's young unemployed population would, if successful in their job search, find themselves in these kinds of jobs; (b) low-wage jobs are far more likely to be sensitive to changes in minimum wage law than high-paying jobs, and (c) minimum wages are intended to improve and protect earnings for workers at the bottom end of the earnings distribution<sup>103</sup>.
- The effects of an NMW on employers' human resourcing, specifically as to how this relates to young people.

---

<sup>103</sup> We recognise that minimum wages are often intended to improve workplace equity, which is a relational concept. Fully exploring this relational aspect – for example through research with young people near the top end of the distribution – is outside the scope of this study. We recommend this as a potentially valuable area for future research.

## 7 Literature Review

### 7.1 Youth Unemployment

#### 7.1.1 Trends and Statistics

In order to understand what interventions might assist in addressing the youth unemployment challenge, it is important to consider what the key drivers of youth unemployment are. These drivers exist on both the supply and the demand side of the labour market. A key challenge is that South Africa's economic growth trajectory has been one of high productivity, technology-led growth that was intended to stimulate investment in skills development and higher wages. Alongside this shift was a move away from labour intensive work such as agriculture (Banerjee, Galiani, Levinsohn, McLaren & Woolard, 2007). The result has been a drop in the employment of unskilled labour and minimal growth in sectors that were intended to drive the growth path (Seekings & Nattrass, 2005). Higher skilled labour is needed to drive technological development, and labour market absorption rates are therefore highest among those with post-secondary qualifications (Altbeker & Storme, 2013). Within this context, young people, who lack work experience and marketable skills relative to older workers, as well as the financial means to meet the costs of increasingly expensive higher education, find it harder to find work.

A further challenge has been the recessionary economic environment around the world since 2008, and accompanying policies of austerity, which have led to increasingly fiscally constrained governments who spend less on higher education and employment creation (African Economic Outlook, 2014; World Economic Forum, 2014; Branson & Zuze, 2012; Mlatsheni, 2012).

Household, community and individual level factors also shape youth unemployment. For instance, the majority of low-wage work-seekers live in areas that are far from major centres where job opportunities are available. This means that transport costs to seek work may become prohibitively expensive. Many young work-seekers are unable to afford the additional costs of work-seeking such as Internet café fees and printing costs.

Further, poor work-seekers, unlike their middle-class counterparts, are likely to lack 'productive social capital' – social networks that can be used for information about and access to the labour market – which is an important asset for navigating entry into the labour market (Mlatsheni & Rospabe, 2002; Altman 2007). Young people, and particularly young women, who have to take on care responsibilities within the household, are further limited in their opportunities to participate in the labour force (Mlatsheni & Rospabe, 2002).

At the personal level, qualitative evidence suggests that young people are engaging in a range of work-seeking activities (Mlatsheni & Rospabe, 2002) but, in addition to their lack of access to information about how best to apply for jobs, may have unrealistic expectations of what kinds of jobs they are qualified for and what wages they should be earning (Rankin & Roberts, 2011). This is discussed further below.

The combined result, globally and in South Africa, has been increasing numbers of unemployed youth. Without the opportunity to gain a foothold in the labour market, or to gain marketable skills, these young people are often condemned to long-term unemployment and chronic poverty. This is not only profoundly detrimental to individual well-being, but to societal well-being as well, with a clear association between widespread unemployment and political and social unrest, rising crime rates, social exclusion and deepening inequality (World Economic Forum, 2014). In addition, widespread youth unemployment implies that the economy is not utilising its human resources efficiently, and failing to take advantage of a large and growing youth population and the demographic dividend this could yield (Altman, 2007).

### 7.1.2 Are Reservation Wages a Determinant of Youth Unemployment?

High reservation wages are another frequently-cited, yet under-investigated, cause of high youth unemployment. Reservation wages are defined as the lowest wage an individual is willing to work for (Brown & Taylor, 2013). At wages lower than the reservation wage, the individual would choose not to work, or choose leisure or continued job-searching (Zoch, 2014, Natrass & Walker, 2005).

High reservation wages have been shown to be positively correlated with the duration of unemployment in American and British research (Krueger & Muller, 2014; Brown & Taylor, 2013; Jones, 1988). This is variously explained as no job offers at going market rates having been viewed as acceptable; job-seekers being more likely to be supported by friends and family; or the availability of non-wage income such as welfare benefits<sup>104</sup> (e.g. unemployment insurance) or personal savings. Nonetheless, reservation wages are expected to decline over time, as savings, welfare benefits and other non-wage income streams run out, and as people learn about the labour market. Evidence from South Africa, the United States (USA) and the United Kingdom (UK) confirms this complex relationship (Zoch, 2014; Natrass & Walker, 2005; Krueger & Muller, 2014; Brown & Taylor, 2013).

Job-search costs also impact on reservation wages. Where costs such as travel and childcare are incurred during job-search, or expected while working, job-seekers are likely to decline job offers where wages offered do not allow them to meet these costs (Natrass & Walker, 2005; Jones, 1988). This is in contrast to the standard neoclassical assumption that job-seekers should be willing to accept any wage greater than zero as this would be better than receiving nothing at all (Wang, 2012; Falk, Fehr & Zehnder, 2005).

Characteristics of the individual and the environment also influence reservation wages and the duration of unemployment. Those who are more motivated and/or determined to work are likely to find work more quickly, even if reservation wages are high (Brown & Taylor, 2013). A key environmental factor which is predicted to be influential is local labour market characteristics. Individuals living in areas of high unemployment, or low average wages, are expected to have low reservation wages, and to exert high effort for a low wage, given limited outside options (Brown & Taylor, 2013; Falk et al, 2005; Jones, 1988). This dynamic has been confirmed in the UK (Brown & Taylor, 2013) and in experimental research in the USA (Falk et al, 2005). However, Krueger and Muller (2014) find that in the USA local unemployment rates have little association with reservation wages.

In South Africa, it is often claimed that low-wage job-seekers are divorced from the realities of the labour market, and that their unrealistic expectations about work and remuneration are responsible for reservation wages which are unjustifiably high given high unemployment, and their (limited) skills and experience (Yu, 2012; Mlatsheni, 2012; Rankin & Roberts, 2011; Roberts, 2011; Kingdon & Knight, 2001). Kingdon & Knight (2001) found that reservation wages are often higher than predicted wages; those wages actually earned by people with similar characteristics (such as age, educational attainments and place of residence). However, the authors state that this might be the result of survey respondents interpreting reservation wages as fair wages. Confirming this suspicion, Zoch (2014) finds that stated reservation wages are not the best predictor of whether the individual will accept a job offer, finding that in many cases respondents would accept job offers at wages below their reservation wages. Natrass & Walker (2005) also refute the hypothesis of unrealistic expectations, with their analysis of a survey of more than 2 500 respondents in Mitchell's Plain and Khayelitsha indicating that 95 percent of working-age adults had predicted wages that were higher than their stated reservation wages. They also found that unemployed

---

<sup>104</sup> This is contested: in the UK Brown & Taylor (2013) find that the introduction of Working Family Credits (a form of tax rebate) increases expected income for eligible work-seekers, and in this way increases their reservation wages, but that the effect dissipates after a year. Krueger & Muller (2014) find no significant relationship between unemployment benefits and reservation wages in the USA.

respondents' reservation wages were lower than those for employed respondents, which removes high reservation wages as a likely cause of unemployment for this sample of people.

These findings suggest that widespread poverty, unemployment and desperation could limit the extent to which people feel they have the power to choose jobs with wages and working conditions which are amenable to them. Job-seeking may therefore be guided to a considerable degree by the principle of taking whatever is available. This dynamic could be reinforced by far more limited welfare benefits which could sustain people during times when they are not earning (Nattrass & Walker, 2005). Limited unemployment insurance is only available for those who have worked before, with amounts determined by the duration of previous employment. In addition, other social assistance such as the Child Support Grant and pension would only be available to job-seekers living in households with eligible children or older people. The balance of evidence suggests that income from grants has not been found to negatively impact on job-seeking (Surender, Noble, Wright & Ntshongwana, 2010; Department of Social Development, South African Social Security Agency & The United Nations Children's Fund, 2012).

To the best of our knowledge, there are only two South African studies which look specifically at the reservation wages of young people. Roberts (2011) finds that young unemployed people consistently overestimate their chances of finding work given employment rates of similar people in the same regions. This is due to the inability to correctly identify both (a) what their labour is worth given their skills, experience and other characteristics, and (b) what other people who are similar to them are actually earning, possibly because of young people being new to the labour market and lacking information. However, being provided with facts about the labour market did not lead the majority to adjust their expectations, and this 'incompetence' in navigating the labour market is cited as a cause of youth unemployment<sup>105</sup>, with 'incompetent' job-seekers also being more likely to have turned down job offers. Rankin & Roberts (2011) also find evidence of 'inflated' or unrealistic expectations. They find reservation wages of 20-34 year olds are consistently anchored to their predicted wages in large firms, which are higher than those in small firms where the bulk of young people are employed and where they are more likely to find work (68 percent of 18-25 year olds work in firms with less than 50 employees – Statistics South Africa, 2015a). These findings contradict research on reservation wages which is not explicitly youth-focused, and suggest that a large portion of youth unemployment in South Africa is in fact voluntary. Rankin & Roberts (2011) do, however, indicate that job-search and other costs were not considered in their research; nor did they investigate whether prevailing market wages would be sufficient to cover them.

## 7.2 Youth Employment in South Africa

According to recent statistics, approximately one in five South Africans between 18 and 25 is in paid employment – 24 percent of young men, and 15 percent of young women (Statistics South Africa, 2015a). There is also a marked racial dimension to employment which intersects with gender: 21 percent and 12 percent of African men and women are working, compared to 42 percent and 31 percent of white men and women respectively.

The table below presents earnings data for these workers from the final quarter of 2014:

---

<sup>105</sup> Krueger & Muller (2014) cite the inability to respond to market information as a possible cause of reservation wages for job-seekers in the USA declining at a slower rate than that which is theoretically predicted.

Table 32. Earnings by Industry for 18-25 year olds

Industry	Number of workers	% of total workers	Average wage per month
Agriculture	111278	9.65%	R 1 926.00
Mining	13862	1.20%	R 4 536.00
Manufacturing	127681	11.07%	R 2 592.00
Electricity, gas and water supply	2658	0.23%	R 4 066.00
Construction	97444	8.45%	R 2 110.00
Wholesale and retail trade	377414	32.73%	R 2 815.00
Transport, storage and communication	71675	6.22%	R 2 948.00
Financial services, real estate, business services	121756	10.56%	R 3 356.00
Community, personal and social services	165288	14.33%	R 2 509.00
Private households	64081	5.56%	R 1 316.00
<b>ALL</b>	<b>1153137</b>	<b>100.00%</b>	<b>R 2 606.00</b>

Source: Statistics South Africa (2014), own calculations

For workers earning less than or equal to R50 per hour, which works out to approximately R8 400 per month, the mean monthly wage is R2 606 and the median wage is R2 253 per month (Statistics South Africa, 2014)<sup>106</sup>. For workers older than 25 and earning less than or equal to R50 per hour, the equivalent mean monthly wage is R2 905 while the median is R2 500 (ibid). The youth wage discount – or how much less young people earn than older workers on average – is 10 percent<sup>107</sup>. This suggests that for low-wage and relatively unskilled workers wage progression as they age is rather limited. This is supported by data from the International Labour Organisation (ILO) which indicates that 15-24 year olds in South Africa earn around 75 percent of the median wage of all workers, which is high by international standards (e.g. 55 percent of the mean in the USA; 66 percent in Turkey) (Grimshaw, 2014)<sup>108</sup>. Furthermore, the incidence of low-wage work in South Africa is highest in the 15-24 age cohort (around 41 percent); 35 percent in the 25-34 cohort and 28 percent in the 45-54 cohort. While this pattern follows international trends, it is substantially more compressed – certainly in relation to China, Brazil and the Philippines (ibid). In other words, progression with age into higher wage jobs is limited.

Table 32 also shows that youth employment is concentrated in the wholesale and retail (33 percent all young workers); community, personal and social services (14 percent) and manufacturing (11 percent) sectors (Statistics South Africa, 2014). The sector which boasts the fastest rate of employment growth for young people is the Temporary Employment Services (TES) sector, which is not listed as a separate category in the Quarterly Labour Force's sectoral classification but rather subsumed under financial services, real estate and business services (Bhorat, Cassim & Yu, 2014). Sectoral employment patterns are broadly similar at the provincial level but with some significant differences. For example, in the rural Eastern Cape and rural North West, community, personal and social services dominate, while agriculture is the dominant sector in rural KwaZulu Natal and rural Western Cape. Mining is a larger employer in North West, and financial services, real estate and business services is the second largest sector for youth employment in the urban Western Cape and Gauteng, and the third largest in urban KwaZulu Natal (Statistics South Africa, 2014).

<sup>106</sup> This table excludes approximately 22 percent of the (relatively) high-earning youth population earning more than R50 per hour, given the focus of this research on low-wage earners. The mean wage for the entire sample of youth – i.e. without the earnings restriction of ≤ R50 per month – is R5 596 per month; the median R2 500 per month (Statistics South Africa, 2014. This refers to the Quarterly Labour Force Survey data for the fourth quarter of 2014, with earnings data provided to the researchers by Statistics South Africa).

<sup>107</sup> For the full, unrestricted sample the youth wage discount is 29 percent.

<sup>108</sup> However, we do not know what the absolute amounts are. For example, 55 percent of the mean wage in the USA is likely to be much higher than 75 percent of the median wage in South Africa.

Two thirds of young workers are employed in the formal sector, with the remaining third in the informal sector. Workers in the formal economy earn an average of R2 893 per month, while those in the informal economy earn an average of R1 976 per month (medians of R2 500 and R1 733 respectively) (ibid). 68 percent are employed in firms with less than 50 employees; 32 percent in firms with 50 or more employees. The mean monthly earnings for employees of small firms is R2 516 and for large firms R2 779 (medians R2 166 and R2 400 respectively).

The upper-bound poverty line published by Statistics South Africa in 2014 is R779 per person, with this amount deemed sufficient to cover essential food and non-food items over the course of one month. Given that average household size is 3.4 people, a household poverty line of R2 648.60 is derived by Cottle (2015). He estimates that approximately 58 percent of the South African population fall below this poverty line (Cottle, 2015). Assuming that a substantial share of the young workers reflected in the Table above will also probably have two or three dependents, due to the finding that each worker in South Africa has three dependents (South African Press Association, 2013), given the average wage of R2 606 per month, it is fair to assume that a very large proportion of low-wage young workers in South Africa are living in conditions of poverty.

### 7.3 Minimum Wages

The preceding section paints a rather bleak picture of the working lives of young South Africans, with a large proportion earning at or near-poverty level wages. An NMW which replaces or supplements current sectoral determinations could be an important intervention to secure better pay for them. The following section(s) lay out arguments for and against minimum wages particularly regarding their likely effects on young people.

#### 7.3.1 Definitions and Purposes of Minimum Wages

The International Labour Organisation (ILO) defines minimum wages as:

*'The minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions'* (International Labour Organisation, 2014: 19).

The definition is intended to capture both the need to consider social and economic conditions when setting minimum wages and their status as minimum legal entitlements (ibid). The conditions to consider in setting an appropriate level for minimum wages include the needs of workers and their families; the cost of living; the level of and availability of welfare benefits; the relative socio-economic situation of different groups in society and average wages. The extent to which these factors are covered is left open to individual states. For example, is it sufficient to cover basic needs, or is more required? Increasingly, more is seen as desirable. Minimum wages are often seen as needing to reflect the normative dignity of labour, and from this perspective it is hard to justify wages set at the subsistence level (Coy, 2014; Cottle, 2015). Accordingly, the ILO has, in recent years, adopted the language of a *living wage* – a wage sufficient for workers and their families to maintain a decent standard of life above bare subsistence (ILO, 2014). The idea is gaining traction worldwide. For example, in London more than 200 employers have signalled a commitment to paying living, rather than minimal wages (ibid).

Regardless of variations in terminology, minimum wages are generally aimed at removing poverty- pay and reducing inequality. Given the low pay of a large number of South African workers as outlined in the previous section, as well as the national Gini coefficient of 0.69, an outlier from an international perspective (Cottle, 2015), these aims seem particularly important. They are argued to be most effective when implemented in concert with other social protection policies (Coy, 2014), and have been recognised as valuable countercyclical stabilisers, maintaining consumption levels of households living in conditions of poverty during economic downturns. In Brazil, for example, cash transfers have been benchmarked to minimum wage



levels, with this coordination cited as a key contributor to that country's impressive record of poverty and inequality reduction (Barrientos, Møller, Saboia, Lloyd-Sherlock & Mase, 2013). Moreover, scheduled increases in the minimum wage went ahead during the recession of 2009-2010, which is argued to have contributed to Brazil's emergence from the crisis by guaranteeing and strengthening the consumption of poor households (ILO 2014).

However, the desire to protect workers against pay which is too low has to be balanced against the interests of employers. The primary insight from the standard economic theoretical perspective is that employers will respond to increased costs of doing business by cutting jobs or hiring fewer new workers. This is a grave concern given crisis-level unemployment in South Africa. This implies a trade-off between efficiency and affordability on the one hand, and social justice, in the form of living wages, on the other. The following sections outline the theoretical predictions from standard economics which underpin these dynamics, as well as corresponding evidence from empirical research. This is followed by descriptions of alternative theoretical models which provide a differing perspective, and which may assist in understanding cases where evidence contradicts the standard predictions.

### 7.3.2 Theories and Evidence Regarding the Impacts of Minimum Wages

#### 7.3.2.1 Standard/Neoclassical Theory

The dominant neoclassical approach to the analysis of the labour market depicts profit-maximising employers as operating in perfectly competitive labour markets, where they have no power to set wages and pay workers the prevailing market rate. The introduction of a minimum wage above the market-clearing rate is predicted to cause employers to offset this cost by reducing their levels of employment (Krueger, 2015; Coy, 2014). On the supply side, many people make the 'rational' choice to enter the labour market (or to expend greater effort on job-seeking), due to workers at the bottom end of the earnings distribution seeing the potential payoffs to working increase in the form of higher wages. In this way the supply of labour rises beyond the (reduced) level of employment employers are now willing to provide, thus generating unemployment (Hall, 1982). Increased unemployment is in turn expected to exacerbate poverty, as it is low-skilled workers earning at or near the minimum wage levels who are most likely to lose their jobs or fail to find work. Weaker firm performance is also expected to negatively impact on macro-variables such as economic growth (Cottle, 2015).

Firms' reducing of their levels of employment (either by not taking on new workers or letting go current workers) is termed an 'adjustment channel' – a reaction to the introduction of a labour market policy by which firms attempt to maintain their profitability and sustainability (Schmidt, 2013). Reducing employment levels is clearly an undesirable way to adjust to minimum wages from a societal perspective. The neoclassical model allows for other adjustment channels, but these are similarly undesirable. They include reducing the number of hours worked per employee (undesirable if this reduction is not from a very high level); passing on increased labour prices to consumers in the form of higher prices for goods and services; provision of fewer non-wage job benefits (including training); and changing the composition of their workforces, for example by switching unskilled workers for more skilled workers (also known as labour-labour substitution) (Schmidt, 2013; Herr, Kazandziska & Mahnkopf-Praprotnik, 2009; Coy, 2014; Leonard, 2000). Finally, those workers who lose their jobs as a result of a minimum wage are expected to move out of the formal sector and into the informal sector where wages offered are lower. The increased supply of workers in the informal sector would likely depress wages in this sector, exacerbating inequality between formal and informal sector workers (Boeri & Van Ours, 2013).

Most evidence concerning the impacts of minimum wages comes from the OECD countries and focuses on the employment adjustment channel, and the majority of the evidence finds either no relationship between unemployment and the introduction of or raising of minimum wages, or, in contrast to the predictions of the standard model, a weak positive association (Bhorat, Jourdan, Kanbur, Rooney, Stanwix & Woolard 2016; Schmidt, 2013; Krueger, 2015; Herr *et al*, 2009; Coy, 2014; Fehr, Goette & Zehnder, 2008; Falk *et al*, 2005). For our purposes it is important to note that while at the

aggregate level employment appears to respond rather weakly to minimum wages, there is more evidence of some categories of workers being more affected by job losses than others, such as youth (Boeri & Van Ours, 2013). In South Africa there is evidence of this dynamic. The only sector of the economy which has shown substantial overall employment losses since the introduction of the sectoral determinations is agriculture (Bhorat *et al*, 2016; Bhorat, Kanbur & Stanwix, 2014). However, there is more substantial evidence in South Africa of labour-labour substitution, with relative shares of youth employment dropping in sectors during periods of the promulgation of sectoral determinations, with these sectors also sustaining lower rates of growth of youth employment relative to other sectors (Bhorat *et al*, 2016). This proportionally greater falling demand for youth when prices increase reflects their marginal position in the labour market, due to the preference of employers for older, more experienced and/or more skilled workers. While this preference is a global reality (Grimshaw, 2014), for reasons discussed previously – for example, declining trust in school-leaving qualifications and more skills-biased demand – in South Africa it appears to be particularly pronounced. South Africa's current sectoral determinations are argued as having contributed to youth unemployment due to their being set too high, at levels which do not account for the limited productivity of young people (National Treasury, 2011). Yu (2014) argues that this is partially the result of problems with the bargaining process, such as over-representation of large firms, who are able to afford higher minimum wages, and under-representation of unemployed people, who would be more likely to accept lower wages than those already employed.

### 7.3.2.2 The Monopsony Model

Other models have been invoked to attempt to explain evidence which contradicts neoclassical theory. Monopsonistic models of the labour market assume that competition in the labour market is imperfect, with individual employers having the power to independently determine the wages they pay to their employees (within a reasonable range) (Krueger, 2015). There are significant frictions in the job-search and hiring processes (such as travel costs and incomplete information about workers' productivity respectively). For employers, frictions in hiring make the creation of jobs more costly, leading to greater competition for fewer vacancies. Moreover, search frictions make it much more difficult for job-seekers to apply for other jobs if they are unhappy with conditions offered, or for current workers to move if conditions become unfavourable. This confers on individual employers a degree of power over wage-setting which enables them to reduce the price of labour by reducing the quantity demanded (Herr *et al*, 2009; Schmidt, 2013).

Because of the limited bargaining power of workers in these types of markets, which is reinforced in situations of large unemployment, where the threat of prolonged unemployment is more credible, there is little workers can do to secure higher pay which accounts for both their costs and productivity. Firms therefore often prefer to wait for a job-seeker willing to accept a low wage (and again in situations of widespread unemployment this is more likely), over paying a higher wage to a new entrant and then needing to pay all current workers a higher wage to maintain pay parity (Schmidt, 2013; Wang, 2012).

For these reasons, in the absence of minimum wages firms often set wages at inefficiently and/or exploitatively low levels and have a number of unfilled vacancies. The introduction of a minimum wage could reduce the ability to exploit and provide an incentive to fill unfilled vacancies. Minimum wages in monopsonistic labour markets could also encourage more people into the labour market or to increase the intensity of their work-seeking activities. More job-seekers and more vacancies allow for the possibility of increasing levels of employment if the minimum wage is not unreasonably high (Krueger, 2015; Schmidt, 2013; Boeri & Van Ours, 2013; Wang, 2012). The greater ability to fill unmet vacancies and to maintain higher levels of employment is argued to reduce turnover – the key adjustment channel to minimum wage promulgation (Schmidt, 2013). Reduced turnover would offset both increased wage costs incurred as a result of the minimum wage and investments in training.

Many components of this model seem readily applicable to South Africa, and particularly to the low-wage youth job market where workers lack sufficient bargaining power due to historic patterns of poverty-level wages; not being unionised; often not being covered by sectoral determinations (and if covered, often ineffective enforcement); substantial job-search costs and massive unemployment. It is conceivable that the introduction of a minimum wage for all young people could remove the incentive for employers to continue paying very low wages and to filling unfilled vacancies. The extent to which this would counteract the effect of labour-labour substitution seems the key question. In other words, does the low-wage labour market for young people approximate a monopsonistic model, and if so, do firms have unfilled vacancies? What are some of the frictions in this market? And what is the extent of workers and job-seekers' bargaining power at this end of the labour market?

### 7.3.2.3 Institutional Models

Institutional models also deviate from the assumptions of perfectly competitive labour markets and prevailing market rates, accepting that employers have significant discretion in wage-setting. Labour markets are also not assumed to operate at peak efficiency. Given the assumption of sub-optimal efficiency, theorised adjustment channels include responding to minimum wages by intensifying efforts to boost productivity and efficiency, for example by reorganising production; introducing quality control standards; and/or using non-labour resources more efficiently. Efforts could also be made to improve the use of now more-expensive labour, for example by making greater investments in training. The introduction of a minimum wage provides immediate incentives for employers to carry out these efficiency measures, as found in meta-studies conducted by Herr *et al* (2009) and Schmidt (2013). Some argue that many employers have been subsidised by unfairly-paid low-wage workers, allowing them to operate inefficiently, and that a minimum wage would force them to make these necessary efficiency enhancements (Cottle, 2015). Finally, higher-paid workers, as well as those with more benefits (for example more training), are expected to be happier workers who are more productive as a result (the efficiency wage hypothesis). These more productive, higher-paid workers also have more money to spend on goods and services, including those produced by the firms they work for. This stimulates aggregate demand, which in turn increases output and economic growth (Krueger, 2015). In addition, low-wage households, in which minimum wage earners are likely to reside, spend more of their income on the consumption of goods and services (a higher marginal propensity to consume), which allows for the possibility that increases in the minimum wage will lead to substantial increases in aggregate demand (Herr *et al*, 2009). The increased output implies greater profits and better firm growth. This offsets the immediate losses incurred due to the legislated increase in wages (Schmidt, 2013).

Finally, minimum wages have been found to be associated with a reduced likelihood of unmet medical needs and of being uninsured (McCarrier, Zimmerman, Ralston & Martin, 2011). In the OECD countries there is also a very clear positive relationship between the level of minimum wages (expressed in constant US dollars) and subjective well-being, controlling for a range of confounding variables such as GDP per capita at purchasing power parity, unemployment rates and time (Krassa & Radcliff, 2014). These studies provide convincing evidence for the link between higher paid workers and physical and emotional well-being. It is also likely these workers are more productive.

If employers were to make use of other adjustment channels, and not cut into youth employment, these positive impacts on stimulating demand and on improving the productivity of the workforce seem especially pertinent in the case of young people. These are workers just starting out on their labour market trajectories, with potentially decades of economic contribution ahead of them. Given South Africa's youth bulge, the potential gains from exploiting our demographic dividend by employing and investing in our young people seem immense. A healthier and happier youth population would also be desirable in the absence of its direct impact on economic productivity.

### 7.3.2.4 Fairness Models

Behavioural theories of the labour market emphasise the importance of fairness in determining labour market outcomes. For example, paying employees more (or providing more non-wage benefits) is expected to increase productivity not only because it makes employees materially and psychologically better off, but also because higher wages are seen by employees as employers behaving fairly; behaviour which employees have been found to reciprocate in experimental and field research (Falk *et al*, 2005, Wang, 2012, Fehr *et al*, 2008). Moreover, it is not just treatment of the individual that matters – employees also react to perceived mistreatment of other employees by withholding effort (*ibid*).

Considerations of fairness have been cited as an explanation for the observation that profit-maximising firms often increase wages in excess of what is required by the minimum wage; an observation also termed the ‘spillover effect’ (Wang, 2012; Falk *et al*, 2005). Experimental research has confirmed that the introduction of a minimum wage shifts workers’ perceptions of what a fair wage is. Then wages which are at or slightly higher than the minimum wage come to be seen as unfair, even if before the introduction of the minimum wage these amounts were viewed as fair. This is because the minimum wage is now viewed as the absolute minimum that employers can pay, as opposed to, theoretically, an amount close to zero. If firms anticipate that employees care about fairness, and that their reservation wages will increase, then they will increase wages higher than the minimum. If the rise in the reservation wage is particularly high and applies to a significant proportion of the workforce, this could offset the potential employment gains caused by the greater supply of labour as a result of the higher wage. This then leads to people being unwilling to work at the minimum wage level and potentially to declining employment levels (if wages are not increased beyond the minimum wage) (Fehr *et al*, 2008; Falk *et al*, 2005; Wang, 2012). This is the same result as that predicted by the standard model, albeit by very different mechanisms. However, employment levels could also increase along with the increase in pay levels if the effect of a rising supply of workers offsets the decline in supply as a result of higher reservation wages. The results of this research show that the increase in the reservation wage is not large enough to offset the gains to employment as a result of higher wages and higher supply.

While one would expect that these impacts would be realised only in the formal sector to which it applies, it is conceivable that even for people working in or paying wages in the informal sector, their ideas of fairness become anchored to the minimum wage level, thereby raising levels of pay, and possibly reducing levels of employment there (Herr *et al*, 2009). Evidence of increased wages in informal sectors of developing countries after the introduction of a minimum wage, has been found (Boeri & Van Ours, 2013). In addition, the changing perception of fairness has been shown to persist even after removal of minimum wages (Falk *et al*, 2005). Finally, in the UK, minimum wages have put upward pressure on wage bills as skilled workers have pushed for similar increases as those provided for minimum wage workers, in order to ensure their continued differentiation from them (Department for Business Innovation and Skills, 2011). This suggests that rather than wage compression, the wage structure may stay the same, just at higher levels.

But these discussions on fairness presuppose that reservation wages and fair wages are closely correlated, and that job-seekers and employees have the ability to either turn down job offers or the bargaining power to secure wage increases above the minimum in situations deemed as unfair.

### 7.3.3 Compliance/Enforcement/ Knowledge

The preceding discussion on the impacts of minimum wages is moot if non-compliance of employers with minimum wage law is the norm. Compliance is generally better for national systems than sectoral systems, due to being administratively simpler and less confusing for all parties (Cottle, 2015), and is dependent on effective enforcement as well as awareness-raising (Rani, Belser & Oelz, 2013). In the UK, research with low-wage workers earning below the recently introduced NMW indicates that many workers are either unaware of their eligibility for and the level of the minimum wage, or they are aware but

tolerate underpayment in exchange for other non-wage benefits. For those who are unhappy with their underpayment, lack of confidence, low self-esteem and/or fear of losing their jobs, coupled with the belief that finding another job will be unlikely, all play a role in discouraging workers from reporting their employers to the relevant authorities. From the employers' perspective, many interviewed managers claimed a lack of knowledge lay behind their unintended non-compliance. Effective information campaigns, for both employers (differentiated by sectors) and workers, as well as support mechanisms to assist employers (especially small employers with less management resources, expertise in Human Resource management, etc.) in ensuring compliance as well as to assist workers in claiming their rights, are therefore essential (Department for Business Innovation and Skills, 2014; 2011).

Falk *et al*'s experimental research (2005), testing the links between minimum wages, reservation wages and employment were replicated by Wang (2012) in China, but manipulated so that some respondents assigned as workers knew about the introduction of a minimum wage, while others did not. In both conditions, employers had full information. With full information on all sides, the results are similar: employers offer wages at higher than the minimum wage. However, when only employers are informed, they generally offer wages just at the minimum level or below. In addition, minimum wages also change employers' perceptions of fairness. In this way, those employers who might have previously offered wages higher than the minimum adjust their offered wages downwards as the new minimum wage comes into force. So, a minimum wage when workers and job-seekers are uninformed may cause a *negative* spillover effect, i.e. a reduction in wages paid. Wang posits that this is an important finding for developing countries where minimum wages are likely to be low and low-income workers are likely to be less educated and have limited access to information. In addition, compliance in developing countries has been found to be lower (Rani *et al*, 2013). His recommendation for maximising compliance is therefore to make every effort to provide workers with knowledge. However, this assumes that once provided with knowledge, low-wage workers have the bargaining power and/or the means to advance their interests. This might not be the case for the non-unionised, or those without other support mechanisms, or with limited confidence or self-esteem – such as found in the UK (Department for Business Innovation and Skills, 2014).

In South Africa, law requires employers to keep copies of the relevant sectoral determinations in the workplace at all times for employees' perusal (Republic of South Africa, 1995). It is not at all clear that this is happening given low compliance rates. Around half of covered workers in South Africa earn less than the relevant sectoral determination (Bhorat, Kanbur & Mayet, 2011), and 69 percent, or 8 million workers, are not covered by any form of collective bargaining (Cottle, 2015).

Finally, workers might not believe that compliance is likely, or that the state will have the will to enforce. If this is the case, it is not very likely that people will change their behaviour in the labour market. Similarly, wage levels might not be the key determinant of behaviour; unemployed people may feel that there are no jobs to be had at any wage, or that they may be discouraged to the extent that they feel they will never be hired given their perceived lack of skills or experience, or they may be so desperate for work that wage levels don't matter too much. Our research tested these hypotheses.

### 7.3.4 The Youth Sub-Minimum Wage

Given the critical unemployment rate of young people in South Africa it is of paramount importance to analyse the likely impact of labour market policy changes, such as minimum wages, on young people. The conventional arguments, as outlined above (and supported to some extent by empirical evidence), predict that the largest of these impacts would be labour-labour substitution: as the price of labour rises, employers will let go, or hire less of, relatively inexperienced and unskilled young people for whom demand is more responsive to price changes. If labour-labour substitution is in fact a significant adjustment channel for employers, this would exacerbate the youth unemployment crisis.

A strategy to mitigate this problem is to introduce a youth sub-minimum wage or a lower minimum wage for young people. This is often one among other policies advocated for, such as special provisions for training and apprenticeships and/or youth

wage subsidies. While nine out of ten member states of the ILO have a minimum wage system in place, half also have sub-minimum wages for young workers (International Labour Organisation, 2011).

At the national-level there is substantial variation in the experience of sub-minimum wages and in the reasons why they are introduced. Some countries introduced them in response to specific national conditions – for example high youth unemployment (Spain); a rising youth share of the working-age population (the UK); and incentivising youth to pursue education (the UK and the Netherlands). On the other hand, many countries have abolished or limited the scope of youth sub-minimum wages, mainly on the grounds of unfair discrimination based on age. These include Argentina, Tanzania, Spain and Kenya (ILO, 2014).

There is also considerable variety in the ways in which sub-minimum wages are designed and implemented in different countries. The first common point of difference is differential starting (or qualifying) ages for the full 'adult' minimum wage. In Turkey 16 is the qualifying age, while in the Netherlands it is 23. In the Netherlands, a system which allows for several youth sub-minima means that from the age of 15 workers move into progressively higher minimum wage entitlements every year until they turn 23. The UK has a similar system (ILO, 2011).

The second category of difference is the level of the 'adult' wage at which the youth sub-minimum wage is fixed. The amount by which the sub-minimum differs from the full minimum wage is referred to as the youth wage discount, and ranges from 10 percent in France to 25 percent in Chile and 60.5 percent for 17 year olds in the Netherlands (ibid; ILO, 2014).

Thirdly, in some countries special allowances are made for accumulated work experience. In France, the sub-minimum applies only to workers *without* at least six months' relevant experience in the same trade or industry, while in some countries employers may pay apprentices and trainees sub-minimum wages (ILO, 2014). Fourthly, special statutory training provisions often exist alongside minimum wages or separately. For example, sub-minima may apply for jobs providing apprenticeships, training or work experience for a specified period. In Paraguay apprentices are entitled to 60 percent of the full minimum wage while this figure is 75 percent in the Philippines. If working conditions are the same as for other workers, then the right to pay the sub-minimum is revoked, e.g. in Venezuela. Another option is restriction on the time period for which sub-minima in these types of jobs is applicable, as in for example Mali and El Salvador (ILO, 2014; ILO, 2011). These time-based restrictions may apply for youth sub-minima in general, i.e. in the absence of special training or apprenticeship provisions. For example, in New Zealand and the USA, the sub-minimum expires after continuous work for the same employer for six months or 90 days respectively, after which the employee becomes entitled to the full minimum wage (ILO, 2014).

#### 7.3.4.1 Arguments for A Youth Sub-Minimum Wage

The sub-minimum would, theoretically, account for the limited experience and productivity of younger workers, thereby offsetting potential employment losses brought about by a minimum wage which values older and younger workers equally. This could be justified to young workers on the basis of sub-minima being paid only for a limited period, during which training is provided; an investment made affordable for the employer by the lower wage (Grimshaw, 2014). The youth wage discount refers to the size of the pay differential, and its level reflects beliefs about the extent to which young people are seen as less productive, or less valuable on the labour market. 30 percent is the lowest (for the lowest band of workers – 15 year olds – in the Netherlands) while 85 percent is the highest, in France and Tunisia (ibid).

Other justifications for the introduction of a youth sub-minimum include, firstly, the fear of crowding out investments of time, money and effort in post-secondary education by instituting a minimum wage which is too high, leading to an increased supply of youth in the labour market competing for a shrinking pool of jobs. This would imply that youth are not investing in their human capital development in an environment where the demand for labour is increasingly skills-biased (Grimshaw, 2014; ILO, 2014). On the other hand, it is also possible that a relatively high minimum wage (whether a youth sub-minimum

or a general minimum wage) could encourage workers to improve their educational attainments. This is due to the recognition that employers are likely to respond to mandated wage increases by reducing their demand for lower-skilled, especially young, workers (Boeri & Van Ours, 2013). Secondly, it is argued that young people require less income than older people due to most young people still living with their parents. Relatedly, young people are regarded as having fewer responsibilities, such as care for children or paying bills (ibid). Such arguments on young people's relatively fewer needs and responsibilities are however based on the experiences of young people in developed country contexts and may not stand in developing contexts such as South Africa where many young people may have children or adult dependents.

#### 7.3.4.2 Arguments Against a Youth Sub-Minimum Wage

The first set of arguments relate to fairness. Fairness models suggest that employers may encounter resistance from young people to being paid a youth sub-minimum wage. If being paid less than the standard minimum wage is perceived as an injustice, it is plausible that young people anchor their ideas of fair wages to the higher, standard level rather than to the youth sub-minimum (Grimshaw, 2014). If reservation wages are driven chiefly by fairness concerns, then it is conceivable that youth will be unwilling to work for a sub-minimum, and employers will either be unable to hire young workers at that level or be forced to pay wages closer to the standard level. Social cohesion is likely to suffer either way as resentment against older workers builds (ibid). There is also the distinct possibility that young workers who *are* well-qualified or sufficiently experienced are not rewarded for this and punished for their age.

Secondly, youth sub-minimum wages may perpetuate low expectations for young people held by employers but more generally as well, as is argued in the USA in the case of sub-minima for workers with disabilities (Coy, 2014).

Thirdly, a youth sub-minimum may create perverse incentives for employers. Sub-minima which are too low may provide incentives to workers to exploit young job-seekers and workers by paying them at this low rate and either not increasing pay over time or letting go of workers once they are no longer eligible, for example due to having worked out the period of eligibility or aged out of the relevant age group (Grimshaw, 2014; ILO, 2014). Similarly, in cases where the right of employers to pay a youth sub-minimum is conditional on providing training, effective monitoring and enforcement to ensure employers are in fact fulfilling their obligations is crucial (ibid). In addition, older unskilled workers are argued to be disadvantaged by youth sub-minima, as employers are expected to replace them with young, cheaper workers whose price has become artificially cheaper (ibid).

Finally, there may already be labour market policies in place which are aimed at alleviating youth unemployment (Grimshaw, 2014). In South Africa, the ETI applies. Research has found that it has not had any significant impact on young people's employment prospects – it has rather increased churn (similar to the experience of youth sub-minima in the UK). It is also claimed to have unfairly subsidised employers, by allowing them to claim subsidies for 'new' youth jobs that they would have created even in the absence of the subsidy (Ranchhod & Finn, 2014). It should however be noted that this study has only considered the short-run effects of the ETI and longer-term research is needed to determine what impacts the policy is having. This experience may be instructive in discussions of possible effects of another policy which seeks to reduce employers' costs.

#### 7.3.4.3 Evidence

The limited evidence on the actual impacts of youth sub-minimum wages is mainly from high-income countries. Research is mainly quantitative; employing different methodologies with conflicting findings. Grimshaw's (2014) review of this research finds that in Spain, reducing the age of qualification for the full minimum wage was found to have led to significant employment losses to young workers who previously qualified for a sub-minimum wage *as well as* to no employment losses by other



researchers. Similar reform in New Zealand was found to have the directly opposite effect of *increasing* employment for the newly-qualifying age group. In the UK, there is no evidence of youth sub-minimum wage increases crowding out education. There is also evidence of substantial employment increases after young people age into the higher full minimum wage. However, other research finds that the possibility to pay a sub-minimum to 16-17 year olds was widely abused by employers, who either took advantage of the possibility of paying lower wages without assuming the responsibility to provide training, and/or fired workers once they aged out of qualification and turned 18 and hired more 16-17 year olds, thereby increasing churn (Grimshaw, 2014). Research from the USA also provides evidence of increased churn in the youth labour market (Hall 1982).

There is very little research on the impacts on employment of the introduction of youth sub-minima as opposed to modification of existing youth sub-minimum wage policy. Katz & Krueger (1992) found that the introduction of a youth sub-minimum in the USA did not lead to employers reducing the wages of current teenage workers earning more than the new sub-minimum, or to offering wages at less than the wages of incumbents, with fairness considerations credited as a possible reason for this by Falk *et al* (2005). Fairness could also explain the increases in wages beyond that required by the law. Finally, employment levels increased in firms most impacted by the new law, i.e. those who were paying less before its introduction. Neumark & Wascher (1992) found that minimum wages across the USA generally reduce employment levels, especially for teenagers and young workers, but that this effect can be mitigated by youth sub-minimum wages.

## 8 Research Questions

Based on the preceding literature review, our major research questions are as follows:

1. How is the introduction of a national minimum wage likely to impact on the labour market outcomes of young people in, or looking for, low-wage jobs in South Africa?
2. How are businesses likely to react to the introduction of a national minimum wage?

Sub-questions are the following:

- I.1. What is the experience of young people who are starting out in the labour market – both job-seekers and entry-level workers?
    - What are the perceived reasons for unemployment?
    - What are the costs of job-seeking and of working?
  - I.2. To what extent can reservation wages explain youth unemployment?
    - How do young people calculate these reservation wages?
  - I.3. Do reservation wages have any implications for the level at which a potential national minimum wage is set?
  - I.4. How knowledgeable are young people about minimum wages, and do young people have the resources to claim their rights?
  - I.5. What is the perception of working youth and unemployed youth who have worked on the extent of non-compliance with current minimum wage law? How would the introduction of a minimum wage impact on job-search behaviour, investments in education and job satisfaction?
  - I.6. How do young people perceive the idea of a youth sub-minimum wage and how are they likely to react to its introduction?
- 
- 2.1. What has the experience of hiring and working with young people been like for employers?
  - 2.2. What are the opinions of employers about a national minimum wage?
  - 2.3. What are their opinions of a youth sub-minimum wage?
  - 2.4. What are the perceived channels of adjustment to a national minimum wage for employers?

## 9 Methodology

Our two groups of research questions were addressed primarily via the use of qualitative research methods. Focus group discussions with young people were conducted to assess the likely impacts of an NMW on the labour market outcomes of young people, while we chose to investigate employers' possible reactions to changing minimum wage policy via in-depth interviews. This section outlines the reasons for these choices and the details of how they were used to realise our research aims.

### 9.1 Qualitative Methods: Focus Groups and In-Depth Interviews

Qualitative methods in general can generate in-depth and nuanced understanding of social phenomena which quantitative methods, such as surveys, generally cannot. Focus groups can fulfil this potential particularly well. This is due to the substantially greater degree of interaction. Participants, chosen due to their having something in common with each other (for example, being unemployed and young), interact both with the moderator and with each other – a feature which sets focus groups apart from one-on-one interviews (Parker & Tritter, 2006; Wilkinson, 1998). Furthermore, the relatively informal atmosphere within which focus groups take place facilitates going beyond superficial responses to researchers' topics of interest and to delving into the shared beliefs and norms which shape the way respondents interpret their lives and motivate their actions (Parker & Tritter, 2006). The format allows for participants to discuss ideas with their peers, and for shared opinions to be articulated and/or developed. This creates space for a wider range of ideas relating to a specific topic to be explored (Overseas Development Institute, 2015); some of which are likely to have been missed by researchers in preparatory research due to limited proximity to and lived experience of the topics under investigation.

Focus group discussions are also argued to be especially useful when trying to understand social phenomena and social policies from the perspective of the people directly impacted; people whose voices may not be heard in policy debates (Wilkinson, 1998). South African research on unemployment, for example, very rarely accounts for the experiences and viewpoints of unemployed people themselves. Similarly, research on minimum wages rarely goes deeper into the lives of low-wage workers or job-seekers than responses to survey questions. For these reasons focus groups have been seen as the most appropriate methodology.

In-depth interviews were chosen for research with employers due to their ability to generate highly detailed data, with respondents having the freedom to respond at length about their views and experiences (Boyce & Neale, 2006; Tiu Wright, 1996). The one-on-one interaction between researcher and respondent is also more amenable to privacy and confidentiality – principles which employers are often sensitive to due to concerns for the competitiveness and public image of their businesses (Tiu Wright, 1996).

### 9.2 Sampling Strategy: Selection of Focus Group and Interview Respondents

Non-probability sampling techniques were used, chiefly snowball sampling. This is a common approach to sampling for focus groups, where researchers make use of their networks to recruit respondents; networks of organisations and/or individuals with better access to potential respondents (Parker & Tritter, 2006). The CSDA has conducted extensive research across South Africa with young people through a network of organisations working with young people. Two of these organisations – LoveLife, and Fit for Life, Fit for Work – assisted with our recruitment. The Association for Rural Advancement, Radebe's Bed & Breakfast, and Onamandla Project Management – new partners – were also enlisted for this purpose. The first three of these organisations allocated the tasks of identifying, calling and recruiting to young employees or volunteers, each of whom were paid a fee by the CSDA for their services.

Because of our special interest in young people – particularly the age cohort which is transitioning out of secondary school into the labour market – we chose to focus on 18-25 year olds. Respondents were recruited for either discussions with employed peers or unemployed peers depending on their employment status, which was elicited by recruiters along with age, during screening calls. Recruiters were also informed that the focus of our research was minimum wages, and as such we were targeting low-wage workers. For focus groups with unemployed youth, recruiters were informed that we were looking for unemployed people who would likely take on low-wage work. This background information was known by recruiters due to their work with, and often residence in, communities where low-wage work is the norm. Recruiting of employed youth was more difficult due to their more limited availability; focus groups were scheduled for evenings or on Saturdays.

This sampling strategy is an effective way of ensuring that (a) the right kind of respondents are found, and (b) that these respondents are more likely to engage with researchers by virtue of the research's connection to organisations that young people know and trust. However, a major limitation of non-probability sampling methods, and particularly snowball sampling, is that the participants may all be from a limited pool of potential participants, all of whom share similar characteristics. This limits the extent to which a wide range of voices are heard. To guard against such risks, recruiters were given guidelines regarding who to recruit – for example, aged 18-25; workers not in high-level or managerial positions, and were advised to ensure that they recruited through multiple networks, rather than through one or two peer or organisational networks. In addition, we chose to run focus groups across different provinces and recruited participants through different organisations. This too ensured that we guarded against engaging with an 'in-group' of young people.

Demographic information was collected from respondents via short, self-administered surveys at the start of each focus group discussion. The composition of our sample is broadly reflective of the marginalised South African youth population – i.e. those with limited prospects on the labour market. See the 'profile of young respondents' section' for more details.

Employers were initially randomly chosen on the basis of their operation in sectors which employ large numbers of young people. For example, an employer in financial services was selected in Gauteng; a clothing retailer in urban KwaZulu Natal; and a community-based organisation in the rural Eastern Cape. However, the strategies of cold-calling and door-to-door recruitment of business owners or managers largely failed. We believe that many employers refused to participate in our research due to the suspicion that the chief aim of the research was for reporting on compliance to the Department of Labour, although for many businesses time constraints were cited as a perfectly reasonable reason for non-participation. We therefore adopted a snowball sampling strategy similar to that used to recruit focus group participants. This involved interviewing employers whom the CSDA has worked with on previous research, and/or who are within our broader networks in the Johannesburg and Durban metros.

### 9.3 Sampling Strategy: Selection of Research Sites for The Focus Groups

Research was conducted across South Africa in five provinces, in rural and urban areas, and in four languages. Table 2 provides a breakdown of where and with whom each focus group was held.

Table 33. Focus Group Locations

Focus Group	Employed/unemployed	Province	Location	Urban/Rural	Respondents reside in:	Language of focus group
1	Unemployed	Gauteng	Orange Farm	Urban	Orange Farm	English
2	Employed	Gauteng	Killarney, Johannesburg	Urban	Soweto	English
3	Unemployed	Western Cape	Vrygrond, Cape Town	Urban	Vrygrond and surrounds	English
4	Employed	Western Cape	Langa, Cape Town	Urban	Langa and surrounds	English
5	Unemployed	Western Cape	Worcester	Semi-urban	Worcester and the Cape Winelands	Afrikaans
6	Employed	Western Cape	Worcester	Semi-urban	Worcester and the Cape Winelands	Afrikaans
7	Unemployed	KwaZulu Natal	Morningside, Durban	Urban	KwaMashu, Umlazi and other townships in the Durban metro	English
8	Employed	KwaZulu Natal	Morningside, Durban	Urban	KwaMashu, Umlazi and other townships in the Durban metro	English
9	Unemployed	KwaZulu Natal	Mandeni	Rural	Mandeni	English
10	Employed	KwaZulu Natal	Mandeni	Rural	Mandeni	English
11	Employed	KwaZulu Natal	Pietermaritzburg	Urban	Surrounding RURAL areas (all respondents were recently laid-off farm workers –see Limitations section)	isiZulu
12	Unemployed	North West	Luka	Rural	Luka and Phokeng	English
13	Employed	North West	Luka	Rural	Luka and Phokeng	English
14	Unemployed	Eastern Cape	Mdantsane (township between East London and King Williams Town)	Urban	Mdantsane	isiXhosa
15	Employed	Eastern Cape	Tshabo (township between East London and King Williams Town)	Urban	Tshabo; East London, King Williams Town, Berlin, Mdantsane	isiXhosa
16	Unemployed	Eastern Cape	Msinsi village	Rural	Msinsi	isiXhosa
17	Employed	Eastern Cape	Nkqonkqweni village	Rural	Nkqonkqweni; East London, King Williams Town, Mdantsane and Nkqonkqweni	isiXhosa
18	Unemployed	Gauteng	Hillbrow, Johannesburg	Urban	Hillbrow; Alexandra; Soweto	English
19	Employed	Gauteng	Auckland Park, Johannesburg	Urban	Hillbrow and Soweto	English

The choice of these particular locations was driven to some extent by our partner organisations' operational footprints. For example, to get to young respondents in the more rural Western Cape we relied on loveLife, which has a significant presence and reach in Worcester. The choice of provinces was guided by (a) the desire to investigate sectors of particular interest – for example, mining, prevalent in North West; and (b) the improved likelihood of youth being employed, for example in dominant economic regions (Gauteng, the Western Cape). The Quarterly Labour Force Survey for Quarter 4 of 2014 (Statistics South Africa, 2014) was consulted to point to the kinds of employment in each area where youth would likely be employed. For example, in the rural Western Cape, the dominant sector by far for youth is agriculture, while financial services

and retail are large employers in Gauteng and the urban Western Cape. These considerations also drove the choice of sectors, provinces and cities/towns for the interviews with employers.

## 9.4 Procedure for The Focus Groups and Employer Interviews

A focus group discussion guide was developed based on the literature and on the research questions we intended to investigate. The guide was originally developed for focus groups with unemployed youth, and was modified slightly to be more appropriate for employed youth (see Appendix G). Both discussion guides have the same structure:

1. Part 1: Introductions
2. Part 2: The experience of unemployment
3. Part 3: The costs and challenges of work-seeking and/or working
4. Part 4: Wages (reservation, fair, and current wages; costs of living)
5. Part 5: Knowledge and perceptions of minimum wages
6. Part 6: The potential influence of minimum wages on behaviour
7. Part 7: Other issues found to be relevant to respondents

To support the discussions other materials were also developed. These included demographic forms and voting sheets. Pamphlets were also created for participants and provided information on the following: definitions and purposes of minimum wages; different types of minimum wage systems (including South Africa's); and Tables of sectoral determinations and average earnings. This information was provided due to the desire for informed discussion taking place in relation to minimum wages. We attempted to provide this information in terms which were as neutral as possible so as not to unduly influence respondents (see Appendix J).

The two guides, along with the supplementary materials, were piloted in Orange Farm, Gauteng (unemployed) and Killarney, Johannesburg (employed) in September 2015 with the aim of establishing if anything needed to be changed, for example due to being too complex, badly conceived, or otherwise inappropriate for the target groups. Save for minor changes in the wording of a few questions, nothing substantial was changed. As a result, we chose to include the data obtained from these pilot focus groups in our analysis.

The remaining 17 focus groups were then conducted during the second half of September 2015 and throughout October 2015. Discussion guides and supplementary materials were translated into isiZulu, isiXhosa and Afrikaans, after screening calls during the recruitment process established that English would be inappropriate for respondents in Pietermaritzburg, the Eastern Cape and Worcester respectively. Researchers fully proficient in these languages facilitated these focus groups.

Focus groups were held in informal settings, and in locations known to and/or frequented by respondents. These included the community centres and other premises where partner organisations Fit for Life, Fit for Work and loveLife operate. Experienced researchers facilitated the focus groups. They were encouraged to stick to the wording of particular questions, and to stick to the temporal order. However, they were also asked to balance this against the need to allow for discussion to flow freely, and to not unduly interrupt respondents. Facilitators were also asked to adopt a neutral attitude and appearance in order to limit their influence on respondents – a danger in qualitative research (Overseas Development Institute, 2015; Parker & Tritter, 2006), and to encourage participation from all respondents to avoid domination by single voices and perspectives, a risk particular to focus groups (ibid). To overcome potential lack of interest (Parker & Tritter, 2006), as well as to compensate respondents for their time and money spent to travel to research sites, small stipends of R50 were given to each respondent by facilitators. Snacks and drinks were also provided. On average, each focus group was approximately two hours long.

Employer interview guides were also developed relating to the literature and to our research questions. The guides had the following broad structure (see Appendix L):

- 1) Part 1: The profile of the respondent's workforce, particularly young workers.
- 2) Part 2: The nature of demand for young workers.
- 3) Part 3: Personal views about minimum wage policy and its implications for the respondent's sector.
- 4) Part 4: Whether and how minimum wages might influence hiring behaviour as an employer.
- 5) Part 5: Practices relating to the training of young workers.
- 6) Part 6: Thoughts on unemployment.
- 7) Part 7: Any other issues respondents thought were relevant.

The seven interviews were conducted face-to-face, at the workplace of the respondents (with two exceptions – one interview was conducted at the CSDA's offices and another telephonically). The interviews were voice-recorded, again with two exceptions – the small business-owners in Durban did not consent to the interviews being recorded and for this reason the interviewer transcribed interviews as they were conducted. On average, the interviews took an hour each to complete.

As with the focus groups, experienced researchers were encouraged to stick to the wording of particular questions, and to stick to the temporal order, while also allowing for free discussion. Researchers were also careful to be as neutral as possible so as not to influence respondents, or make respondents feel uncomfortable with expressing opinions which might not be deemed to be politically correct.

## 9.5 Ethical Considerations

Ethical approval was secured from the University of Johannesburg's Faculty of Humanities Ethical Clearance Committee after submission of a research proposal along with copies of all research instruments and other materials. See Appendix F for a copy of this approval, which was granted on the basis of the commitments outlined below.

Respondents were asked to sign informed consent forms before focus groups or in-depth interviews began. The informed consent form was read out by facilitators and interviewers. These forms outlined the details of the study and provided assurances of anonymity and of the confidentiality of respondents' answers. For employers, this included the assurance that the organisations they work for would not be named. In focus group settings a threat to anonymity is the possibility of respondents not adhering to the requirements of confidentiality after the end of the focus group by talking about what other respondents said during the focus group with other people (Parker & Tritter, 2006). For this reason, respondents were informed of this risk in the informed consent form. Processes of transcription of audio recordings were also clearly explained, particularly the commitment to not use respondents' real names.

For facilitation of focus groups, experienced researchers and fieldworkers were instructed to be sensitive in handling discussion of topics with young people, such as unemployment and the ways this might impact on their well-being (including emotional and psychological well-being). Information was distributed to participants (in appendices to the pamphlets) about NGOs, helplines and other organisations which could provide support in the form of career guidance, assistance with job-seeking, employee rights, and provision of health and care services. They were also provided with links to the Department of Labour's website; with links to regularly updated information on minimum wages; and with contact details for the CSDA. This information was included in appendices to the pamphlets. The main purpose of these pamphlets, as outlined above, was



to provide information about minimum wages to stimulate discussion during the focus groups. However, it was hoped that this information might also prove useful in their current or future working lives.

## 9.6 Analysis

Thematic analysis (Aronson, 1995) was used to make sense of the raw data. Transcriptions of audio recordings were coded according to themes and sub-themes identified from the literature. A team of researchers worked on this analysis and as new or unexpected themes emerged these were added to the original list.

Focus groups provide scope for expression of contrasting views and experiences, even among individual respondents over the course of the discussion as they change their minds or become more comfortable with expressing themselves (Parker & Tritter, 2006). Researchers were therefore mindful of the need to capture this full range, as well as the extent to which views and experiences were shared by the group.

## 9.7 Limitations

Firstly, the distinction between employed and unemployed was not always clear-cut. Respondents were divided into employed and unemployed groups, given our expectation that responses to questions relating to working (and possibly other themes as well) might be quite different. In this way we intended to compare the views and experiences of unemployed with those of employed respondents. However, in two instances, respondents who were unemployed were recruited into focus groups with employed youth due to their having been laid-off in the period between being recruited and the date of the focus group. In Pietermaritzburg, this applied to all the respondents who showed up. This left us with a difficult choice regarding how to classify these respondents. We did not turn respondents away due to their having made the time and effort to attend the focus group. Thus for analysis of transcripts, we treated them as being part of employed groups. In addition, their demographic data was captured as belonging to the employed group. They were instructed to answer job-related questions relating to the job they had recently left.

Similarly, in rural North West and rural KwaZulu Natal, several respondents who were volunteering at loveLife, and being paid a stipend to do so, regarded themselves as being employed, and participated in *employed* focus groups. In urban areas, respondents doing the same thing did *not* regard this as being employed, and participated in *unemployed* groups. This is likely due to the more limited jobs market in rural areas. We chose to work with respondents' own definitions of their employment status. This has implications for strict comparability. But it also tells us about how young people in urban and rural areas ascribe meaning to the concept of work.

Secondly, NEET (Not in Employment, Education or Training) status differed among unemployed respondents. In several focus groups, several respondents were enrolled in training programmes or volunteering. It is possible that these respondents were more motivated than those who were strictly NEET. We did not separate groups according to NEET status, and therefore did not analyse them along this dimension. This dynamic is therefore not addressed in this research.

Thirdly, we will not be able to generalise the results of the employer interviews, to other employers or sectors but the data does provide an indication of some of the employer considerations that need to be explored as discussions about a minimum wage proceed. Although findings from qualitative data are not intended to be representative or generalisable, for the focus groups, a realised sample of more than 150 which closely resembles the wider youth population of interest on observable characteristics (see the 'profile of young respondents' section), and consistency of findings across the volume of collected and analysed data, gives us confidence that what we have found is a comprehensive and reasonably accurate approximation of the average young South African on the margins of the labour market.

Finally, the difficulties we faced with recruitment of employer respondents means that our small sample does not represent all major sectors of the South African economy, including sectors which employ large numbers of young people. These sectors include agriculture, mining, and domestic work/contract cleaning. We believe that qualitative research with employers in these sectors would be of considerable value, and recommend this as an avenue for future research.

# 10 Findings from the Focus Groups

## 10.1 Profile of Young Respondents

In total 153 young people participated in the study. Of these, 73 were employed. The sample is biased towards young women (62 percent of the employed group and 64 percent of the unemployed group). The two groups are similar in terms of their highest level of education (Grade 12) and age (average age of 23 for employed and 22 for unemployed).

Table 3 below summarises further basic demographic data collected from respondents (see Appendix I for the corresponding tools).

Table 34. Employment Status by Sex of Focus Group Participants

Employed		Unemployed	
Male	Female	Male	Female
28	45	29	51

Table 35. Employment Status by Highest Level of Education of Focus Group Participants

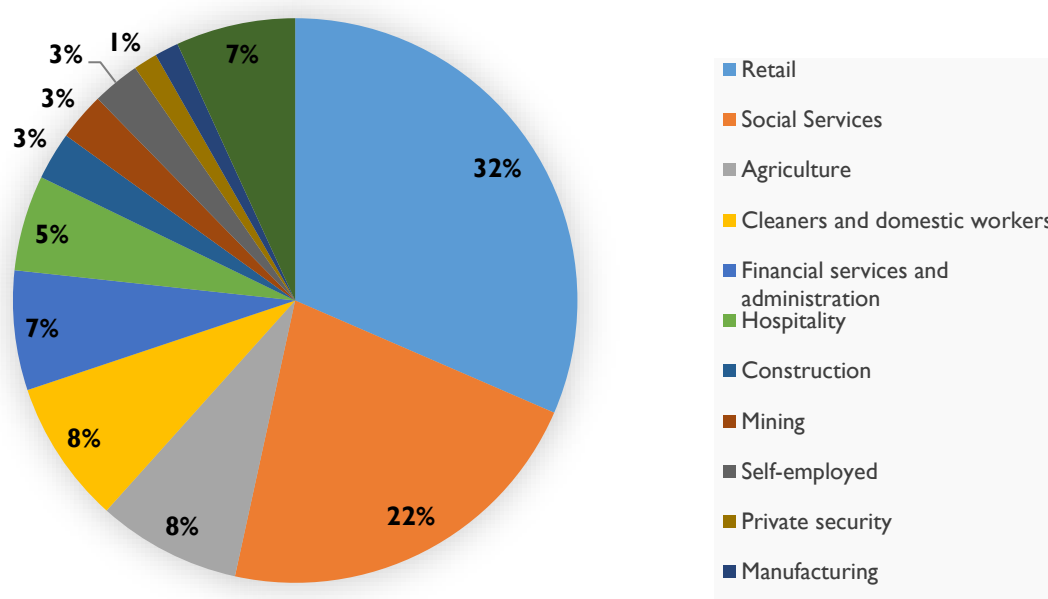
Level Of Education	Employed (n=73)	Unemployed (n=80)
Grade 9	7 %	2 %
Grade 10	3%	10%
Grade 11	16%	15%
Grade 12	53%	63%
Tertiary qualification	21%	10%

As can be seen from the table above more employed respondents have some tertiary education (21 percent as opposed to 10 percent for the unemployed)<sup>109</sup>. Unemployed respondents were living with an average of 1.8 people who had a job, while employed youth were living with an average of 2.3 people who were working. This finding accords with the literature on social networks and the link with employment – that the more working people one knows, the greater the chances of being employed.

Information about the job situations of the employed respondents was obtained from the introductory questionnaire that was administered. Figure 1 provides a sectoral breakdown.

<sup>109</sup> We asked respondents to select the highest *completed* level of education. In some cases, subsequent discussion indicated that this was often interpreted as highest level of education *attended*.

Figure 32. Distribution of Employed Focus Group Respondents per Sector (n=73)



This data shows that most of the working respondents were in the social services (22 percent), and retail (32 percent) sectors. This is broadly reflective of the national youth employment pattern of retail and social services employing a substantial number of young people. The next three sectors with the largest shares of our respondents were agriculture; domestic work and cleaning; and financial services and administration. The remaining respondents worked in mining, construction, private security and manufacturing. Two respondents were self-employed.

62 percent of the working respondents indicated having a contract for their employment. Only 12 percent of respondents belonged to a union. Table 5 below indicates that a substantial portion of the working respondents were receiving skills training as a benefit. Very few of the respondents indicated receiving other benefits.

Table 36. Percentage of Working Focus Group Respondents Who Were Receiving Various Types of Benefits

Type of benefit	Yes
Deductions from salary for provident/retirement fund	23%
Skills training	19%
Travel allowance	12%
Housing allowance	11%
Childcare facilities	8%
Deductions from salary for medical aid	8%
Other (vouchers, data bundles, food)	5%
None	15%
	n=73

## 10.2 The Experience of Unemployment and Work-Seeking

### 10.2.1 Duration of Unemployment

The vast majority of respondents have experienced long-term unemployment. Most working participants had been unemployed for more than six months prior to starting their current jobs, while most unemployed respondents had been unemployed for at least six months prior to the date on which the focus group took place.

### 10.2.2 Reasons for Unemployment

#### 10.2.2.1 Lack of Qualifications

Some of the commonly mentioned and discussed reasons for unemployment – either currently or previously in the case of workers – were related to education. Often, respondents talked of matric qualifications being ‘useless’, as employers need more than this. But the financial resources necessary to enrol in post-secondary education remain out of reach for many young people:

“Without skills you are nothing, matric is nothing so that’s why I am here now because I do not have skills”. [*Orange Farm, unemployed*]

“I am unemployed because of my parents didn’t save money for me to go to varsity”. [*Orange Farm, unemployed*].

“On the point of lack of financial assistance, you cannot learn or further your education without money and that is what is increasing the rate of drug abuse and alcoholism within our young people in our communities. People are not getting jobs because they don’t have qualifications and the same qualifications that are expensive for most of us”. [*Vrygrond, unemployed*]

#### 10.2.2.2 Lack of Work Experience

Employers are said to also expect young job applicants to have work experience. For those who have recently left high school, this can be a very difficult requirement to meet. With finding a job without work experience being unlikely, the alternative strategy would be to improve one’s qualifications. But as seen in the previous section, this is not an option for many young people. Job-seekers thus find themselves caught in a situation in which they are unable to meet the requirements of the labour market and unable to work in order to further their qualifications:

“I do have a degree in Social Work and you know what they do when you apply for a job, they say you have no experience neh! But if you apply for a lower post like maybe admin something that you didn’t study for that is lower than a Social Work they say you are over qualified. Then when you go to some of the NGO’s to try and volunteer then they will say they don’t take qualified people and they only take students because they have been accused of by some people who came as volunteers that they don’t get paid. So people don’t seem to understand what volunteering is about, so they decided not to take volunteers anymore. Then you wonder how you going to get experience and yes you may have the qualifications and you will be told that you have no experience. And I have been told that I am too young. I can’t get the job because I am too young I should be at least 25 and I finished school early.” [*Durban, unemployed*]

#### 10.2.2.3 Lack of Information and Lack of Jobs

The main sources of information about jobs are employed friends and relatives, newspapers and the internet. After finding this information, job-seekers apply for whatever jobs are available. There is no pattern of applying or searching for jobs that would fit with the job-seekers’ tastes or interests, or with their preferences regarding pay levels and working conditions. The phrase ‘beggars can’t be choosers’ was used to describe this by a respondent in Hillbrow.

But often, respondents cannot easily find information about jobs. This could be because they do not know people who are working (which seems to be the dominant route to securing work for employed respondents), or because it is difficult to

access information due to costs (see section on 'the costs of work-seeking'). But respondents also often feel that there simply are no jobs to be had. This was a particularly prevalent feeling in rural areas, but by no means insignificant in urban areas.

### 10.2.2.4 Exploitation

Many of the respondents indicated having been exploited in their experiences of work-seeking. Such exploitation included scams and soliciting sexual favours and money, leading them to be wary of further job-seeking. Disturbingly, in almost every focus group, and in every province, at least one participant indicated having experienced either scams or requests for bribes in the form of sexual favours and monetary payments. Participants noted these as additional costs of work-seeking as well as reasons for avoiding work-seeking.

Respondents often stated that they didn't have the money to pay bribes to ensure that their CVs were considered or jobs secured. Requested amounts were reported to be substantial:

"Hospital, cleaning, people are getting in there but even there and that kind of job, it has bribery connections to it. You get there to submit your CV, and while you are still there, you will hear people saying, we paid so and so this much and we are getting the job". *[Mdantsane, Eastern Cape, unemployed]*

"...they will say give me R10 000 or R5 000 then I will give you this position". *[Durban, unemployed]*

Sexual favours are also frequently solicited:

"...uum sex in order for you to get a job. I remember, I went somewhere in Jo'burg I won't mention the office name and then there was a guy there and he said I am cute and if am willing to do some little things for him he can definitely give me a job". *[Orange Farm, unemployed]*

Linked to the idea that respondents lack information about jobs is the reality that young people are bombarded with false information in the form of scams – job adverts which appear genuine but are aimed at stealing young people's money:

"I also got a message. Last year. That guy told me, at least give me R2 500 and I will give you a job at the mine. I said wow! I'll see what I can do...". *[Luka, North West, unemployed]*

Others indicated experiencing threats of violence:

"The thing that makes it worse is that if a person promises you work, a girl who is a family member promised me, I went there and I was shown what I was going to do when I get there but I did not go there since they kill you there. A garden boy wanted his girlfriend to take that position, now the other one told me on the following day, she had promised me work, she then says no my friend they will stab you at the stop (bus or taxi-not indicated). No, they will stab you at the stop, you will die at the stop when you are commuting, I left it there then". *[Pietermaritzburg, employed]*

The above findings suggest that young people find work-seeking threatening and fraught with obstacles that must be carefully navigated. In many instances these experiences are heightened as jobs are perceived to be scarce, driving competition for jobs up. Such circumstances of desperation for work provide fertile ground for some to take advantage of others. In turn, such experiences may be cause for discouragement in work-seeking.

### 10.2.3 Reasons for The Success of Working People in Finding Jobs

Employed respondents attribute their success in finding work to having friends and family employed at the same organisation who can vouch for them (which fits with our finding that on average they live with more employed people than unemployed respondents do), and to having made a positive impression at an interview. Most employed respondents did not accept the jobs they have now for any reasons relating to the features of the jobs themselves (e.g. pay levels, type of work, benefits), but rather out of desperation and a belief that getting another job offer is neither guaranteed nor likely.

## 10.2.4 The Emotional and Psychological Experience of Unemployment

Unemployment is an emotionally taxing experience for many young people. Depending on other people for all their needs prevents young people from striving towards independence, and to leading their own lives. This is often very damaging to their self-esteem and places strain on family relationships<sup>110</sup>:

Male participant: it makes me small, and I don't feel adequate...

Male participant: it's hard enough knowing you had friends when you were working...but when you're no longer working they pass you like you no longer exist...

**Facilitator: so people like you when you're working, but not when you're not working?**

Male participant: I noticed when I stopped working. I asked myself a question, what's happening? Am I smelling like a pig, or what?

Male participant: Yoh sometimes I feel like I'm not important to anyone, by not working, I feel like eish, that ...I don't know...I see everyone who is working, I see a professional person, even when someone is working at Shoprite, but I feel like I must respect him, I can't afford what he or she can afford...I feel so down in most cases...

Male respondent: it's depression, cause when you're living at home with your family you get...I don't know if it's the right word... criticism or something like that...you no longer get that respect from your parents like the time when you were working. Maybe let's say you were working at some casual job and then you're no longer working. You no longer get that respect, you're always at home, just cooking and cleaning, you want your parents to buy your clothes, and it's difficult when you're a boy because you don't get those things, you need to get a job and do it yourself. It's depressing.... when you go out in the morning and its only you around in the village, you know, someone you know who is not working, is...at another section there when you have to walk to them, you find out maybe when you get there, maybe his or her family treat them with respect, but when it comes to you it's seriously depressing.

Male participant: I feel so down. [*Luka, North West, unemployed*]

The next passage, from a female respondent in Mandeni in rural KwaZulu Natal, reflects the tensions that result from dependence on family and also highlights the problems of being dependent on other people, such as friends and 'sugar daddies'. The quote also reveals how inequality and conspicuous consumption in South Africa creates pressures on young women and men to spend money on clothes and other expensive items. Interestingly, widespread unemployment does not seem to have created an environment in which being unemployed is seen as normal. On the contrary, unemployed young people often experience being stigmatised:

"Like me I finish my matric 2012 and my mother is a single parent of five working as a cleaner at Ultra City and she has to take care of us all. Like participant two has said we need toiletries and lots of things and it's hard to be dependent because people will take advantage of you. They will make you do things that you do not want to do, just because you want that person to buy you something then you have to do that thing. Like me I had this person and I will not say names and that person has power over me because she has done a lot for me. Now I owe it to her and every time she wants me to jump I must ask "how high?" So it's not good not working. Then the other thing when you not working you end up dating sugar daddies because you want to fit in a society. Ok let me tell you something as we are here wearing this jackets it means you have money and you are trendy, but when you wear the T-shirts alone people will say "wow that girl is not trendy" and that can even make you become a prostitute just because you want money, and just because you want to be independent, and just because you want to shine like other people that is my intake that not working is a stress and its nagging". [*Mandeni, unemployed*]

Many of the respondents discussed the emotional strain of not being able to meet financial obligations:

"The expenses that will not go away, the expenses that give me sleepless nights" [*Nkqonkweni village, Eastern Cape, employed*]

---

<sup>110</sup> In this study we did not explicitly investigate potential household impacts of a national minimum wage (NMW). However, given the finding that the average worker in South Africa has 3 dependents (South African Press Association, 2013), as well as the observations from our respondents relating to the need to share income amongst many people, impacts of an NMW on household poverty and wellbeing could be substantial in households where job-seekers find employment at the level of the NMW or where workers have their wages increased to the level of the NMW, and these wages are shared with other members of the household. This could be a useful avenue for further research.



### 10.2.5 The Costs of Work-Seeking

Besides the costs of falling for scams and paying bribes, the two other most frequently discussed categories of expenditure were transport and the costs of making applications.

Applying for work is an expensive process, and often prohibitively so. In putting together applications and looking for advertisements, job-seekers need to pay for internet usage, printing, certification, copying, and postage. These services are often exorbitantly priced, yet are often unavoidable due to potential employers demanding hard copies of applications. In Luka, North West, there is one internet café servicing the entire village, and this monopoly allows the owners to charge R1 per minute for internet access and R10 per page for printing. This generally results in job applicants only being able to make one or at most two applications per month.

When several job applications have failed (and respondents very rarely, if ever, get feedback from employers), the spending on applications comes to be seen as wasteful, and contributes to discouragement and many young people stopping their efforts at job-seeking. In some cases, the discouragement may be better described as fear – for example, many job-seekers borrow money and get into trouble with friends and family when they are unable to repay. This could be in the form of disapproval or needing to pay back loans with interest. This often exacerbates the poverty resulting from the lack of income, perversely leading some respondents to feel worse off financially when they are applying for jobs than when they are not.

Travel is a large expense not only for work-seekers but for working people as well. Most working respondents live far from their places of employment, and similarly job-seekers also generally need to look for work away from the areas they live in. For example, contract cleaners living in Soweto spend up to three hours per day travelling, with a return trip between Soweto and the Northern suburbs, costing around R40. To get these jobs they needed to find the money to travel – respondents framed this as a gamble. Travel costs remain for most respondents after they start working, and are not covered by employers. For unemployed respondents in Luka, North West, the only potential employers nearby are two mines, and for all other possibilities respondents need to travel to Rustenburg (the nearest town), which takes about 30 minutes and also costs around R40 for a return trip. Similarly, in Vrygrond and Langa, respondents cited travel costs of between R30 and R40 for return trips into central Cape Town. Respondents in Vrygrond, Mdantsane and Auckland Park spoke of having worked previously but not earning enough to cover travel costs.

## 10.3 Wages

### 10.3.1 Reservation Wages

Prior to receiving the information pamphlet about minimum and average wages, respondents were asked to write down their reservation wages with the following question:

Please take a minute to think about what the lowest amount of money is that you would be willing to work for per month. In other words, if an employer offers you less than this amount, then you will not accept the job<sup>111</sup>.

<sup>111</sup> The common understanding of reservation wages is that the concept is applicable to the unemployed. However, we have asked this question to employed respondents as well. In this case Nattrass & Walker (2005), for example, cite the acceptability of asking for the lowest wage a respondent would accept for any work if unemployed at the time. A limitation of our section on reservation wages is the failure to specify the condition of unemployment. This brings forth the possibility of young people thinking about their current jobs, and the lowest amount they would work for in these jobs, in response to the question of the lowest amount of money they would be willing to work for. This is a possibly confusing question as respondents are already working in these jobs – are we therefore talking about lowest amounts they would work for in the case of wage cuts (in one case, a respondent mentioned this)? This is a very different question to asking unemployed respondents for the lowest amount of money they would accept for any work. Consequently, there is a risk of non-comparability of the stated reservation wages of employed versus unemployed respondents.

They then wrote down what they thought were fair amounts for them to be paid and estimations of the amount of money needed to cover their cost of living for one month. Employed respondents began this exercise by writing down their current monthly wages in addition to their reservation wages. Figures were written down on differently coloured pieces of paper, collected by facilitators at the end of the discussion, and analysed later by the research team.

The results are shown in Table 37 below.

Table 37. Wage Data for Focus Group Respondents

	Employed respondents (n=73)		Unemployed respondents (n=79)*	
	Mean	Median	Mean	Median
Their reservation wage per month	R2945	R2100	R3771**	R3000**
Their idea of what a fair wage would be per month <sup>††</sup>	R10141 <sup>†</sup>	R6000 <sup>†</sup>	R7960	R5500
The amount of money needed to cover the cost of living for a month	R4520	R2900	R5914	R3700
Current wage per month (for employed respondents)	R2865 <sup>†††</sup>	R2036 <sup>†††</sup>		

Notes: \* One set of outlying observations were excluded: reservation wage = R1.2m; fair wage = R3.4m; cost of living = missing. Thus n=79 unless otherwise stated.

\*\* One non-response, thus n=78.

† One missing response, thus n=72

†† The median fair wage for ALL respondents, whether employed or unemployed, is R6000 per month.

††† The reported wages of 5 volunteers receiving stipends of R1900 (who attended the focus groups of employed youths in Mandeni, KwaZulu Natal and Luka, North West) were excluded, hence n=68. When these wages are included, this brings the mean down to R2797 and the median down to R2000.

The written exercise was followed by a discussion of how respondents calculated their reservation wages. For unemployed and employed respondents, the cost of living was the overarching consideration.

In Vrygrond, the (unemployed) group consensus was that having a bit more than the price of monthly needs would be useful for savings and emergencies:

Facilitator: so being able to meet your demands?

Female participant: yes.

Female participant: being able to meet my expenses and then have something in the bank for emergencies. I will have an emergency and then if I do not have something in the bank...

Female participant: I think this money is fine for me because I can save for the fees for next year to go back to school.

Facilitator: okay so all of you (would like to) have enough to meet all your needs and also a little bit left to save?

In agreement: yes, for emergency.

Male participant: to save and for emergencies. (Participants laugh). [Vrygrond, unemployed]

Some workers anchored the reservation wage to the wage they are currently (or were previously) earning. However, for them too, the overwhelming consideration was the cost of living, as reflected in the quotes below:

Nonetheless, (a) facilitators clarified that the question related to working in general for any work and (b) discussion of how respondents calculated their reservation wages reveals that, almost universally, employed respondents were thinking about work in general.

Female participant: it's the money I got paid when I first worked.

Facilitator: so you are basing it [reservation wage calculation] on your previous job?

No it's the lowest I have got paid and it was fine, it did everything. It was fine. It did everything and there was some little change left, so yeah.

Female participant: I think also the amount I have is this because the job that I have now varied from the job I had before; as the money goes up the costs also goes up. So if I were to go back to that salary range, I would still be able to cover my costs because then in that way I am still doing my needs and not the wants that are coming up. *[Langa, employed]*

Male participant: I have to calculate my rental, my transport. I have to calculate for my food, for my education.

Facilitator: So you were thinking about your needs?

Yeah, I was thinking about all my needs.

And you can't accept a job if it doesn't allow you to pay for your needs?

Yes.

Facilitator: How about you two?

Male participant: I don't have huge responsibilities, so to speak – except for transport, rent and food. I don't have a kid to take care of. So I think that should be fine. I don't have that much responsibility.

So it's just your needs – to cover the costs that you do have?

Yeah, to cover my costs.

Facilitator: And you?

Female respondent: Yes, the same. *[Auckland Park, employed]*

This is also evident in the low median reservation wages (R2 100 for employed; R3 000 for unemployed), which loosely correspond with median figures for cost of living (R3 000 for employed; R3 700 for unemployed). The slightly higher estimates for cost of living suggest that young South Africans are willing to accept jobs at very low wage levels, even when below the estimated cost of living.

In previous research on reservation wages, high amounts were sometimes explained as respondents having conflated the concept of reservation wages with fair wages (Zoch 2014). We do not find evidence of this here, as there is a large disconnect between reservation wages and wages perceived to be fair. In other words, when thinking about the lowest amount of money they would work for, fairness is not a deciding factor and respondents appear to be willing to work for wages they perceive to be unfair. For employed respondents, the median fair wage is R6 000, which is approximately treble the median reservation wage of R2 100. For unemployed respondents, the median fair wage is R5 500, approximately double the median reservation wage of R3 000.

Despite this, reservation wages for unemployed respondents are higher than those for employed respondents. This could be interpreted as evidence of the hypothesis that young unemployed people are unrealistic about their prospects on the labour market, perhaps due to a lack of knowledge about their value on the labour market given inexperience, and that this is a determinant of their unemployment. More confirmatory evidence can be found when comparing the reservation wages of the unemployed with their predicted wages. Our loose proxies for the predicted wages of the unemployed are (a) the average wages earned by low-wage young earners in South Africa, as per Table 1, and (b) the current earnings of employed respondents in our focus groups (recruited from the same areas and similar in terms of sex, age and levels of education to unemployed respondents – see Table 2, 3 and 4)<sup>112</sup>. Mean reservation wages of the unemployed (R3 771), are substantially

<sup>112</sup> The ideal approach in determining predicted wages would have been to account for levels of education, experience, age, area of residence and other observable characteristics of our unemployed respondents and then match individuals with similar individuals in, e.g., the Quarterly Labour Force statistics (Statistics South Africa 2014).

higher than mean wages earned by employed respondents in our sample (R2 865) and in the Stats SA (2014) sample (R2 606).

However, it is important to stress our earlier finding that during discussions only two unemployed respondents indicated that they had ever turned down a job offer on the basis of low wages. There was a widespread belief that they ought to take whatever job they can, given the low probability of another offer being made. This suggests that while young unemployed people have a reservation wage in mind, this does not necessarily translate into their job-seeking behaviour.

Later in the discussion, after respondents had been presented with information about the average wages of young workers, most respondents also said they would accept a job paying R2 600 per month, the average wage for young low-wage earners according to Stats SA (2014) data. Higher reservation wages should therefore not be taken to indicate a lower likelihood of offer acceptance. They are possibly more an indication of a balance between what they would like to earn and what they consider to be realistic, than a reflection of the absolute lowest amount they would work for. Moreover, given their cost of living, and the costs of being unemployed and of job-seeking as discussed in the previous section, it does not seem unreasonable for respondents to *want* to earn wages that provide a cushion against poverty.

Most unemployed and employed respondents said that they would accept even lower wages if they were absolutely desperate, or as a female respondent in Worcester put it, 'if there is no food in the cupboards'. They would also mostly accept lower wages if the corresponding job were located close to where they live, thus obviating the need to cover large travel-related expenses. Given the very low incidence of respondents working near to where they live, it is likely that our average reservation wage figures would be much lower if the opposite were the case. This suggests that effective support to businesses in rural areas, townships and/or informal settlements or provision of subsidised housing in areas of cities close to substantial economic activity would likely shift reservation wages downwards.

### 10.3.2 Wages Earned by Young Workers

The average wages earned by employed respondents were very low – the median is R2 036 per month; the mean R2 865 per month.

There is substantial evidence of workers being paid below the minimum wages covering their sectors. For example, several full-time farm workers in rural KZN were paid R700 per month, which is below the sectoral determination of R2 606.78 per month. Contract cleaners working in a hotel in Johannesburg were paid R2 500 per month, which, assuming an eight-hour day and 22 working days per month (they in fact work 26 eight-hour days), works out to R14.20 per hour, which is below the sectoral determination of R16.98 per hour.

In answer to the question 'Do you think you would work harder if you were paid more', approximately equal numbers of employed respondents said they were working hard enough already, or that an increase would motivate greater effort:

"You work because there is a need for money because money does correct a lot of things, money makes some things lighter. So, you take work, even if you see that the pay is little but you say to yourself, it is better than nothing. You accept that but deep down you know that you are not happy. If they then give more, that brings about a sigh of relief even though you know that you have to put more sweat but the fact that you are going to get out more, that makes the burden lighter and that brings about good relationship and you will not have your boss shouting at you all the time". [Nkqonkwani, Eastern Cape, employed]

I'm already giving my best. [Luka, North West, employed]

For me, I have to work hard – it's the nature of the job. I can manoeuvre around and play hide and seek. But I have to put in the hard work. [Auckland Park, employed]

Finally, most employed respondents are unaware of how their wages are set, for example, via the sectoral determinations, bargaining councils, intra-company negotiation, etc. Respondents generally interpreted their wages as being determined by how employers value, and thus pay, their workers. Effort, experience and education were cited as possible motivating factors, but the general consensus is that respondents do not know.

### 10.4 Knowledge and Perception of Minimum Wages

#### 10.4.1 Knowledge

Most respondents, including employed respondents, did not know what minimum wages were. After establishing the (limited) knowledge of each group, the facilitator shared a pamphlet with respondents which explained what minimum wages are; their purposes; different types of minimum wage systems (national, sectoral, hybrid and age-differentiated); the South African system; and Tables listing sectoral determinations and average wages earned by young and older workers in South Africa.

#### 10.4.2 Perceived Advantages and Disadvantages

Once respondents were presented with information about minimum wages, they could articulate both advantages and disadvantages. Participants discussed improved standards of living and protection against exploitation as possible advantages. A commonly shared view was that minimum wages would also lead to greater certainty about earnings, and guarantees of a minimum standard (especially those respondents who had experience of jobs where pay was erratic, as in the case of several respondents in Hillbrow who had worked for large retailers). The idea was expressed in Durban and Cape Town as well:

“Like we said everything had its own advantages and disadvantages. Like you said it alerts you and makes you aware of your rights and if you working from 8am to 4pm you supposed to be earning this much. So maybe your salary is calculated per 30 minutes shift or per hour. So when you work beyond 4pm its over time you see. And then there is a minimum wage system and obviously there won't be a minister that will wake up from her big fancy house and decides that it will R1500 for workers in the farm. They will have to go through tests and do experiments and at least if you have rendered for 8 hours a day then you not supposed to be earning not less than hmmm R900 per day”. *[Durban, unemployed]*

“...if you admire the place, you know the lady who manages supervisors, the manager. She has a way of explaining stuff that you all understand when you are together and when you are actually alone and you are calculating and you will be like you know what she was talking a whole lot of nonsense to us. This when you are actually calculating on your own it's a different amount but when she does it, it goes together in a way, there is some, I don't know what I am not gonna speculate on all that”. *[Langa, employed – on uncertainty regarding how pay is calculated]*

Minimum wages were also perceived to potentially lead to greater equality and therefore less conflict or resentment:

“I think it helps in that people are not going to be set against each other” (Msinsi village, Eastern Cape, unemployed)

But participants were also aware of potential disadvantages such as reductions in employment levels:

“...all businesses want to make money. So whenever the minimum wage is high they will be losing instead of gaining”. *[Luka, North West unemployed,]*

“... less young people would be able to find work”. *[Worcester, unemployed]*

Surprisingly, a commonly-articulated view which was not discussed in the pamphlets and therefore brought up completely independently was that an advantage in paying low wages to young people – either in the case of an NMW which is set at a low level or in the case of a youth-sub-minimum wage – was that it would teach young people how to use money efficiently:

‘It teaches you how to work with your money. You won't buy expensive stuff’. (male, Worcester)

Others saw the provision of a minimum wage as a bad idea for similar reasons:

Respondent 1: Indeed, there can be bad things that can happen.

Facilitator: Hmm.

Respondent 2: We, the youth are focusing on drugs.

Respondent 1: Yes... if they drink, this money that a person will be getting, they will not do what is necessary, a person will drink alcohol.

Respondent 2: No, actually as you say that drugs, isn't it they are abusing the grant, the person will get into beautiful clothes and forget that it's for her child.

Respondent 1: Yes.

Respondent 2: Those type of things, even if they receive that one (minimum wage) the same thing will happen.

Respondent 1: It will just get worse.

Respondent 2: It will get worse my sister, I don't want to lie. *[Pietermaritzburg, unemployed]*

### 10.4.3 The Youth Sub-Minimum

Most respondents are against the idea of a youth sub-minimum wage in South Africa due to the belief that it would be unfair to earn less than older workers in the same jobs. Reasons for this perceived unfairness included that young people were said to have the same responsibilities as older workers and therefore should be equally compensated; that they had the same cost of living as older people (such as care for children and other dependents); and that young people are just as capable, or work just as hard (and in some cases harder, for example in jobs requiring manual labour) and should be equally compensated:

"...no, the whole experience thing that I have been hearing flying around. For me that person that has like much more experience started somewhere, so why do I have to get paid a lower amount just because I do not have experience? Probably I am gonna be able to do the job in a weeks' time and I would actually do better than her...no I would not settle for that personally, I wouldn't". *[Langa, employed]*

"I think that is not good. If as a young person I am doing the same job as an older person why must I earn smaller money. That's not fair!". *[Mandeni, employed]*

Female participant: if its office work it is more appropriate to pay an older person more money but when it comes to labour, guys young people work harder.

Facilitator: Okay so you are saying we need to look into the kind of work, the type of job it is and if it's a job that has lots of physical labour then young people maybe can do more work and so then you should pay them more?

Female participant: I think this is it, when you are older and you work in a garden there is a problem with your figure. So it's hard even at home you will get home and clean the house and kids as well. So think guys, when we face reality its fair...we young we can do more because we have energy and they know that we have energy and we can contain energy for that long and it's not like we not gonna get these wages. When you are above 25 then you can get the same money. *[Orange Farm, unemployed]*

R (male): ...even family background. Sometimes you will find I'm the only one at home who is working. So what about my parents, what about anyone else at home, I need to take care of them also.

R (female): it doesn't mean that if you're younger your responsibilities are less. *[Luka, North West, unemployed]*

One working participant in Luka said that his generation were better educated, relative to his parents' and grandparents' generations. A youth sub-minimum would not account for this:

"...in South Africa it won't work because of the apartheid regime. You know that most of our elders were not that well educated...so if a policy of that nature comes in it won't work because we are the ones that have the advantage of being better educated. So it would be a disadvantage for us". [Luka, North West, employed]

Nonetheless, some respondents were in favour. The quote below also reflects the sentiment discussed earlier regarding the belief that low pay for youth is justified on the basis of their relative inability to manage money:

"I agree with number 1, like I have a brother so every time when he gets paid (talks very low) drunk all that money. So I agree with number 1, give them less, the elder ones give them more. So this is the reason why some people think this might be a good idea because if you make it cheaper to hire and have lower minimum wage for you then if I am an employer then it costs me less to hire young people and if it's a country like South Africa where lots of young people do not get jobs then maybe more employers will hire more young people". [Orange Farm, unemployed]

"...definitely and like especially at this time you know because with me personally especially at this time I don't have much to pay for, I stay with my mum and she doesn't require much money from me". [Langa, employed]

"I think it would work, looking at the standard of living of young people who are not working...it's better to have that minimum wage shared among us than nothing...just sitting at home, month in month out, not having a source of income...it's better to balance the equation amongst us...". [North West, employed]

### 10.5 Potential Impacts of Minimum Wages On Young People's Labour Market Outcomes

Minimum wages are expected to impact on labour market participation (whether someone chooses to look for work and the extent to which they do so), employment levels, and wages. Changing ideas about reservation wages and fair wages, as well as the guarantee of at least a certain amount of money, might influence decisions regarding whether to look for work, and how intensely to do so. Impacts on employment levels and wages would in turn be influenced by the ways in which employers adjust to minimum wage policy. For these reasons we investigated how reservation wages might be influenced by minimum wage policy, and asked young people about their perceptions of employers' likely behaviour. Relevant findings are summarised below.

#### 10.5.1 Changing Ideas About Reservation Wages and Fair Wages

After the more abstract discussion of minimum wages, respondents were shown Tables of average earnings in South Africa (the same Table depicted as Table 1), as well as a list of sectoral determinations in South Africa. This was intended to test whether respondents would change their minds after being provided with objective information about the labour market and their relative earnings prospects.

Before the figures were provided to respondents, discussion took place about the amount that would represent a fair minimum wage for young people. The amount that came up most frequently was around R5 000 per month, a figure which was remarkably consistent across the employed and unemployed groups, across provinces, and urban and rural areas. After looking at the Tables indicating average wages as well as the sectoral determinations, ideas about what would constitute a fair wage did *not* significantly change. On the other hand, many unemployed respondents adjusted their reservation wages downwards after seeing the average wage earned by young workers, but again a substantial number did not. Unchanging reservation wages could be interpreted as a rational response, due to their being closely linked to the cost of living, which does not change because of being given new information. But it could also be interpreted as failure to adequately adjust their expectations. The insufficient evidence of our respondents anchoring their expectations to newly-provided information suggests that reference points are not chiefly determined in relation to other people, i.e. with concerns for fairness in mind.

However, unemployed respondents would mostly be willing to accept a job offer at R2 600 per month, the average wage earned by 18-25 year olds earning  $\leq$ R50 per hour (Stats SA 2014). Employed respondents earning more than R2 600 generally



would not accept such a job offer (although many employed respondents would); those earning less would. What this suggests is that a substantial number of respondents with reservation wages higher than R2 600 would nevertheless accept work at this wage possibly because of a realisation that this is reasonable given it is the average youth wage. It could also be because of the possibility that the responses to questions on reservation wages are more linked to a conception of a realistic want, rather than the absolute minimum required to be willing to work. Either way, we do not expect that a minimum wage set in this region would price young people out of the labour market, even in cases where it is viewed as unfair or below what job-seekers want.

Higher minimum wages would also lead to many unemployed respondents – including those who had become discouraged and had stopped looking for work - expending greater effort on job-seeking, due to the greater potential pay-off for these efforts (although how they would do so given the costs of application is unclear):

“For me it’s an opportunity to advance myself. Maybe at home I’ve got no shoes, no toiletries. So for me that is something I would look up to. Sitting at home doing nothing, being hungry the whole day and no food... for me the minimum wage is a way out of that”. *[Hillbrow, unemployed]*

Finally, in the focus groups where it was discussed, respondents indicated that higher minimum wages, or becoming entitled to a minimum wage, would not change their desire to study further. Here the chief determinant does not seem to be the benefits of working relative to the costs of education; more important are the costs of education considered singly, combined with a desire to study.

### 10.5.2 Perceptions of The Behaviour of Employers

Many felt that new minimum wage laws would not have any impact on the behaviour of employers which would bring about positive change for respondents in terms of their likelihood of working and their wages. Some respondents believed that the level at which a national or youth sub-minimum wage would be set would determine their wages indefinitely, with no or limited potential progression. Similarly, some employed respondents indicated a fear of their wages being reduced, in cases where a national minimum or youth sub-minimum wage is introduced:

“I think it may be a disadvantage when it comes to, maybe they say, the minimum wage is 2 000 per month, then the employers will stick to that and somehow not increase...per month...it can be a disadvantage...” *[Luka, North West employed]*

Another view shared by several respondents was that a minimum wage would incentivise employers to hire less and to transfer the workload to existing employees:

“I think they will hire less and expect you to work harder because you are already there and your salary is being raised”. *[Durban, employed]*

“I think this minimum wage gives an upper hand to the employer because there’s a guarantee as they know by law they have to pay R3 000. Your duties will become extensive. And they will know that you don’t have to complain. I know you said they can pay more but I think you can be exploited. I tend to differ with that”. *[Hillbrow unemployed]*

In many groups the common perception was that employers would try to dodge minimum wage law, as they ‘already do as they like’. This was especially common in focus groups where non-compliance with sectoral determinations was found, for example in Pietermaritzburg (farm workers), Hillbrow (retail), and Killarney (contract cleaners). It was not limited to these groups though:

“...a lot of employers will not register their employees...that system of employing outside people, it will come...it will be implemented because if you look at many people, for example, gardeners, you will hire a gardener and not register them, but

that person will be working for you for three years, and you will pay them R70 a day...when you calculate that amount it's not even a minimum wage. No one can survive on that...". [Luka, North West employed]

Nonetheless, many respondents in both unemployed and employed groups indicated a willingness to take on employers found to be paying sub-minimum wages – either by approaching the CCMA or through internal negotiations:

"Ja, I will speak to the employer and show him that this is what I am supposed to get, this is what is written and try to find out how come he is giving me eight hundred rands when the law says I should be getting this much. If he is not interested and not in agreement, I will then go to the labour to get my money". [Tshabo, Eastern Cape, employed]

At the same time, a substantial number were not willing, and feared losing their jobs (either current or future in the case of unemployed respondents) if they confronted or reported their (potential) employers. In Worcester, some respondents implied their preferred strategy in cases of non-compliance would be to put less effort into their jobs, but realised this carried the significant risk of being fired. The same unwillingness to take a more direct approach applies to tackling other working conditions, for example very long hours, irregular pay and (often racist) mistreatment by management in the fast food and clothing retail industries in Johannesburg. Also in Johannesburg, contract cleaners were made to sign contracts prior to accepting a job offer which forbade them from negotiating their wages and from engaging in strike action. They cited desperation as the cause of accepting these conditions:

Participant: when you are signing that contract, that is when you sign a lot of things there and you will be too excited to notice that this thing is bad in future.

Participant: you will be excited and you just sign and go.

Participant: yes.

Interviewer: because you have got a job?

Participant: yeah imagine you have been at home for like two years you will just sign but you do not want that paper will do to you in a few years' time [Killarney, employed].

The limited bargaining power reflected above, the perception that employers do as they please as well as the very limited knowledge of respondents at the start of the minimum wage-related discussion suggests that it would be crucial for any policy change relating to minimum wages to be clearly and effectively communicated to all workers. This information would need to be combined with appropriate and accessible support to make use of this knowledge in cases of non-compliance, as well as with credible enforcement mechanisms.

## 10.6 The Preferred Minimum Wage System

At the end of each focus group respondents were asked to vote for their preferred minimum wage system, based on the preceding discussion and based on the information provided to them (and explained by facilitators). Voting was done by placing a mark next to their preferred option on a sheet of paper handed to them (see Appendix J). The choices were national, sectoral, hybrid and age-differentiated/youth sub-minimum. The results are presented in Table 7:

Table 38. Focus Group Respondents' Preferred Minimum Wage System

	Employed (n = 71; 2 missing)	Unemployed (n = 79; 1 missing)	TOTAL (n = 150)
National Minimum Wage	34%	30%	32%
Sectoral Determination	38%	46%	42%
Hybrid	11%	6%	9%
Youth sub-minimum	17%	18%	17%

The results of the voting were very similar for employed and unemployed groups. The most frequently chosen preferred option was sectoral determination, followed closely by the national minimum wage. After each vote, facilitators briefly discussed with respondents why they made the choices they did. Those who chose sectoral determination often did so because of the belief that it would account more adequately for the different cost of living in different parts of the country as well as account for the different skills sets needed in different jobs. Those who chose the NMW system did so primarily due to concerns for equality, and for simplicity – i.e. the knowledge that they would be entitled to a certain wage regardless of where they are or of the type of job they would be doing. It was believed this would make employer compliance more likely. Finally, less than a fifth of all respondents chose the youth sub-minimum wage. This was chiefly as a result of this option being seen as unfair by the majority of respondents.

## 11 Findings from The Interviews with Employers

### 11.1 Profile of Respondents

A total of seven in-depth interviews were conducted with either business owners or Human Resources managers. Table 39 below provides some summary information.

Table 39. Summary Information for Respondents to Employer Interviews

Interview/ respondent number	Location	Sector	Size of business	Number of young employees (aged 18-25)
1	Durban	Retail: textiles	Small: 3 employees	1
2	Durban	Retail: clothing	Small: 2 employees	0
3	Johannesburg	Employment services	-	-
4	Johannesburg	Construction	Large: more than 5 000 employees	More than 1 000
5	Johannesburg	Financial services	Large: more than 5 000 employees	Between 500 and 1 000
6	Johannesburg	Manufacturing	Small: 16 employees	2
7	Johannesburg	Hospitality	Small: 15 employees	0

Interview 3 was different from the other interviews. This respondent is a manager of a large national organisation providing youth employment services to various business partners. This interview therefore represents the views of the respondent on his clients' experiences of employing young people, and on his opinions regarding how his clients might respond to changing minimum wage legislation.

### 11.2 The Experience of Working with Young People

All employers had had some experience of working with young people, even those who were not employing any young people at the time of the interview (respondents 2 and 7).

#### 11.2.1 Challenges Relating to Working with Young People

A common theme discussed by respondents was what they viewed as the limited soft skills and sub-standard work ethic of young people relative to older workers. This sometimes made employers reluctant to hire young job-seekers, and in the case of respondent 7, determined to avoid them:

"The problem with our youth is that they want to live a comfortable life but they are not willing to sweat and put more effort in their career...most of them are just lazy and are not prepared to go an extra mile." [Respondent 7, hospitality, Johannesburg]

"...they were more interested in cell phones [as opposed to working]" [Respondent 1, retail, Durban].

For respondent 2 (Durban, retail), the poor work ethic of former young employees led to management needing to spend a prohibitive amount of time monitoring and directing young employees, and this interfered with business operations. A similar sentiment was expressed by Respondent 6 (Johannesburg, manufacturing), who also had to spend relatively more time directing young employees due to their 'immaturity':

“Generally, they constantly seek affirmation in what they do, they require constant attention. So there is a lot of... can I say generally an older person would know what to do at any given circumstance while a younger person would battle to make a decision in terms of what to do” *[Respondent 6, manufacturing, Johannesburg]*.

Employee turnover was also cited as a problem. Respondent 3 (Johannesburg, employment services) indicated that many of his business partners struggle with retaining young employees. Respondent 7 (Johannesburg, hospitality) mentioned this as another reason for her decision to not hire young people at all, especially given the need to train young workers and, with high employee turnover, the lost investment this represents.

The issues cited above – i.e. problematic work ethic, lack of commitment, immaturity, limited work experience and high employee turnover – were identified by all respondents. In thinking through why young people may be relatively irresponsible or uncommitted to their jobs, some respondents attributed this to their having fewer responsibilities and commitments, such as children, than older workers, and therefore being ‘less stable’ (Respondent 1, retail, Durban). Others (respondents 5 and 7) recognised that in South Africa many young people are likely to either have children or make substantial financial contributions to their households and so discounted a lack of responsibilities as an influence on worker performance.

Respondents 3, 4, 5 and 6 did not consider these problems to be insurmountable, or as problems that would dissuade them from hiring young people. For respondents 3 and 4, work ethic can be taught. Alternatively, poor work ethic and unrealistic expectations were seen to naturally correct themselves over time as young people gain experience and grow out of ‘bad’ habits:

“I think it probably does [i.e. unrealistic expectations and poor work ethic are corrected over time] - people at the end of the day realise that youth are always optimistic about the future, you come into an environment and want to conquer the world and believe everything is possible...but even myself, I came in with unrealistic expectations and over time modified these to a more normal position” *[Respondent 4, construction, Johannesburg]*.

“...young people lack the behaviours that are required for the workplace, and the question is where should they learn those types of things. Should they be embedded in the public school system, does it come from somewhere else, and is that something that you’re brought up in the home with? I don’t think so - I think some of that’s just about being young and ill-disciplined” *[Respondent 3, employment services, Johannesburg]*.

For respondent 4 a major issue was the lack of proficiency in Maths as opposed to work experience:

“I think firstly its education. And the ability to use mathematics and English skills primarily. Because we are a technical company and everything is about numbers of bricks and quantities laid and it’s all numbers-driven...the next is the quality of the technical skills that they bring if they do have a technical education...work experience isn’t a major challenge as for many of these jobs we appreciate they are first-time jobs, and that’s natural that they don’t have the work experience yet...but it’s not a big block” *[Respondent 4, construction, Johannesburg]*.

For respondent 5, the biggest barrier to the employment of young people was that the supply of appropriate young workers actually exceeds the number of vacancies that her company and companies like hers are able to create:

Respondent: ...there’s more of them than what we can offer a place.

Interviewer: So it’s hard to select out of everyone you have?

Respondent: Um I don’t know if it’s hard to select, we always get [the right kind of candidates] - it’s difficult to say no to them...so our desire to contribute to reducing unemployment is greater than our ability...

Interviewer: Ja... So it’s not anything about the people... [i.e., so it’s not young job-seekers’ work-related skills deficiencies that prevent you from hiring more of them?]

Respondent: No [...] so I don’t think there’s a shortage of finding talent or potential to groom in that age group I think it’s, um, having enough positions for them *[Respondent 5, financial services, Johannesburg]*.

A final challenge identified by respondent 3 was the under-appreciated psychological impacts of poverty and long-term unemployment:

“When you’re dealing with young people who come from disadvantaged backgrounds, and have been unemployed sometimes for quite a long time, they may have gone for...up to over 10 years and be rejected every time, all those kinds of feelings ...it’s that underlying sense of self-worth, and those emotive and psychosocial aspects are very challenging and often play a very big and sometimes hidden role in young people and how they are able to find work and how they fare in the workplace...I may be a bit wishy-washy on this but I think it’s important” [Respondent 3, employment services, Johannesburg].

### 11.2.2 Advantages Relating to Working with Young People

In addition to the challenges of working with and hiring young people, all respondents except respondent 7 also saw advantages. These advantages included that youth are more energetic and that they can bring new ideas and new thinking into organisations (respondents 1, 2, 4, 5 and 6). Young people were also seen as having a higher learning capacity when compared to older workers. This made it easier for employers to train them, and to mould them into the kinds of workers needed by the organisation (respondents 4, 5 and 6). Respondent 6 actually saw limited work experience as an advantage for this reason:

“They do come to you without a predetermined requirement for the work position or certain work experience; ways of doing things so it is easy to train and shape them to work in your organisation the way you want them to” [Respondent 6, manufacturing, Johannesburg].

Disadvantages could also be viewed in a different light. Despite citing a ‘materialist’ orientation as a problem early in the interview, respondent 2 also saw young people’s ‘obsession with trends’ and ‘fashion sense’ as an advantage in the clothing retail space insofar as it allows for an understanding of the types of clothes that will sell and of how to assist customers. Respondent 3 thought that the popular discourse around young people being lazy and uncommitted – as reflected in the quotes in the previous section – has led to a situation where we have a large pool of talent that is being overlooked. Where his clients have begun to seriously identify opportunity in this talent pool they have been able to solve unmet business needs.

Finally, the greater flexibility of young workers was acknowledged as useful by respondents 4 and 6. This flexibility relates to fewer family commitments, which allows for them to work more flexible hours and also, in the case of construction, to be more willing to work on-site, sometimes in remote locations which are far away from their homes.

### 11.2.3 Younger Vs Older Workers?

Employers were then asked if, on balance, they had a preference for younger or older workers. Sometimes the answer to this question was contingent on the type of work that needed doing. Respondent 4 echoed what many focus group participants said – that when it comes to manual labour young people should be preferred:

“from a productivity perspective, not to discriminate against older people, young people should be able to do physical work more quickly than older workers, it’s just a physical issue in many of those types of jobs and the ability to physically sustain doing bricklaying or tiling for 12 hours... I can’t even do that for an hour and I’m exhausted...” [Respondent 4, construction, Johannesburg].

However, the need for employees to have work experience often led to older workers being preferred:

“for youth to be absorbed it’s always difficult, because management’s mind-set is give me the two CVs, one guy has 5 years’ experience working in the industry, the other’s got nothing and you’re paying them the same...you’re going to take the experienced guy because you believe there’s less risk associated with them” [Respondent 4, construction, Johannesburg].

Some employers – for example respondent 1 – preferred to make hiring decisions on an individual basis, while on the other end of the spectrum sat respondent 7, for whom the decision was clear:

“I don’t think they [young workers] would add any significant value in my business and I don’t know if I am being harsh or I am reflecting on my personal experiences. But I would rather outsource them when I need them” [Respondent 7, hospitality, Johannesburg].

Respondent 6 expressed a clear preference for hiring younger workers:

“...if there is a position and there are two people I would go for the young person because a younger person has more energy and I think in a small company as well one of the biggest costs is salary and going for a younger person can be advantage because they are cheaper” [Respondent 6, manufacturing, Johannesburg].

With the exception of respondents 2 and 7, the proportion of young employees in each employer’s organisation was said to be fairly constant over time. However, respondents 4 and 5 did indicate that a large share of their young workers did not work on a permanent basis. The majority in the construction organisation (respondent 4) worked on a project-related basis, while around a quarter in the financial services organisation (respondent 5) worked on a contract-related basis. This represents possibly precarious employment, given the uncertainty of future projects and the admission of respondent 5 that when retrenchments are made as a cost-saving exercise, contractors are among the first to be let go.

#### 11.2.4 Efficiency Wages

Interestingly, none of the respondents believed that paying higher wages would lead to (young) employees expending more effort on the job. Respondent 6 believed young workers would only do as much work as required, due to the business not being their own business (and hence not having a personal commitment to achieving business goals). Respondents 4 and 5 thought that commitment is only partially driven by wages, with other important factors including being trained in marketable skills; needing to support large families; and simply having a job in a context of widespread unemployment.

### 11.3 Perceptions of A National Minimum Wage (NMW)

#### 11.3.1 The NMW: Perceived Disadvantages

All employers said that they were constrained by bargaining councils, sectoral determinations or both in wage-setting. None of them said that they thought the sectoral determination or negotiated wage applicable to them was unfair to them, and they appeared to have faith in the processes of wage negotiation. Interestingly, respondent 4 recognised the possible unfairness of workers living on negotiated or legislated wages which he viewed as difficult to subsist on, but implied that intervening to address that unfairness beyond current processes would undermine free market principles:

“When there’s a fair balance of power I think you do get to a fair and real value for the roles that are negotiated. So I do think it’s fair...and to show you why I think it’s fair a little but further is that with waged employees you’re getting double digit increases over a 3-year period, whereas your professional skilled employees are getting single digit increases. So the power balance is kind of OK, it’s not like business is able to negotiate an inflation or less than inflation increase for wage employees, the unions are doing a great job for their members in increasing wages. Do I sometimes look at the negotiated wages and wonder how people survive on that, absolutely...I really do, I find it amazing that some people can live on 3- or 5000 rand a month. So is it alright or fair from that perspective, personally maybe not but there’s a market mechanism that is determining what the market can bear and that for me is the ultimate determination of fairness” [Respondent 4, construction, Johannesburg].

As a result, respondent 4 did not believe that the introduction of an NMW would be a good idea. He also asserted that different sectors had different economic dynamics which the approach of sectoral determination was better at dealing with. He did not find the current system, with its multiplicity of minima across sectors and occupations, to be unduly complicated.

Respondent 7 had a similar view, saying that one NMW level would not account for differences in skills levels required in different sectors:

“For an example, suppose we have two sectors, the soft and hard skills sectors [meaning, the high- and low-skilled sectors], and I am [employed in] the soft skill sector and you are in the hard skill sector like agriculture. Then I don't think [the NMW] would be fair because that would mean that we get the same benefits whereas we should not. It becomes unfair when it ignores one's education. I think it will require a serious reconceptualization” [Respondent 7, hospitality, Johannesburg].

### 11.3.2 The NMW: Perceived Advantages

However, for respondent 1 - the small retailer of fabrics in Durban who fulfils all ownership and human resourcing functions himself – an NMW would be significantly simpler administratively. At the same time, he was concerned that an NMW should account for what he saw as the reduced ability of smaller businesses to pay. Respondent 2 – the co-owner of a small family-run clothing retailer in Durban - shared this sentiment.

But despite reservations respondent 2 did see the potential benefits to workers flowing from the introduction of a minimum wage:

“It's a good idea – it could lead to greater equality and it would be good for employees to have a guarantee” [Respondent 2, retail, Durban].

The idea of an NMW providing security to young workers and job-seekers was also expressed by respondent 6:

“I think it is a good thing to have a standard minimum wage in place because it assists young employees who are at entry level into a secure work position; it also protects the employers as well as the employees. The expectation of a young person when entering the workforce is that they already have an indication of what they will potentially earn. So I believe a [national] minimum wage is a good thing” [Respondent 6, manufacturing, Johannesburg].

For respondent 5, guaranteeing higher wages for all would lead to a greater demand for financial products and services:

“I feel strongly about a national minimum wage for South Africa. Um and it's founded on the belief that the socio-economic challenges- or the social inequality in South Africa is quite wide [...] I just do feel that we need to kind of cost what does it take to survive based on- or to sustain oneself... As an organisation that is passionate about long-term wealth generation and retirement and those kind of things that's quite far from some people's mind when you are trying to feed and clothe children for today” [Respondent 5, financial services, Johannesburg].

Respondent 3 – the provider of employment services – thought business might need to be convinced of the importance of addressing the social issues relating to underpay:

“There are employers out there who absolutely screw their workforce. So from a social perspective I think it's very important. From an employers' or capitalist perspective I wonder if [the biggest] response might be you're driving us to be less competitive, you're raising the cost of doing business... I think the retail and hospitality sector would be very hard hit in this kind of space [...] I think it will be important if it's going to happen is to be able to illustrate to capital or to business, what is the cost benefit for them in this and yes there is an important social element but how do they benefit from that initiative” [Respondent 3, employment services, Johannesburg].



### 11.3.3 Perceived Compliance

Respondents seemed certain that other employers would comply with an NMW. When informed of documented and significant non-compliance with existing legislation, respondent 4 expressed the common feeling among the larger employers we spoke to, i.e. that small businesses would be more able to dodge minimum wage legislation. He also reaffirmed his belief in the efficient functioning of South African labour markets:

“...sure but I think that’s your less ethical companies [who are not complying], and I don’t count ourselves or our large peers in that...I understand that there must be hundreds of mom and pop type businesses doing a totally different thing. But I think that in itself is telling you that the market can bear lower rates than the sectoral determination ... as long as there’s a free market, people won’t offer their services and time if they [are] not getting a fair return, unless there’s total exploitation which may still exist in some parts of our sector...not our sector per se, I have to be careful I have no evidence...but there could be exploitation, but I don’t think that a minimum wage will change that, you’re just going to have more policing. The Department of Labour is going to have to hire another gazillion people to police this. I guess there’s a huge part of our employment base that goes under the radar of bank transactions, it’s cash transactions that happen and how do you monitor and police that?” [Respondent 4, construction, Johannesburg].

He also expressed a belief in the power of ‘naming and shaming’:

“How do you create a culture in our society where exploitation is taboo? Businesses typically pride themselves most about their reputation and there is nothing worse than having your reputation tarnished for being unethical, doing something unscrupulous, exploiting labour, exploiting people. And I think we have lots of mechanisms to deal with that, through our union structures, through the various [mechanisms such as the] CCMA [Commission for Conciliation, Mediation and Arbitration], DoL [Department of Labour] ... so rather police the exception, the unscrupulous employer, and then the reality is that in time they will go out of business and you will be left with scrupulous employers who understand the imperative of sustainable, fair remuneration for a fair day’s work and that’s ultimately what will happen” [Respondent 4, construction, Johannesburg].

### 11.4 Perceptions of a Youth Sub-Minimum Wage

Respondents were asked to give their general opinions on the idea of the youth sub-minimum wage. Respondent 2 was in favour, as he thought this would compensate him for unavoidable training costs. As such, he proposed that the sub-minimum should be in place during training periods. When asked whether he thought young people would object to being paid less than older workers for the same work, he responded thus:

“[In addressing their objections] we need to identify what it is exactly that youth want [from work]. Are they looking to grow as employees? If they are working just for money, then why not just give them the grant?” [Respondent 2, retail, Durban]

The quote reflects the notion that young workers who are starting out in the labour market should be willing to accept lower wages in exchange for training and work experience, if their priority is career progression.

He also thought that the lowered cost of young workers would lead to greater levels of employment of young people in the retail sector, especially in smaller businesses. This belief was shared by the other small retailer in our study, respondent 1, who saw a youth sub-minimum wage as a possible vehicle to improve the employment prospects of ‘the thousands of matriculants who are without work’. He recommended a trial period:

“I’d say try it out for 3 months to see how much interest there is from employers – review it after 3 months and then decide whether to keep it or not” [Respondent 1, retail, Durban].

The other small business owners in our study – respondent 6 (manufacturing) and respondent 7 (hospitality) had differing views. Respondent 6 agreed with respondents 1 and 2, saying that by making it easier for employers to hire young people

more young job-seekers would be given the opportunity to enter the labour market. But respondent 7 thought it would be unfair:

“I don't think it is fair because there are other children who are qualified for the job and I think it is also about family responsibilities. There are some children who are breadwinners in their own households so that I don't think it should be applicable” [Respondent 7, hospitality, Johannesburg].

Respondent 4 also thought a youth sub-minimum wage would be unfair, preferring the principle of equal pay for equal work...

“...at the end of the day it's about the value you bring to the organisation and construction and building are classic examples - if you can lay 1000 bricks, to the same quality as the next guy you should be paid for that. Age is irrelevant, sex gender...all of that is irrelevant. It's about the outcome, the value you bring to the organisation. The word is productivity – how productive are you to the organisation” [Respondent 4, construction, Johannesburg].

As did respondent 5, although near the end of the discussion her attitude became more ambivalent:

Interviewer: And so my next question is do you think it would be fair or a good idea to have a lower national minimum wage for 18-25 year olds as opposed to adults?

Respondent: I wouldn't know what you'd found that on...I think it would be a discussion around parity you know [...] I don't believe the plight of an 18-year-old is less important...I might be a little bit too philosophical and socialist about it

[...]

...you could challenge me in my personal capacity to say “would you take on a job that results in you earning less than someone else” and I would say “well I have to see”. If you were to give me like my ideal job, I don't know, being an ice-skater as opposed to an HR person, I'd say “pay me whatever you want as long as I can be on ice”, you know if that's where my passion is. Um but I think if we are founded by the South- or if what drives us is what's contained in our South African Constitution then parity and equality plays a strong role and I think we are skating on thin ice... if we are segregating in one area, because then you know it can become true for others. But I'd rather do something than do nothing” [Respondent 5, financial services, Johannesburg].

### 11.5 Potential Impacts of Changing Minimum Wage Legislation On the Employment of Young People

Respondents were asked several questions about what they thought the direct impacts might be of either an NMW or a youth sub-minimum wage, set at various hypothetical levels. The intention of asking these questions was to get some insight into the following:

- How sensitive their hiring of young people is – or might be - to legislated wage changes
- The possible substitution of young workers for older workers or other inputs, or vice versa
- Other means of adjustment to rising labour costs (i.e. other than retrenching people)
- Possibly shifting benchmarks for employers provided by new legislated minimum wages about what constitutes fair wages

#### 11.5.1 Adjustment: Youth Employment

While respondents 1 and 2 (small retailers in Durban) both believed that a youth sub-minimum wage would lead to greater employment levels for young people across their sector, when asked how various possible minimum wage levels would directly impact the employment of young people in their own businesses, both stated that the wage level doesn't matter as much as operational requirements. For both business owners, they would hire an extra worker if necessary due to business operational requirements, and if the performance of their shops allowed for this (for example if higher sales volumes led to higher revenue).

Respondent 4 (construction) didn't think it plausible that his business, or other construction businesses, would reduce the hours worked of workers in response to increases in minimum wages. This was due to the fixed timelines of construction projects in general – reducing hours worked would lead to deadlines being missed. He believed the opposite would be more likely – i.e. cheaper labour costs would lead to greater levels of employment as this would allow for projects to be completed more quickly.

In financial services, respondent 5 argued that when making decisions about hiring young people, skill was more important than price:

Interviewer: if there was a national minimum wage below what you're paying now would you consider hiring more young people for less or- like increasing your workforce but keeping your costs the same?

Respondent: um unlikely... and that is because of the percentage level of skill we require at each level. So...myself hiring more admin capturing clerks in HR does not further me achieving my people strategy as much as me having a learning and development specialist and the likes...we don't make more money by having more low-earning staff [Respondent 5, financial services, Johannesburg].

### 11.5.2 Adjustment: Substitution of Young Workers

Respondents 1 and 2 (retail) and 6 (manufacturing) did not have the freedom to substitute younger workers for machines or automated processes. Respondent 1 indicated that the introduction of a youth sub-minimum wage would not lead to substitution away from, and retrenchment of, his older workers. This was because of his belief in their relatively greater need for work due to having more responsibilities.

On the subject of substitution, respondent 3 thought that any minimum wage increase that is above what employers are currently paying would incentivise them to revert to their default positions of hiring for experience, which would mean the policy would reinforce a preference for older workers in the absence of a concerted effort to 'fix' the supply of young workers:

"I think a minimum wage, be it below or above what is currently in each sector, has some application but I do worry that it doesn't address the fundamental flaws or reasons for youth unemployment around the issues of work experience etc. I suppose the question is if you introduce a minimum wage that is above say what is offered at the moment in the retail and hospitality sector, and we know one of the reasons employers hire is because they don't trust the grade 12 certificate and therefore they look at work experience, what you're doing is creating an artificial barrier that is pushing employers back to hire for work experience rather than hiring fresh young talent" [Respondent 3, employment services, Johannesburg].

### 11.5.3 Other Adjustment Channels

In the construction sector, the average wage paid to 18-25 year olds in quarter 4 of 2014 was R2 100 per month (Stats SA 2014 – see Table 1). Respondent 4 was asked what he thought the impact might be in the construction sector of an NMW set at the average wage paid to all young workers in quarter 4 of 2014, which was R2 600 (ibid – see Table 1). His response communicates what he sees as the greater ability of larger businesses to adjust to higher labour costs by passing them on to customers, rather than by retrenching workers:

"I don't think it's going to crowd out a lot of people, I guess that's the ultimate question...but we have a different mentality as a large corporate...the mom and pop shop may have a very different view, and we hire a lot of mom and pop type businesses as sub-contractors...so they might balk at it...but at the end of the day this cost will be pushed through the system on to the clients. We're not going to bear the costs, we're not going to take a knock on our profits it will just be passed onto our clients and ultimately that's the private sector and government investing in infrastructure and that's the reality so it'll be a once-off..." [Respondent 4, construction, Johannesburg].

Respondent 6 indicated that for his organisation, the first reaction to increased labour costs would not be to reduce the number of employees on his payroll. Instead – demand permitting – he would raise the price of his products. In situations of falling demand he would then consider reductions in the number of hours worked per employee:

Interviewer: If young workers become expensive, would you reduce the hours they work?

Respondent: Yes and no. Perhaps the product that we would sell would become more expensive to keep our employees on. But that would be determined by how busy we would be and if we are not busy we wouldn't need them and we would look at reducing the hours. *[Respondent 6, manufacturing, Johannesburg]*

### 11.5.4 Shifting Ideas About Fair Wage Levels

Respondent 5 indicated that in the financial services sector current minimum wages are significantly higher than those for other sectors, and she believed that a new NMW would not be set above the wages currently paid to her lowest-paid young workers. When asked if lower mandated minima would encourage her to reduce the wages paid to her employees or to her new hires, she asserted that this would be unlikely:

"I'd like to believe that we as an organisation would do what is right because its right and we want to do what's right and that if we do that in principle we'll be leading the national agenda...as opposed to waiting to follow. I think there are some organisations that are not rooted as strongly in ethical principles...that would jump at the opportunity to not have to- to actually make an extra buck" *[Respondent 5, financial services, Johannesburg]*.

Respondent 6, whose lowest-paid young employee earned R5 000 a month, reveals a different approach:

Respondent: If the [wage we could pay] is R2 500 per month it would potentially mean we have two workers for one worker and that means there is a huge saving.

Interviewer: Would that change your business model?

Respondent: It would change the business slightly...I would need to get rid of a more experienced worker and I could get a less experienced worker and there would be a supervision and training issue. But as our industry does repetitive work I think it would be quick to train because I don't think there would be many changes to the business model. *[Respondent 6, manufacturing, Johannesburg]*

## 11.6 Views On Unemployment

Respondents gave their opinions on the youth unemployment challenge, and on what could be done by government and business to mitigate it. To conclude, they were asked for their thoughts on the job-seeking process for young people and how it could possibly be simplified.

### 11.6.1 The Role of Government

#### 11.6.1.1 Improving The Business Environment

Much of the discussion surrounding what government should do to tackle youth unemployment centred on improving the general business environment. This included facilitating private sector investment by providing policy stability. This would improve the ability of businesses to grow and to absorb more young job-seekers.

Respondent 1 felt particularly threatened by an adverse environment. His small fabric retail business is located in the Central Business District (CBD) of Durban – an area he claims is becoming unsafe for businesses and pedestrians due to an increasing incidence of violent and non-violent crime. The lack of visible policing does not inspire confidence in many potential customers, who in recent years have abandoned shopping in the CBD and moved to the malls. So for him, a concerted effort by government to improve public safety would boost his business and allow him to employ more people. He also advocated for improvements in public transport, as he saw the current system as disadvantaging people having to travel long distances to work (who he recognised as often being those with low wages) due to high costs and the unreliability of services.

Respondent 4 (construction) thought government should do more to invest in labour-intensive industries (such as construction). Respondent 5 did not see an unskilled workforce as the primary problem, but rather the lack of opportunity to use one's skills. For this reason, she recommended investment in the creation of new, labour-absorbing industries, and the supply of labour would fall into place:

“so given the fact that it is compulsory for people to be at school for a specific age ah we can have a different debate around the quality of education or not but if you don't have an opportunity to impart a skill, how will you grow...I think there's a place for all and I don't think we need to dictate what that is, people will find themselves in that but you actually have to create the opportunity... we always laugh when you see a new block of flats go up, these townhouse type complexes right...and they're full sold out and you wonder where did they live before?...you could create a whole business [and] all of a sudden tomorrow you could be fully staffed...because I think there is the supply and I think it will settle itself...” [Respondent 5, financial services, Johannesburg].

### 11.6.1.2 Education

Some respondents believed government should first 'fix' schooling (respondents 2, 4 and 6). Respondent 2 (retail, Durban) recommended basic training in soft skills for people who are unemployed now, which would include skills such as how to approach and interact professionally with people, how to answer phones, etc. Respondent 4 thought a lot of work needed to be done in educating young job-seekers around how to apply for jobs, which would include how to write cover letters and CVs, and how to use the internet optimally. He recognised this would probably necessitate efforts to improve internet access and affordability in low-income areas.

Respondents 7 (hospitality) and 5 (financial services) bemoaned an overly exclusive focus on education in Maths and English, asserting that for many people it would be more useful to be trained in technical and entrepreneurial skills. Support for small businesses was also suggested as a means to overcome youth unemployment (i.e. youth starting their own businesses instead of looking to be absorbed into other people's businesses – respondent 6, manufacturing).

### 11.6.2 The Role of Business

Respondent 2 (retail) thought business could do more to give young people the opportunity to accrue work experience, for example through internship programmes. But respondent 4 (construction) suggested this would only be possible in a context where businesses are growing.

Respondent 3 (employment services) saw a greater role for business in improving the education system. He also thought it would be beneficial for businesses to change the way they look at youth unemployment:

“Well what I've anecdotally heard is that simple things like, if we're going to turn around and lambast the TVETs [Technical Vocational Education and Training colleges] for being a failure then business needs to come to the table and say this is exactly what I'm going to need and this is when I'm going to need it and these are the types of skills. They will have to work with the TVETs to ensure this take places...that there is design for demand, it's got to be that kind of partnership where there is a common set of interests in addressing a problem, if it's one sided it's never going to work. I think business has got to move away from this narrow thinking that youth unemployment can be a CSI initiative they've got to see it as part of something broader than that... when you can locate it as solving and understanding a particular business problem, or a particular business issue that you've got then the solution is very, very clear. There's got to be a level of self-reflection for business in thinking about how getting this right can help them achieve their kind of objectives” [Respondent 3, employment services, Johannesburg].

## 12Part II Conclusion

This research sought to gain insight into the likely impacts of the introduction of a new NMW policy on young people. As we have argued, this is a cohort that is disproportionately impacted by unemployment. A worsening unemployment situation since 2008 has exacerbated their plight. This has direct and serious implications not only for their individual well-being but for the development and growth of South Africa.

Our discussions with young people across the country have given us a much clearer picture of the lived experience of youth unemployment. Young people perceive their unemployment as a result of not having relevant qualifications and being unable to secure funds to pursue further education and training, and of having limited work experience. Applying for jobs is also prohibitively expensive, and requires job-seekers to find money for extensive travel; for fees associated with the use of internet cafes, postage, copying, printing, scanning and certification; and to pay bribes in exchange for promises of employment. Many incur costs when they fall prey to fraudulent advertisements for jobs which never materialise.

Reservation wages which are too high have been cited as a cause of youth unemployment in South Africa. We do not find persuasive evidence of this. Stated reservation wages of our unemployed respondents are higher on average than the reservation wages and actual wages for working people of a similar age and socio-economic status. However, reservation wages cited by them are still low and are calculated mostly with reference to the cost of living. The median reservation wage among unemployed respondents is R3 000 per month while the median estimated cost of living is R3 700 per month. Nevertheless, most of our focus group participants would accept a job which paid R2 600 per month, which is the average wage earned by young people in South Africa (excluding the high-earning youth population). These findings suggest that a minimum wage of around R2 600 per month would probably not cause young people to drop out of the labour market.

Low reservation wages and a willingness to accept hypothetical job offers paying low wages did not mean that they considered these wages to be fair. The median perceived fair wage for unemployed and employed youth is R5 500 and R6 000 respectively, and R6 000 for all respondents combined. If we acknowledge workers' perceptions of fairness as being important in creating more equitable working environments, then it is important to stress the disconnect between the wages young people are willing to work for and the wages they would perceive to be fair.

Based on these findings we suggest that youth unemployment in South Africa is, generally speaking, not voluntary. It is a structural problem which young people have very little power to overcome. Suggestions to alleviate unemployment which we received from respondents in our focus groups as well as employer interviews included (a) improving education – both technical skills and soft skills, such as how to write CVs and how to prepare for interviews; (b) providing more and better-quality information about job opportunities; (c) providing career guidance to young people, preferably while still at school; (d) cracking down on scammers – i.e. individuals and organisations posing as employers and extorting money from job-seekers; and (e) improving public transport and making it more affordable.

Just as young South Africans are over-represented among the unemployed, they are also over-represented in low-wage jobs. As expected, the young working people we met with earn very low wages on average (the median is R2 002 per month; the mean is R2 502 per month). There is substantial evidence of non-compliance with existing sectoral determinations. The low pay is possibly linked to our finding that knowledge of minimum wages – both what they are and how they are applied in South Africa – is very limited across groups of employed and unemployed youth. At the same time, it is also clear that many young people lack the confidence and the bargaining power to take on employers perceived to be treating them unfairly or to be offering jobs with unreasonable conditions. This suggests that any beneficial impacts of a national minimum wage would be offset if compliance and enforcement systems are ineffective, and if young people are not sufficiently informed about the policy and about how to claim their rights. Young people, as well as employers, would need to be provided with clear and

consistent information. After being provided with information during the focus groups, 42 percent of all respondents chose sectoral determination as their preferred minimum wage system, followed by a national minimum wage at 32 percent. The preference for a sectoral determination type of system, although small, was due first, to its perceived potential to more adequately account for the variation in the cost of living in different parts of the country. Second, for taking account of different skills requirements of different types of jobs (i.e. more highly- skilled jobs should guarantee higher minimum wages). This reinforces the need for adequate provision of information to young people should a national minimum wage be implemented. In addition, these findings suggest that (a) a national minimum wage policy would need to ensure that it takes account of the differential cost of living in different geographic regions, and (b) there is the possibility that some young people would find it unfair for jobs with very different skills profiles to be subjected to the same minimum wage.

We do not find evidence to suggest that minimum wages would crowd out the pursuit of further education and training. We also find that it could lead job-seekers to expend more effort on job-searches, and for discouraged work-seekers to re-enter the labour market. For many workers, minimum wages which represented wage increases would also lead to increased effort on the job.

The idea of a youth sub-minimum wage was received poorly in most cases. Most participants in our focus groups felt that such a policy would be unfair, although a minority saw it as having the potential to improve their employment prospects.

From the interviews with employers, we learned that poor work ethic, limited work experience and high turnover were challenges relating to the hiring and retention of young people. However, not all respondents saw these challenges as insurmountable. Work ethic was seen as something which could be taught, or as improving naturally as young people grow into their jobs. Limited work experience appeared to some respondents to be an unfair criterion by which to judge young job applicants starting out in the labour market. Some saw these challenges as advantages, claiming that they allow for employers to mould young employees into the types of workers they need – something which they see as harder to do with older workers.

Furthermore, most respondents were in favour of an NMW provided it is not set too high. They believed it would contribute to greater equality, improve the standard of living of workers and give job-seekers and workers a ‘guaranteed’ income. However, views on a youth sub-minimum wage were more mixed. Smaller business owners were generally in favour, seeing it as a mechanism to reduce labour costs whilst compensating them for training costs. Others were more sceptical, their chief concern being that paying less for the same work would discriminate against young people.

Finally, we do not get the impression from our employer respondents that increases in minimum wage levels would lead to substantial retrenchments, at least in the short-term: costs could be recouped by transferring them to consumers. Also, for some businesses the demand for workers is relatively less sensitive to changes in wage levels. In other words, the operational requirements of the businesses dictate that workers are relatively important, and they would not be retrenched with moderate changes in the levels of the minimum wage. This was especially true for (a) the small retailers, who cannot substitute their workers for other inputs; (b) the construction organisation, which cannot reduce employment levels in the short-term due to fixed project deadlines, and (c) the financial services organisation, which hired relatively more skilled workers, with these skills cited as being very important to their operations. However, the small retailers would find it much harder to absorb the costs associated with minimum wage increases than larger businesses. Minimum wage increases above the average current wages paid to youth may also reinforce preferences for older workers in new hiring decisions, where these preferences exist. This is because sometimes older workers were preferred due to having more work experience and more work-related soft skills. Finally, we have mixed findings regarding reductions in minimum wage levels for young people (either in the form of a youth sub-minimum wage or in the form of a new minimum wage which is below the average wage currently paid to young workers). In some cases, these reductions would lead to employers hiring more young people at the reduced wage.



## References

- Abowd, J., Kramarz, F., & Margolis, D. (1999). Minimum Wages and Employment in France and the United States. National Bureau of Economic Research, Working Paper 6996.
- Addison, J. T., Schnabel, C., & Wagener, J. (2001). Works councils in Germany: their effects on establishment performance. *Oxford Economic Papers* 53 (4), 659-694.
- Addison, J. T., Teixeira, P., Evers, K., & Bellman, L. (2013). Collective Bargaining and Innovation in Germany: Cooperative Industrial Relations? IZA DP No. 7871.
- African Economic Outlook (2014). Promoting Youth Employment in Africa. Retrieved from [http://www.africaneconomicoutlook.org/theme/youth\\_employment/](http://www.africaneconomicoutlook.org/theme/youth_employment/).
- Alaniz, E., Gindling, T. H., & Terrell, K. (2011). The impact of minimum wages on wages, work and poverty in Nicaragua. *Labour Economics*, 18, S45-S59.
- Alatas, V., & Cameron, L. (2003). The Impact of Minimum Wages on Employment in a Low Income Country: An Evaluation Using the Difference-in-Differences Approach, Policy Research Working Paper 2985. The World Bank.
- Alatas, V., & Cameron, L. (2008). The Impact of Minimum Wages on Employment in a Low-Income Country: A Quasi-Natural Experiment in Indonesia. *Industrial and Labour Relations Review*, 201-223.
- Allegretto, S. A., Dube, A., & Reich, M. (2011). Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Seletivity in State Panel Data. *Industrial Relations*, Vol. 50, No. 2, , 205-240.
- Allegretto, S., Dube, A., Reich, M., & Zipperer, B. (2013). Credible Research Designs for Minimum Wage Studies. Working Paper, Institute for Research on Labor and Employment, UC Berkely.
- Almeida, R., & Carneiro, P. (2009). Enforcement of Labor Regulation and Firm Size. *Journal of Comparative Economics* 37 (1), 28-46.
- Almeida, R., & Carneiro, P. (2012). Enforcement of Labor Regulation and Informality. *American Economic Journal: Applied Economics*, 4(3), 64-89.
- Altbeker A & Storme E (2013). *Graduate Unemployment in South Africa: A Much Exaggerated Problem*. Johannesburg: The Centre for Development and Enterprise.
- Altman, M. (2007). *Youth Labour Market Challenges in South Africa*. Pretoria, HSRC Press.
- Andalón, M., & Pagés, C. (2008). Minimum Wages in Kenya. IZA Discussion Paper No. 3390.
- Arndt, C., Davies, R., & Thurlow, J. (2011). Energy Extension to the South Africa General Equilibrium (SAGE) Model. Helsinki, United Nations University's World Institute for Development Economics Research (UNU-WIDER).
- Aronson, J. (1995). A Pragmatic View of Thematic Analysis. *The Qualitative Report*, 2(1): 1-3.
- Ashenfelter, O., & Smith, R. (1979). Compliance with the minimum wage law. *Journal of Political Economy*, 333-350.
- Ayres, I., & Braithwaite, J. (1992). *Responsive Regulation*. New York: Oxford University Press.
- Banerjee, A., Galiani, S., Levinsohn, J., McLaren, Z. & Woolard, I. (2007). Why has Unemployment Risen in the New South Africa. *The Economics of Transition*, 16(4): 715-740.
- Barrientos, A., Möller, V., Saboia, J., Lloyd-Sherlock, P., & Mase, J. (2013). Growing Social Protection in Developing Countries: Lessons from Brazil and South Africa. *Development Southern Africa*, 30(1), 54-68.
- Bell, L. (1997). The Impact of Minimum Wages in Mexico and Colombia. *Journal of Labor Economics*, 102-135.
- Belman, D., & Wolfson, P. (2014). *What Does the Minimum Wage Do?* Kalamazoo, MI: Upjohn Institute Press.
- Belser, P., & Sobeck, K. (2012). At what level should countries set their minimum wages? *International Journal of Labour Research*, Vol. 4 Issue 1, 105-127.
- Benassi, C. (2011). The Implementation of Minimum Wage: Challenges and Creative Solutions. Geneva: ILO Working Paper No. 12.
- Benjamin, P., Bhorat, H. and Cheadle, H. (2010). The cost of “doing business” and labour regulation: The case of South Africa. *International Labour Review*, Vol. 149, No. 1
- Berg, J. (2011). Law or Luck? Understanding Rising Formality in Brazil in the 200s. In S. Lee, & D. McCann, *Regulating for Decent Work: New Direction in Labour Market Regulation* (pp. 123-150). New York: Pavgrave Macmillan and International Labour Office.
- Betcherman, G. (2014). Labor Market Regulations: What Do We Know about Their Impacts In Developing Countries? World Bank Policy Research Working Paper 6819.
- Bhorat, H., Cassim, A. & Yu, D. (2014). *Executive Summary: Temporary Employment Services in South Africa: Assessing the Industry's Economic Contribution*. Cape Town: Development Policy Research Unit.
- Bhorat, H., Jourdan, B., Kanbur, R., Rooney, C., Stanwix, B. & Woolard, I. (2016). *Investigating the Feasibility of a National Minimum Wage for South Africa*. Cape Town: Development Policy Research Unit.
- Bhorat, H., Kanbur, R., & Mayet, N. (2011). Estimating the causal effect of enforcement on minimum wage compliance: The case of South Africa. Cape Town: Development Policy Research Unit.
- Bhorat, H., Kanbur, R., & Mayet, N. (2012a). Minimum Wage Violation in South Africa. *International Labour Review* Vol. 151 (3), 277-287.
- Bhorat, H., Kanbur, R., & Mayet, N. (2012b). The Impact of Sectoral Minimum Wage Laws on Employment, Wages and Hours of Work in South Africa. Cape Town: Development Policy Research Unit.
- Bhorat, H., Kanbur, R., & Mayet, N. (2013). The Impact of Sectoral Minimum Wage Laws on Employment, Wages, and Hours of Work in South Africa. *IZA Journal of Labor & Development*, 1-27.
- Bhorat, H., Kanbur, R., & Stanwix, B. (2014). Estimating the Impact of Minimum Wages on Employment, Wages and Non-Wage Benefits: The Case of Agriculture in South Africa. *American Journal of Agricultural Economics*, 1-18
- Bhorat, H., Kanbur, R., & Stanwix, B. (2015). *Minimum Wages in Sub-Saharan Africa: A Primer*. No. 9204 IZA Discussion Papers.



- Boeri, T., & Van Ours, J. (2013). *The Economics of Imperfect Labour markets*. Princeton: Princeton University Press.
- Bosch, M., & Manacorda, M. (2010). Minimum Wages and Earning Inequality in Urban Mexico. *American Economic Journal: Applied Economics* 2, 128-149.
- Botero, J., Djankov, S., La Porta, R., Lopez-de-Silanes, F., & Shleifer, A. (2003). The Regulation of Labor. National Bureau of Economic Research Working paper 9756.
- Boyce, C., & Neale, P. (2006). *Conducting In-Depth Interviews: A Guide for Designing and Conducting In-Depth Interviews for Evaluation Input*. Watertown, MA: Pathfinder International.
- Braithwaite, J. (1985). *To Punish or to Persuade*. Albany: SUNY Press.
- Branson, N. & Zuze, T. L. (2012). *Education, the Great Equaliser: Improving Access to Quality Education*. Cape Town: Children's Institute, University of Cape Town. Retrieved from [http://www.ci.org.za/depts/ci/pubs/pdf/general/gauge2012/education\\_equaliser.pdf](http://www.ci.org.za/depts/ci/pubs/pdf/general/gauge2012/education_equaliser.pdf).
- Brasil, Repórter. (2010). Slave Labour Laundry List. Retrieved from <http://www.reporterbrasil.com.br/listasuja/listasuja.php?lingua=en>
- Brown, C., Gilroy, C., & Kohen, A. (1983). Time-Series Evidence of the Effect of the Minimum Wage on Youth Employment and Unemployment. *Journal of Human Resources*, 3-31.
- Brown, S., & Taylor, K. (2013). Reservation Wages, Expected Wages and Unemployment. *Economics Letters*, 119(3): 276-279.
- Budlender, J., Leibbrandt, M., & Woolard, I. (2015). South African poverty lines: a review and two new money-metric thresholds. Cape Town: Southern African Labour and Development Research Unit, Working Paper 151.
- Card, D. (1992a). Using regional variation in wages to measure the effects of the federal minimum wage. *Industrial and Labor Relations Review*, 22-37.
- Card, D. (1992b). Do minimum wage reduce unemployment? A case study of California, 1987-1989. *Industrial and Labor Relations Review*, 38-54.
- Card, D., & Krueger, A. (1998). A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data. Washington, D.C.: National Bureau of Economic Research, Working Paper 6386.
- Card, D., & Krueger, A. (1994). Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania. *The American Economic Review*, 772-793.
- Card, D., & Krueger, A. (1995). *Myth and measurement: The new economics of the minimum wage*. Princeton, NJ: Princeton University Press.
- Card, D., Katz, L., & Krueger, A. (1994a). An Evaluation of Recent Evidence in the Employment Effects of Minimum and Subminimum Wages. *Industrial Labor Relations Review*, 487-496.
- Card, D., Katz, L., & Krueger, A. (1994b). Comment on D. Neumark and W. Wascher, 'Employment effects of minimum and subminimum wages: panel data on state minimum wage laws'. *Industrial and Labor Relations Review*, 487-496.
- Castillo-Freeman, A., & Freeman, R. (1992). When the Minimum Wage Really Bites: the effects of the US-Level Minimum on Puerto Rico. In G. Borjas, & R. Freeman, *Immigration and the Work Force: Economic Consequences for the United States and Source Areas* (pp. 177-211). Chicago: Chicago University Press.
- Comola, M., & De Mello, L. (2011). How Does Decentralized Minimum Wage Setting Affect Employment and Informality? The Case of Indonesia. *Review of Income and Wealth*, Vol. 57, S79-S99.
- Conradie, B. (2004). Wages and Wage Elasticities for Wine and Table Grapes in South Africa. Cape Town: Center for Social Science Research Working Paper No. 90.
- Cottle, E. (2015). *Towards a South African National Minimum Wage*. Geneva: International Labour Organisation.
- Coy, P. (2014). *Making the Economic Case for More than the Minimum Wage*. Retrieved from <http://www.bloomberg.com/bw/articles/2014-02-13/making-the-economic-case-for-more-than-the-minimum-wage>.
- Davies, R., & Thurlow, J. (2009). Informal-formal economy linkages and unemployment in South Africa. *Food Policy*, (April), 1-28
- de Linde Leonard, M., Stanley, T., & Doucouliagos, H. (2014). Does the UK Minimum Wage Reduce Employment? A Meta-Regression Analysis. *British Journal of Industrial Relations*, 499-520.
- Del Carpio, X. N., & Liang, C. W. (2013). The Impacts of Minimum Wages on Employment, Wages and Welfare: The Case of Vietnam. Washington, D.C.: East Asia and Pacific Social Protection and Labor Unit, World Bank.
- Del Carpio, X., Margolis, D., & Okamura, Y. (2013). Effects of Minimum Wages on Labor Markets and Welfare in the Philippines: A Micro-Simulation-Based Estimation. Washington, D.C.: East Asia and Pacific Social Protection and Labor Unit, World Bank.
- Del Carpio, X., Messina, J., & Sanz-de-Galdeano, A. (2014). Minimum Wage: Does It Improve Welfare in Thailand? IZA Discussion Paper No. 7911.
- Del Carpio, X., Nguyen, H., & Wang, L. C. (2012). Does the Minimum Wage Affect Employment?: Evidence from the Manufacturing Sector in Indonesia. The World Bank Policy Research Working Paper 6147.
- Department for Business Innovation and Skills (BIS) (2014). *National Minimum Wage: Understanding Worker Behaviour in Maintaining Compliance with the Law*. London: Government of the United Kingdom.
- Department for Business Innovation and Skills (BIS) (2011). *Research into Employers' Attitudes and Behaviour towards Compliance with UK National Minimum Wage (NMW) Legislation*. London: Government of the United Kingdom.
- Department of Economic Development (2013) *New Growth Path Accord 6: Youth Employment Accord*. Pretoria: Department of Economic Development.
- Department of Labour. (2015a). Sectoral Determinations. Retrieved from Department: Labour, South Africa: <http://www.labour.gov.za/DOL/legislation/sectoral-determinations>
- Department of Labour. (2015b). Administrative Data on Inspection and Enforcement Services. Pretoria: DoL.
- Department of Social Development (DSD), South African Social Security Agency (SASSA) & The United Nations Children's Fund (UNICEF) (2012). *Child Support Grant Evaluation 2010: Qualitative Research Report*. Pretoria: UNICEF South Africa.

- Department of Statistics, Malaysia. (2014). *Salaries & Wages Survey Report 2014*. Putrajaya: Department of Statistics, Malaysia.
- Dervis, K., de Melo, J., & Robinson, S. (1982). *General Equilibrium Models for Development Policy*. Washington, D.C.: A World Bank Research Publication.
- Development Policy Research Unit. (2012). *National Survey of Labour Inspectors*. Cape Town: DPRU University of Cape Town.
- Dinkelmann, T., & Ranchold, V. (2012). Evidence on the Impact of Minimum Wage Laws in an Informal Sector: Domestic Workers in South Africa. *Journal of Development Economics*, 27-45.
- Doucoulagos, H., & Stanley, T. (2009). Publication Selection Bias in Minimum-Wage Research? . *British Journal of Industrial Relations* 47:2, 406-428.
- Dube, A. (2013). Minimum Wages and Aggregate Job Growth: Causal Effect or Statistical Artifact? IZA Discussion Paper No. 7674.
- Dube, A., Lester, T. W., & Recih, M. (2010). Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties. *Review of Economics and Statistics*, Vol. 92, No. 4, 945-964.
- El Hamidi, F., & Terrell, K. (2001). The Impact of Minimum Wages on Wage Inequality and Employment in the Formal and Informal Sector Costa Rica. William Davidson Institute Working Paper Number 479.
- Eriksson, T., & Pytlovkova, M. (2004). Firm-level Consequences of Large Minimum-wage Increases in the Czech and Slovak Republics. *Labour* 18 (1), 75-103.
- Eyraud, F., & Saget, C. (2005). The fundamentals of minimum wage fixing. Geneva: ILO.
- Fajnzylber, P. (2001). Minimum Wage Effects Throughout the Wage Distribution: Evidence from Brazil's Formal and Informal Sectors. Universidade Federal do Belo Horizonte: Unpublished paper, Department of Economics and CEDEPLAR.
- Falk, A., Fehr, E., & Zehnder, C. (2005). *The Behavioural Effects of Minimum Wages*. CEPR Discussion Paper No. 5115. London: Centre for Economic Policy Research.
- Fang, T., & Lin, C. (2013). Minimum Wages and Employment in China. Bonn: IZA Discussion Paper No. 7813.
- Fehr, E., Goette, L. & Zehnder, C (2008). *A Behavioural Account of the Labour Market: The Role of Fairness Concerns*. Working Paper 394 (2008). Zurich: Institute for Empirical Research in Economics.
- Feliciano, Z. (1998). Does the minimum wage affect employment in Mexico? *Eastern Economic Journal* 74 (4) July, 830-844.
- Ferreira, F., Firpo, S., & Messina, J. (2004). A more level playing field? Explaining the decline in earnings inequality in Brazil, 1995-2012. Manchester: International Research Initiative on Brazil and Africa.
- Finn, D. (2005). The National Minimum Wage in the United Kingdom. Graue Reihe des Instituts Arbeit und Technik.
- Foguel, M. N., Ramos, L., & Carneiro, F. G. (2001). The Impact of the Minimum Wage on the Labor Market, Poverty and Fiscal Budget Brazil. IPEA Discussion Paper No. 839.
- Gallina, P. (2005). New Compliance Strategies: 'Hard Law' Approach. Human Resources Development Canada.
- Garbers, C. (2015 Unpublished). The Impact of the Agricultural Minimum Wage on Farmworker Employment in South Africa: A Fixed Effects Approach - Draft. Stellenbosch University.
- Gindling, T. H. (2014). Does increasing the minimum wage reduce poverty in developing countries?. IZA World of Labor.
- Gindling, T. & Terrell, K., (2005). The Effect of Minimum Wages on Actual Wages in Formal and Informal Sectors in Costa Rica. *World Development*, 33(11), 1905-1921.
- Gindling, T., & Terrell, K. (2007). The Effects of Multiple Minimum Wages Throughout the Labor Market: The case of Costa Rica. *Labour Economics*, 485-511.
- Gindling, T., & Trejos, J. D. (2010). Reforzar el cumplimiento de los salarios mínimos en Costa Rica. San Salvador: FUSADES.
- Gindling, T., Mossaad, N., & Trejos, J. D. (2014). The Consequences of Increased Enforcement of Legal Minimum Wages in a Developing Country: An Evaluation of the Impact of the Campaña Nacional de Salarios Mínimos in Costa Rica. Bonn: IZA DP No. 8253.
- Godfrey, S., Maree, J., Du Toit, D., & Theron, J. (2010). *Collective Bargaining in South Africa: Past, present, and future?* Claremont: Juta & Co, Ltd.
- Godfrey, S., Theron, J., & Visser, M. (2007). The State of Collective Bargaining in South Africa: An Empirical and Conceptual Study of Collective Bargaining. Cape Town: Development Policy Research Unit Working Paper 07/130.
- Graham, L.; Moodley, J.; Ismail, Z.; Munsaka, E.; Ross, E. & Schneider, M. (2014). *Poverty and Disability in South Africa*. Johannesburg: Centre for Social Development in Africa.
- Grimshaw, D. (2014). At Work but Earning Less: Trends in Decent Pay and Minimum Wages for Young People. Geneva: International Labour Organisation.
- Hall, R. E. (1982). The Minimum Wage and Job Turnover in Markets for Young Workers. In Freeman, R. B. & Wise, D. A. (eds), *The Youth Labour Market Problem: Its Nature, Causes, and Consequences* (pp. 475-498). Chicago: University of Chicago Press.
- Ham, A. (2013). Revisiting the Effects of Minimum Wages in Developing Countries: Evidence from a Particular Policy Change in Honduras. University of Illinois at Urbana - Champaign.
- Harrison, A., & Scorse, J. (2010). Multinationals and Anti-sweatshop Activism. *American Economic Review*, 100:1, 247-273.
- Heng Gule, L. (2012). Minimum wage policy – Curse or cure? CIMB.
- Herr, H., Kazandziska, M., & Mahnkopf-Praprotnik, S. (2009). The theoretical debate about minimum wages. Working Paper 6 (2009). Berlin: Global Labour University.
- Hertz, T. (2005). The Effect of Minimum Wages on the Employment and Earning of South Africa's Domestic Service Workers. Kalamazoo: Upjohn Institute Working Paper No. 05-120.

- Houghton, R. (2012). *Employer's Perspectives - Part Two: The Minimum Wage System*. Wellington: New Zealand Ministry of Business, Innovation and Employment.
- Hyslop, D., & Stillman, S. (2007). Youth minimum wage reform and the labour market in New Zealand. *Labour Economics*, 14(2), 201-230.
- International Labor Organization. (1970). *Minimum Wage Fixing Convention. No. 131*.
- ILO. (2010). *Technical Memorandum: South Africa labour administration and inspection need assessment*. Geneva: ILO.
- ILO. (2011). *Global Employment Trends for Youth: 2011 Update*. Geneva: International Labour Organisation.
- ILO. (2012/13). *Global Wage Report: Wages and Equitable Growth*.
- ILO. (2013). *Global Employment Trends for Youth, 2013: A Generation at Risk*. Geneva: International Labour Organisation.
- ILO. (2014). *Minimum Wage Systems: International Labour Conference 103rd Session 2014*. Geneva: ILO.
- ILO. (2015a). TRAVAIL Legal Database. Retrieved from International Labour Organization: <http://www.ilo.org/dyn/travail/travmain.home>
- ILO. (2015b). *Global Wage Database Online*. Geneva: ILO.
- Jones, P. (1997). The Impact of Minimum Wage Legislation in Developing Countries where Coverage is Incomplete. Center for the Study of African Economies, University of Oxford WPS/98-2.
- Jones, S (1988). The Relationship between Unemployment Spells and Reservation Wages as a Test of Search Theory. *The Quarterly Journal of Economics*, November 1988: 741-765.
- Katz, L., & Krueger, A. (1992). The effects of the minimum wage on the fast food industry. *Industrial and Labor Relations Review*, 6-21.
- Kharmis, M. (2013). Does the minimum wage have a higher impact on the informal than on the formal labour market? Evidence from quasi-experiments. *Applied Economics* 45:4, 477-495.
- Kingdon, G. And Knight, J. (2001). *Unemployment in South Africa: The Nature of the Beast*. Working Paper Series 2001 No. 15. Oxford: Centre for the Study of African Economies, University of Oxford.
- Krassa, M. & Radcliffe, B. (2014). *Does a Higher Minimum Wage Make People Happier?* Washington Post. Retrieved from <https://www.washingtonpost.com/news/monkey-cage/wp/2014/05/14/does-a-higher-minimum-wage-make-people-happier/>.
- Krueger, A. B. (2015). The History of Economic Thought on the Minimum Wage. *Industrial Relations: A Journal of Economy and Society*, 54(4): 533-537.
- Krueger, A. B., & Mueller, A. I. (2014). *A Contribution to the Empirics of Reservation Wages*. Working Paper No. w19870. Cambridge, Massachusetts: National Bureau of Economic Research.
- Lanzona, L. (2012). The Impact of Minimum Wages on Output and Employment in Labor-Intensive Manufacturing Industries in the Philippines. Manila: Background paper for the Philippine Development Report, World Bank.
- Lemos, S. (2004). Minimum Wage Policy and Employment Effects: Evidence from Brazil. *Economia*, 219-266.
- Lemos, S. (2006). The Minimum Wage Effects in a Developing Country. University of Leicester, Discussion Paper 01/06.
- Lemos, S. (2007). Minimum wage effects across the private and public sectors in Brazil. *Journal of Development Studies*, 700-720.
- Lemos, S. (2009). Minimum wage effects in a developing country. *Labour Economics*, Vol. 16, Issue 2, 224-237.
- Leonard, T. C. (2000). The Very Idea of Applying Economics: The Modern Minimum-Wage Controversy and its Antecedents. *History of Political Economy*, 32: 117-146.
- Levine, S. (2014). SEMINAR: After the strikes: The feminization of poverty on farms in the Boland. Institute for Poverty, Land and Agrarian Studies. Cape Town.
- Levin-Waldman, O. (1999). The Rhetorical Evolution of the Minimum Wage, Working Paper No. 280. Levy Economics Institute.
- Livingston, I. (1995). Minimum Wage Policy, Rural Development and Poverty Alleviation in Malawi. *Development and Change*, Vol. 26, Issue 2, 729-752.
- Löschel, Andreas; Conrad, Klaus (2002) : Recycling of eco-taxes, labor market effects and the true cost of labor: a CGE analysis, ZEW Discussion Papers, No. 02-31
- Magruder, J. (2013). Can minimum wages cause a big push? Evidence from Indonesia. *Journal of Development Economics*, Vol. 100, Issue 1, 48-62.
- Maloney, W., & Nuñez Mendez, J. (2004). *Measuring the Impact of Minimum Wages: Evidence from Latin America*. Chicago: Chicago University Press.
- McCarrier, K. P., Zimmerman, F. J., Ralston, J. D., & Martin, D. P. (2011). Associations between Minimum Wage Policy and Access to Health Care: Evidence from the Behavioural Risk Factor Surveillance System, 1996–2007. *American Journal of Public Health*, 101(2): 359-367.
- McIntyre, F. (2006). An Empirical Model of Illegal Work, the Minimum Wage, and Mandated Non-wage Benefits. IZA Working Paper No. 2721.
- Metcalf, D. (1999). The British National Minimum Wage. *British Journal of Industrial Relations* 37:2, 171-201.
- Meth, C. (2007). Flogging a dead horse: Attempts by van der Berg et al to measure changes in poverty and inequality, SALDRU Working Paper, Series Number 9, UCT
- Ministry of Human Resources. (2015, 11 16). Minimum Wage Portal FAQs. Retrieved from Malaysia's Ministry of Human Resources: <http://minimumwages.mohr.gov.my/news-publications/faqs/>
- Mlatsheni, C. (2012). The Challenges Unemployment Imposes on Youth. In Perold, H. Cloete, N. & Papier, J. (2012). *Shaping the Future of South Africa's Youth: Rethinking post-school education and skills training*. Cape Town: African Minds.
- Mlatsheni, C. & Rospabe, S. (2002) *Why is Youth Unemployment So High and Unequally Spread in South Africa?* Working Paper No. 02/65. Cape Town: Development Research Policy Unit.

- Montenegro, C., & Pagés, C. (2004). Who Benefits from Labor Market Regulations? Chile 1960-1998. In J. Heckman, & C. Pagés, *Law and Employment: Lessons from Latin America and the Caribbean* (pp. 401-434). Chicago: University of Chicago Press.
- Muravyev, A., & Oshchepkov, A. (2013). Minimum Wages, Unemployment, and Informality: Evidence from Panel Data on Russian Regions. Bonn, Germany: IZA.
- Murray, J., & van Walbeek, C. (2007). Impact of the Sectoral Determination for Farm Workers on the South African Sugar Industry: Case Study of the KwaZulu-Natal North and South Coasts. *Agrekon* Vol 46 No 1, 116-134.
- Mywage.co.za (2015). Minimum Wage Rates in South Africa. <http://www.mywage.co.za/main/salary/minimum-wage>.
- Nattrass, N., & Seekings, J. (2014). Job destruction in Newcastle: minimum wage-setting and low-wage employment in the South African clothing industry. *Transformation: Critical Perspectives on Southern Africa*, Vol 84, 1-30.
- Nattrass, N., & Seekings, J. (2015). Policy, Politics and Poverty in South Africa. Johannesburg: Palgrave Macmillan.
- Nattrass, N., & Walker, R. (2005). Unemployment and Reservation Wages in Working-Class Cape Town. *South African Journal of Economics*, 73(3): 498-509.
- National Treasury of South Africa (2011). *Confronting Youth Unemployment: Policy Options for South Africa*. Pretoria: National Treasury.
- National Youth Development Agency (NYDA) (2015). *National Youth Policy 2015 – 2020*. Pretoria: NYDA.
- Neumark, D., & Wascher, W. (1992). Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws. *Industrial & Labour Relations Review*, 46.
- Neumark, D., & Wascher, W. (1995). The Effect of New Jersey's Minimum Wage Increase on Fast-Food Employment: A Re-Evaluation Using Payroll Records. Washington, D.C.: National Bureau of Economic Research.
- Neumark, D., & Wascher, W. (2000). "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment." *American Economic Review*, 90(5): 1362-1396.
- Neumark, D., & Wascher, W. (2007). Minimum Wages and Employment, Discussion Paper No. 2570. Bonn: Institute for the Study of Labor (IZA).
- Neumark, D., & Wascher, W. (2008). Minimum Wages. Cambridge: The MIT Press.
- Neumark, D., Cunningham, W., & Siga, L. (2006). The Effects of the Minimum Wage in Brazil on the Distribution of Family Income: 1996-2001. *Journal of Development Economics*, 136-159.
- Neumark, D., Salas, J. I., & Wascher, W. (2013). Revisiting the minimum wage-employment debate: Throwing out the baby with the bathwater? Cambridge: National Bureau of Economic Research, Working Paper 18681.
- Neumark, D., Salas, J. I., & Wascher, W. (2014). More on Recent Evidence on the Effects of Minimum Wages in the United States. National Bureau of Economic Research Working Paper No. 20619.
- Nguyen, C. V. (2010). The Impact of a Minimum Wage Increase on Employment, Wages and Expenditures of Low-Wage Workers in Vietnam. Munich Personal RePEc Archive Paper No. 36751.
- Nguyen, C. (2013). The Impact of Minimum Wages on Employment of Low-Wage Workers: Evidence from Vietnam. *Economic Transition*, 583-615.
- Overseas Development Institute (ODI) (2015). *Research Tools: Focus group discussion*. Retrieved from <http://www.odi.org/publications/5695-focus-group-discussion>.
- Parker, A., & Tritter, J. (2006). Focus Group Method and Methodology: Current Practice and Recent Debate. *International Journal of Research & Method in Education*, 29(1): 23-37.
- Pauw, K. (2009 Unpublished). Labour Market Policy and Poverty: Exploring the Macro-Micro Linkages of Minimum Wages and Wage Subsidies. Cape Town: University of Cape Town.
- Pauw, K., & Leibbrandt, M. (2012). Minimum wages and household poverty: General equilibrium macro-micro simulations for South Africa. *World Development*, 40(4), 771-783.
- Piore, M., & Schrank, A. (2008). Toward managed flexibility: The revival of labour inspection in the Latin world. *International Labour Review* 147 (1), 1-23.
- Rama, M. (2001). The Consequences of Doubling the Minimum Wage: the Case of Indonesia. *Industrial and Labor Relations Review*, Vol. 54, No. 2, February, 864-881.
- Ranchhod, V. & Finn, A. (2014). *Estimating the Short Run Effects of South Africa's Employment Tax Incentive on Youth Employment Probabilities Using a Difference-In-Differences Approach*. Cape Town: Southern African Labour and Development Research Unit.
- Rani, U., Belser, P., & Oelz, M. (2013). Minimum wage coverage and compliance in developing countries. *International Labour Review*, Vol. 152, 381-410.
- Rankin, N. A., & Roberts, G. (2011). Youth Unemployment, Firm Size and Reservation Wages in South Africa. *South African Journal of Economics*, 79(2), 128-145.
- Republic of South Africa. (1995, December 1995). No. 66 of 1995: Labour Relations Act, 1995. Office of the President.
- Republic of South Africa. (1997). No. 75 of 1997: Basic Conditions of Employment Act, 1997. Johannesburg, South Africa: The office of the President.
- Roberts, G. (2011). Youth Employment in South Africa and the Persistence of Inflated Expectations. In Proceedings of the ESSA (Economic Society of South Africa) Conference (pp. 5-7). Retrieved from <http://www.aceconferences.co.za/MASA%20FULL%20PAPERS/Roberts.%20G.pdf>.
- Seekings, J. & Nattrass, N. (2005). *Race, Class and Inequality in South Africa*. New Haven: Yale University Press.
- Schmitt, J. (2013). Why Does the Minimum Wage Have No Discernable Effect on Employment? Washington, D.C.: Center for Economic and Policy Research.
- Schulten, T. (2015a, March). Preconditions for successful implementation of the new minimum wage in Germany. Retrieved from Global Labour Column: <http://column.global-labour-university.org/2015/03/preconditions-for-successful.html>



- Schulten, T. D. (2015b, November 19). How the 2015 German National Minimum Wage was Determined - DPRU phone interview. (B. Jourdan, & J. R. DPRU, Interviewers)
- Skidmore, P. (1999). Enforcing Minimum Wage. *Journal of Law and Society* 26(4), 427-448.
- South African Press Association (SAPA) (2013). Every SA Worker Has 3 Dependents. Retrieved from <http://www.sundayworld.co.za/news/2013/01/14/every-sa-worker-has-3-dependents>.
- Southern Africa Labour and Development Research Unit. National Income Dynamics Study 2012, Wave 3 [dataset]. Version 1.3. Cape Town: Southern Africa Labour and Development Research Unit [producer], 2015. Cape Town: DataFirst [distributor], 2015
- Stanwix, B. (2012 (unpublished)). The impact of the agricultural minimum wage and the role of enforcement in South Africa. Cape Town: University of Cape Town.
- Statistics South Africa (2009). Quarterly Labour Force Survey. Pretoria: Statistics South Africa.
- Statistics South Africa. (2013). Labour Market Dynamics in South Africa 2013 [Dataset]. Pretoria: Statistics South Africa.
- Statistics South Africa. (2014). Labour Market Dynamics in South Africa 2014 [Dataset]. Pretoria: Statistics South Africa.
- Statistics South Africa (2015a). *Quarterly Labour Force Survey, Quarter 3 2015* [dataset]. Pretoria: Statistics South Africa.
- Statistics South Africa. (Stats SA) (2015b). *National and provincial labour market: Youth Q1: 2008–Q1: 2015. Statistical release P0211.4.2*. Pretoria: Statistics South Africa.
- Strobl, E., & Walsh, F. (2003). Minimum Wages and Compliance: The Case of Trinidad and Tobago. *Economic Development and Cultural Change*, Vol. 51, No. 1, January, 427-450.
- Sunder, R., Noble, M., Wright, G. & Ntshongwana, P. (2010). Social Assistance and Dependency in South Africa: An Analysis of Attitudes to Paid Work and Social Grants. *Journal of Social Policy*, 39(2): 203-221.
- Suryahadi, A., Widyanti, W., Perwira, D., & Sumarto, S. (2003). Minimum Wage Policy and Its Impact on Employment in the Urban Formal Sector. *Bulletin of Indonesian Economic Studies*, Vol. 39, No. 1, April, 29-50.
- The Federal Ministry of Labour and Social Affairs. (2015). The Minimum Wage Act in detail: Objectives, application, implementation and control. Berlin: Federal Ministry of Labour and Social Affairs.
- The League of Nations. (1919). The Treaty of Peace Between the Allied and Associated Powers and Germany (Treaty of Versailles). London.
- Tiu Wright, L. (1996). Exploring the In-Depth Interview as a Qualitative Research Technique with American and Japanese Firms. *Marketing Intelligence & Planning*, 14(6): 59-64.
- UK Low Pay Commission. (1998). The National Minimum Wage: First Report of the Low Pay Commission. London.
- UK Low Pay Commission. (2014). The National Minimum Wage Low Pay Commission Report 2014. London: Department for Business, Innovation and Skills.
- Van der Berg, S., Louw, M., & Du Toit, L. (2007a). Poverty trends since the transition: What we know. Stellenbosch University, Department of Economics, (10/09).
- van der Berg, Servaas; Louw, Megan and Yu, Derek. (2007). Post-Transition Poverty Trends Based on an Alternative Data Source. Stellenbosch Economic Working Papers, No. 08/07.
- Wadsworth, J. (2010). Did the National Minimum Wage Affect UK Prices? *Fiscal Studies*, 31(1): 81-120.
- Wang, J., & Gunderson, M. (2011). Minimum Wage Impacts in China: Estimates from a Prescribed Research Design, 2000-2007. *Contemporary Economic Policy*, Vol 29, No.3, 392-406.
- Wang, J., & Gunderson, M. (2012). Minimum Wage Effects on Employment and Wages: Dif in Dif estimates from Eastern China. *International Journal of Manpower*, 860-876.
- Wang, X. (2012). When Workers Do Not Know – The Behavioural Effects of Minimum Wage Laws Revisited. *Journal of Economic Psychology*, 33(5): 951-962.
- Weil, D. (2008). A strategic approach to labour inspection. *International Labour Review*, 147 (4), 349-375.
- Wilkinson, S. (1998). Focus Group Methodology: A Review. *International Journal of Social Research Methodology*, 1(3): 181-203.
- Wittenberg, M. (2014). Analysis of employment, real wage, and productivity trends in South Africa since 1994. ILO, Conditions of Work and Employment Branch.
- World Bank. (2011). Optimal Design for a Minimum Wage Policy in Malaysia. World Bank.
- World Bank. (2014). World Development Indicators: Brazil. Washington, D.C.: World Bank.
- World Economic Forum (WEF) (2014). *Global Risks 2014, Ninth Edition*. Cologne: The World Economic Forum. Retrieved from [http://www3.weforum.org/docs/WEF\\_GlobalRisks\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_GlobalRisks_Report_2014.pdf).
- Yu, D. (2012). Youths in the South African Labour Market since the Transition: A Study of Changes between 1995 and 2011. Department of Economics and the Bureau for Economic Research. Stellenbosch: Stellenbosch University.
- Zimmerman, K. (2014, April 4). Germany's Minimum Wage: A Costly Experiment. Retrieved from IZA Newsroom: <http://newsroom.iza.org/en/2014/04/04/germanys-minimum-wage-a-costly-experiment/>
- Zoch, A. (2014). How Reliable Are Responses to Survey Questions about Reservation Wages? The Case of Young South Africans. Paper presented to CSAE Conference. Retrieved from [https://editorialexpress.com/cgi-bin/conference/download.cgi?db\\_name=CSAE2014&paper\\_id=896](https://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=CSAE2014&paper_id=896).

# Appendix A

## International and South African Minimum Wage Studies

Table 40. South African Studies on Minimum Wages

Study	Parameters of Study	Employment/Hours Worked	Formal/Informal Sector Shifts	Wages
<u>Dinkelman &amp; Ranchhod (2012)</u>	Date: September 2001, March 2002, September 2002, March 2003, September 2003, March 2004 Data: South African Labour Force Surveys	No significant effects on employment or hours of work for domestic workers in the informal sector.		There is a large, significant increase in wages after the minimum wage was increased, of between 18.9 and 21.7%.
<u>Bhorat, Kanbur, &amp; Stanwix (2014)</u>	Date: September 2000 to September 2007 Data: South African Labour Force Surveys	Results suggest a significant employment reduction in agriculture from the minimum wage – and in particular a noticeable move away from employment of part-time workers – an increase in wages on average, and a rise in non-wage compliance. Overall average of hours worked fell in the post-law period, suggesting that employers adjusted to some extent on the intensive margin, and it appears that hours of work increased by more in areas where wages were lower in the pre-law period – driven largely by the fall in part-time employment.	Substantial increase in contract coverage for farmworkers in South Africa. The number of workers with a written employment contract increased to reach 52% in 2007.	Substantial increase in farmworkers wages by approximately 30%.
<u>Hertz (2005)</u>	Date: September 2001 to September 2004 Data: South African Labour Force Surveys	Hours of work per week decreased (-0.47 for women and -0.28 for men) and employment fell (between -0.19 and -0.33) for domestic service workers.		Average wages by those employed increased by approximately 20%.
<u>Bhorat, Kanbur, &amp; Mayet (2012)</u>	Date: 2000-2007 Data: South African Labour Force Surveys	No clear evidence that the introduction of minimum wage laws had a significant impact on employment in a given period for the retail, domestic work, taxi, security, and forestry sectors. Workers in the retail (-4.5%), security (-4.5%), and domestic work (-7.7%) sectors experienced a reduction of hours, but increases in wages outweighed these effects.		Evidence of a significant increase in real hourly wages in the post-law period in the retail, domestic work, and security sectors examined. The taxi and forestry sectors did not experience an increase in wages.
<u>Murray &amp; van Walbeek (2007)</u>	Date: January to March 2005 Data: 103 semi-structured interviews of large and medium scale farming employers	No large disemployment effects occurred for farm workers, but there was some indication that employers substituted at the lower skills margin as well as adjusted at the intensive margin of labour to reduce weekly wage costs. On average, workers hours were reduced between 27 and 35 hours per week, as opposed to the standard 45 hour work week.		
<u>Conradie (2004)</u>	Date: 2004 Data: Survey of 190 wine and table grape farmers	Disemployment effects are found with table grape farm workers (-0.59) and wine farm workers (-0.33)		
<u>Nattrass &amp; Seekings (2014)</u>	Date: 2010 – 2011 Data: National Bargaining	The National Bargaining Council for the Clothing and Manufacturing Industry launched a wage compliance drive in 2010, which resulted in the closing of four		

	Council for the Clothing and Manufacturing Industry	factories that threatened at least 20,000 jobs in Newcastle, South Africa.		
<u>Garbers (2015 Unpublished)</u>	Date: 1997-2007 Data: October Household Survey and Labour Force Survey	Findings indicate that formal unskilled farm employment decreased by approximately 16% as a result of the 2003 agricultural minimum wage regulation, of which 7.5% is directly attributable to higher unskilled labor costs resulting from the wage floor. There is also evidence of skill and capital intensification resulting from the minimum wage.		

Table 41. International LMI Country Studies on Minimum Wages

Study	Country	Parameters of Study	Employment/Hours Worked	Formal/Informal Sector Shifts	Wages
<u>Kharmis (2013)</u>	Argentina	Date: 1992 – 2005 Data: Permanent Household Survey (EPH) for the year 1993 and the Continuous Permanent Household survey (EPH-C) for the year 2004			Informal workers, workers without social security contribution, experienced significant wage increases when the minimum wage was raised while formal workers did not.
<u>Fajnzylber (2001)</u>	Brazil	Date: 1982-1997 Data: Brazil's Monthly Employment Survey, individuals aged 15 to 65	Estimates suggest that employment elasticities are negative for most low-wage workers, being lower in absolute value for formal salaried workers (around – 0.1 at the bottom of the wage distribution) than for low-wage informal salaried and self-employed (between –0.25 and –0.35).		Significant minimum wage effects across the whole wage distribution, and both in the formal and the informal sectors. We also find that the total impact of minimum wages on workers' earnings (derived from current and lagged effects) is positive but smaller than the contemporaneous one. Other results include higher earnings elasticities for men, adults and heads of households than for women, teenagers and non-heads, respectively
<u>Foguel, Ramos, &amp; Carneiro (2001)</u>	Brazil	Date: 1982-1999 Data: Monthly Employment Survey (Pesquisa Mensal de Emprego/IBGE), Official Minimum Wage Rates from the Ministry of Labor, Brazilian Institute of Geography and Statistics	Increases in the value of the official minimum wage tend to decrease formal employment (-0.001 to -0.024) and increase informal employment (0.0004 to 0.003)		A 10% increase in unemployment causes a 1.2% drop in the earnings of informal workers as opposed to a fall of only 0.9% in the wages of formal workers.
<u>Lemos (2004)</u>	Brazil	Data: 1982-2000 Data: Brazil's Monthly Employment Survey and Brazilian Labour Ministry Data	Small negative effects on employment (-0.05) and it is dominated by the hours effect, or reduction in hours worked.		An increase in the minimum wage strongly compresses the wage distribution.
<u>Lemos (2006)</u>	Brazil	Data: 1982-2000 Data: Brazil's Monthly Employment	Minimum wage has no adverse effect on employment in Brazil between 1982 and 2000,		In the formal sector, a 1% increase in the minimum wage increases the wages of those in the

		Survey and Brazilian Labour Ministry Data	despite the sizeable wage effects found in both the formal and informal sectors		25th percentile by 0.33% and of those in the 50 <sup>th</sup> percentile by 0.10% (evaluated at the average “fraction at” 11.6%). In the informal sector, it increases the wages of those in the 25th percentile by 0.31% and of those in the 50th percentile by 0.48%.
<a href="#">Lemos (2007)</a>	Brazil	Data: 1982-2000 Data: Brazil's Monthly Employment Survey and Brazilian Labour Ministry Data	No evidence of adverse employment effects in either the public or private sectors at the aggregate level or for vulnerable groups such as teenagers, women and the low educated. Minimum wage policies in Brazil appear to be a potentially viable anti-poverty instrument.		In the private sector, a 10 per cent increase in the real minimum wage increases the wages of those in the 20th percentile by 3.41 per cent and of those in the 30th percentile by 2.55 per cent. In the public sector, it increases the wages of those in the 20th percentile by 1.79 per cent and of those in the 30th percentile by 1.14 per cent.
<a href="#">Lemos (2009)</a>	Brazil	Data: 1982-2004 Data: Brazil's Monthly Employment Survey and Brazilian Labour Ministry Data	No effect found in either the formal or informal sector (0.080 – 0.358)		Minimum wage compresses the wage distribution of both the formal and informal sectors in Brazil in May 1995.
<a href="#">McIntyre (2006)</a>	Brazil	Date: 1981-1999 (except 1991 and 1994) Data: Pesquisa Nacional de Amostragem de Domicílios (PNAD)	Estimates reveal that the minimum wage in Brazil does not increase unemployment, rather it raise formality.	Mandate non-wage benefits and the minimum wage law have no effect on employment, but do encourage informality and lower total compensation. Lower minimum wages encourages workers to formalize their benefits: a 10% decrease in the minimum wage increases by 1.9% the number of workers paying all payroll taxes. The average formality premium is highest among the least educated.	Lower minimum wages and laxer enforcement of the law both increase wages among the low-skilled and decreases wage inequality.
<a href="#">Neumark, Cunningham, &amp; Siga (2006)</a>	Brazil	Date: 1996-2001 Data: Brazilian Monthly Employment Survey (Pesquisa Mensal do Emprego, or PME)	Negative employment effects (-0.07)		Estimates provide no evidence that minimum wages in Brazil compress the income distribution—lifting family incomes at the lower points of the income distribution—and if anything sometimes indicate that minimum wages have the opposite effect of reducing family incomes in the lower tail of the distribution.
<a href="#">Montenegro &amp; Pagés (2004)</a>	Chile	Date: 1960-1998 Data: Household surveys from the University of Chile's Economics Department	Results suggest that both minimum wages and job security regulations reduce the employment opportunities of the young, the unskilled and particularly unskilled youth		



			while promoting the employment rates of skilled and older workers. We have also found indications that job security regulations may force some workers, particularly women and the unskilled, out of wage employment and into self-employment.		
<a href="#">Fang &amp; Lin (2013)</a>	China	Date: 2004-2009 Data: Urban Household Survey (UHS) and minimum wage data collected at the county level	Minimum wage changes have significant adverse effects on employment in the Eastern and Central regions of China, and result in disemployment for females, young adults, and low-skilled workers. Youth: -0.136 to -0.156 At Risk Groups: -0.265 to -0.340		
<a href="#">Wang &amp; Gunderson (2011)</a>	China	Date: 2000-2007 Data: China Population Statistic Yearbook	Negative employment effects in slower growing regions ( -0.156 to -0.178); larger negative effects in non-state owned organizations that tend to be more responsive to market pressures; much larger lagged effects reflecting the time needed for adjustments to occur; no adverse employment effects in the prosperous and growing		
<a href="#">Bell (1997)</a>	Colombia	Date: 1977-1987 Data: Colombia's Annual Industrial Survey	Substantial disemployment effects of minimum wages are found, where the impact is estimated at roughly 2% to 12% over 1981-1987. Implied Elasticities suggest that the increase in the relative value of the minimum wage in Colombia from 1977 to 1987 (roughly 15%) had the effect of reducing manufacturing employment by 5% over this period.		Minimum wages have a strong impact on wages judging by their proximity to the average wage and time-series estimates.
<a href="#">Maloney &amp; Nuñez Mendez (2004)</a>	Colombia	Date: 1997 and 1999 Data: National Statistical Agency (DANE) and National Household Survey (ENH)	A rise in the minimum wage has a statistically very significant impact on the probability of becoming unemployed that again decreases with a rising position in the wage distribution. (-0.161 to -0.356)		The effect on real wages of a change in the real minimum wage is high for those earning 70% to 90% of the minimum wage; 87% of the rise in minimum wages is communicated to wages.
<a href="#">El Hamidi &amp; Terrell (2001)</a>	Costa Rica	Date: 1976-1992 Data: Household Survey of Employment and Unemployment, Ministry of Labor Wage Data	Increase in the minimum wage relative to the average wage is associated with an increase in the level of covered sector employment by 0.56 percent, but no effect on the number of self-employed over time; and an increase in the average number of hours worked per week by 0.14 percent in the covered sector and 0.34 percent in the		

			uncovered sector. These findings may be interpreted as supporting the monopsonistic model, which predicts that increases in wages can increase employment up to the point where the marginal cost is equal to the marginal revenue.		
<u>Gindling &amp; Terrell (2005)</u>	Costa Rica	Date: 1988-2000 Data: Legal Minimum Wage Data from the Ministry of Labor, Household Surveys for Multiple Purposes by the Costa Rican Institute of Statistics and Census, and industry data from the Costa Rican Central Bank	A 10% increase in minimum wages lowers employment in the covered sector by 1.09% and decreases the average number of hours worked of those who remain in the covered sector by about 0.6%. Despite the wide range of minimum wages, the largest impact on the wages and employment of covered sector workers is in the lower half of the distribution		Legal minimum wages have a significant positive effect on the wages of workers in the covered sector (with an elasticity of 0.10) but no effect on wages of workers in the uncovered sector.
<u>Eriksson &amp; Pytlovskaya (2004)</u>	Czech Republic	Date: 1998-2000 Data: Average Earnings Information System	Negative employment and working hours' effects of -14.4% and 5.1%, respectively, in the year following the 1998 minimum wage increase. Negative employment and working hours' effects of -5.1% and 5.4%, respectively, in the year following the 1999 minimum wage increase.		The larger the proportion of low-paid workers in a firm, the higher the increase in the firm's average wage.
<u>Jones (1997)</u>	Ghana	Date: 1970-1991 Data: Yearbook of Labour Statistics (ILO), International Financial Statistics (IMF), African Employment Report (1990), Penn World Tables, World Bank Social Indicators of Development (1995), World Bank's 'Regional Program on Enterprise Development' (1992)	Provides fairly strong evidence that the minimum wage in Ghana had a negative impact on employment in the formal private sector (-0.12 elasticity) and formal public sector (-0.17 elasticity). Informal employment increased as a result of increased of the minimum wage. Employment of women	Implied elasticities suggests that a large proportion of the public sector workers displaced by the minimum wage shifted into informal sector employment.	
<u>Gindling &amp; Terrell (2007)</u>	Honduras	Date: 1990-2004 Data: Honduras Minimum Wage Decrees and the Permanent Household Surveys for Multiple Purposes	Disemployment effects in the private sector (-0.46).		Wage elasticity of 0.29 overall. However, the welfare – the total earnings – of low-paid workers in the large-firm covered sector falls with higher minimum wages.
<u>Alatas &amp; Cameron (2003)</u>	Indonesia	Date: 1990-1996 Data: Annual Survey of Manufacturing Firms (Survei Tahunan Perusahaan Industri, SI)	Some evidence of a negative employment impact for small, domestic firms but no employment impact for large firms – foreign or domestic		

<u>Comola &amp; De Mello (2011)</u>	Indonesia	Date: 1996-2004 Data: Indonesian Statistics Bureau's National Labor Force Survey (Sakernas) working age (15 to 65), National Economic Survey (Susenas), Industrial Survey (Survei Industri)	Minimum- wage hikes destroy formal sector jobs (-0.056), but these jobs losses are more than compensated for by the expansion of the informal sector (0.074), suggesting that minimum wage legislation is hurting, instead of protecting vulnerable workers.	The negative and significant coefficient on unemployment seems to suggest that the decrease in formal-sector employment due to a rise in the relative value of the minimum wage shifts workers from "queuing" unemployment to the inactive population of the informal sector.	
<u>Del Carpio, Nguyen, &amp; Wang (2012)</u>	Indonesia	Date: 1993-2006 Data: Annual Manufacturing Survey (Survei Industri or SI) and the National Socio-Economic Survey (Susenas)	The employment effects of minimum wages are significant and negative among all firms (-0.0233 to -0.0542), but more predominant in small firms and less educated workers and less among large firms and workers with high school education. Disemployment effects are stronger for non-production workers (-0.054) and women than for production workers (-0.023).		Minimum wages are more binding in small firms than in large firms.
<u>Harrison &amp; Scorse (2010)</u>	Indonesia	Date: 1990-1996 Data: Annual Manufacturing Survey, Badan Pusat Statistik	Results suggest that the minimum wage increases led to employment losses for production workers across all sectors in manufacturing.		A 1 percent increase in the real value of the minimum wage was associated with a 0.675 percent increase in the real unskilled wage.
<u>Magruder (2013)</u>	Indonesia	Date: 1993-2000 Data: Indonesian Family Life Survey (waves 1, 2, and 3), Statistics Industry (SI)	During the 1990s massive foreign investment and rapid economic growth, wages were increased and a "big push" in the economy increased domestic demand. Observing one out of the 33 districts in Indonesia, formal employment increased and informal employment decreased only in local industries; tradable manufacturing firms saw no growth in employment, and untradeable, but non-industrializable services saw an increase in informal employment.	Shift from informal to formal employment in in local industries; tradable industry saw no movements; untradeable, non-industrializable services saw a rise in informal employment.	The bottom quartile of the wage distribution experiences massive wage gains when minimum wages grow, so that a doubling of minimum wages is associated with a 150% to 160% increase in the 25 <sup>th</sup> percentile of the wage distribution.
<u>Rama (2001)</u>	Indonesia	Date: 1993 Data: Labor Force Survey (Sakernas)	Urban unemployment decreased by 0% to 5%. The employment effects, however, varied substantially by firm size: small firms apparently experienced substantial decreases in employment, whereas some large firms actually saw their employment increase. Workers in these large firms, the author concludes, are the evident winners from the minimum wage hike.		Average wages increased by 5% to 15%.

<u>Suryahadi, Widyanti, Perwira, &amp; Sumarto (2003)</u>	Indonesia	Date: 1988-2000 Data: National Labour Survey (Sakernas)	The imposition of minimum wages has a negative and statistically significant impact on employment in the urban formal sector. The disemployment impact is greatest for female, young and less educated workers, while the employment prospects of white-collar workers are enhanced by increases in minimum wages. (-0.112)	Some workers who lose jobs in the formal sector and have to relocate to the informal sector face lower earnings and poorer working conditions.	The minimum wage become progressively more binding and impactful on the wage distribution in Indonesia from 1988 to 2000.
<u>Andalón &amp; Pagés (2008)</u>	Kenya	Date: 1998-1999 Data: Central Bureau of Statistics' Integrated Labour Force Survey	Estimates indicate that a 10 percent point increase in the minimum to median wage ratio could be associated with a decline in the share of formal employment of between 1.2% and 5.6% and an increase of between 2.7% and 5.9% points in the share of self-employment.		Minimum wages were positively associated with wages of low-educated workers and women in non-agricultural activities, while no such relationship is found for workers in agriculture.
<u>Bell (1997)</u>	Mexico	Date: 1984-1990 Data: Mexico's Annual Industrial Survey, Mexican Exuesta Nationale de Empleo	Minimum wages had virtually no effect on employment in the formal sector.		Minimum wages had virtually no effect on wages in the formal sector. Significant numbers of workers are paid at or below minimum wages.
<u>Bosch &amp; Manacorda (2010)</u>	Mexico	Date: 1989-2000 Data: Micro-data, Encuesta Nacional de Empleo Urbano			A decline in the real value of the minimum wage explains a very significant increase in inequality observed in Mexico between the last 1980s and late 1990s.
<u>Feliciano (1998)</u>	Mexico	Date: 1970, 1980, 1990 Data: Industrial Census, Monthly Industrial Survey	Large reductions in the minimum wage were found to increase employment of females ages 15 to 64 (-0.58 to -1.25). Demanded shifted away from older skilled males toward less-skilled male workers.		
<u>Castillo-Freeman &amp; Freeman (1992)</u>	Puerto Rico	Date: 1956-1987 Data: U.S. Department of Labor "Minimum Wage Industry Studies", Census Population for Puerto Rico, Current Population Survey (CPS) for Puerto Rico	The imposition of the U.S.-level minimum wage to Puerto Rico distorted the Puerto Rican earnings distribution, substantially reduced employment on the island (0.20 to -0.91), reallocated labor across industries, and affected the characteristics of migrants to the United States.		Three data sets of earnings show remarkable spikes at the relevant minima in each distribution, implying that the minimum wage law is a major determinant of actual wages paid.
<u>Eriksson &amp; Pytloková (2004)</u>	Slovak Republic	Date: 1998-2000 Data: Average Earnings Information System	Negative effect on employment in 1998 after first wage hike, but no effect in 1999 after second wage hike. (Very small number of observations that may not present adequate results)		Average wage of firms employing relatively many workers from the lower end of the wage distribution is raised more as a consequence of hikes in the minimum wage.
<u>Del Carpio, Messina, &amp; Sanz-de-Galdeano (2014)</u>	Thailand	Date: 1998-2010 Data: Labor Force Survey and Household Socio-Economic Survey	Minimum-wage increases have small disemployment effects on female, elderly, and less-educated workers and large positive effects on the wages of prime-age		In spite of substantial noncompliance, the minimum wage in Thailand is binding, and it has a bearing on actual wage (0.36)

			male workers (-0.055). As such, increases in the minimum wage are associated with increases in household consumption per capita in general, but the consumption increase is greatest among those households around the median of the distribution. In fact, rises in the minimum wage increased inequality in consumption per capita within the bottom half of the distribution.		
<a href="#">Del Carpio, Margolis, &amp; Okamura (2013)</a>	The Philippines	N/A	Real minimum-wage increases had negligible effects on overall employment, owing to the limited coverage of minimum wage rules and high noncompliance.		
<a href="#">Lanzona, 2012</a>	The Philippines	N/A	Sectors with high coverage and compliance experienced negative employment effects.		
<a href="#">Strobl &amp; Walsh, (2003)</a>	Trinidad & Tobago	Date: 1996-1998 Data: Continuous Sample Survey of Population	Both large and small employers in some cases responded to the minimum wage by laying off workers. Non-compliance by employers was proven to be a substantial issue in implementing increased minimum wages.		Males working in large firms tended to have their wage increased to at least the minimum level; some females in both large and small firms experienced a wage increase due the minimum wage.
<a href="#">Del Carpio &amp; Liang (2013)</a>	Vietnam	N/A	Low-income or otherwise vulnerable workers (including women, youth, recent labor-market entrants, the low-skilled, non-managerial nonproduction workers such as cleaners or guards, elderly workers, and those employed by small firms) are particularly likely to be shut out of the formal labor market as a result of overly high minimum wages		
<a href="#">Nguyen (2010)</a>	Vietnam	Date: 2004 and 2006 Data: Vietnam Household Living Standard Surveys	Minimum wage increase reduced employment of low-wage workers in the formal sector. However, workers who lost formal sector jobs were able to find jobs in the informal sector.		The effect of the minimum wage increase on wages and expenditures of workers is not statistically significant.

## Appendix B

### Under-Reporting of Wages in Household Surveys in South Africa

Wage data obtained from national household surveys are not perfect and can lead to the underestimation of earnings. There are two major sources of underestimation: Firstly, household surveys in general are not good at capturing high income earners, in addition, higher earners may be more likely to underreport total income. As Van der Berg (2007) notes, "It is well known that more affluent households are both less likely to participate in surveys and more likely to underreport income" (Van der Berg, 2007:6). Thus aggregate income statistics will be lower in the survey data than in the actual population. Secondly, Seekings and Nattrass (2015) argue that increases in salary deductions over the last decade (pensions, credit, garnishee orders etc.) create a growing gap between gross and net earnings and can lead to respondents reporting total income information inaccurately – reporting income after deductions instead of gross earnings.<sup>113</sup>

The most representative and widely used source of wage data is StatsSA's Quarterly Labour Force Survey (QLFS) and, according to Wittenberg (2014), and Seekings and Nattrass (2015), there is reason to believe that wages in the QLFS are underreported. However, at present there is no published work that offers reliable estimates on the extent and nature of this potential problem.<sup>114</sup>

Wittenberg (2014) does attempt use the Quarterly Employment Survey (QES) to compare aggregate earnings against the QLFS estimates, which shows average wages reported by firms (in the QES) to be on average 40 percent higher. But as Wittenberg (2014) notes, there are important differences between the two surveys:

1. The QES is a firm survey of VAT-registered business (the threshold for VAT is R1-million turnover for a 12-month period), so this excludes the 'informal' sector and small firms,
2. The QES does not cover the self-employed or working proprietors, i.e. it only covers employees,
3. The QES excludes the agricultural sector and private households (domestic workers).

The conclusion is that overall, "the QLFS has much better coverage of low earning forms of work (including domestic work and agriculture) and much worse coverage of the small layer of very high earners. Unfortunately, the high earners are quite important for the mean." (Wittenberg, 2014: 48).

Indeed, while underreporting has been the source of debate before in the context of poverty measurements, no rule or method exists that could be applied to adjust existing wage data (see Van der Berg et al, 2005, 2007a; Meth, 2009). This was noted by Van der Berg et al. (2007b), where their concern was that "adjusting incomes upwards uniformly (that is, by a constant proportion) could result in great under-estimation of poverty" (Van der Berg, 2007: 11). In short, and to reiterate, we simply do not know the extent or nature of underreporting of incomes in the South African case. This is confirmed by Meth (2009), who says that to accurately adjust the income data we would, "need to make heroic assumptions about the degree of under-reporting of income" Meth (2009:48).

To overcome this problem of under-reporting, Wittenberg (2014) suggests that ideally, access to Pay-As-You-Earn data is required - "What is really required is the sort of hard data (e.g. PAYE information) that would give us both accurate aggregate earnings information as well as good measures of its distribution" (Wittenberg, 2014: 48). This would allow researchers to assess the quality of the QLFS data and make suitable adjustments if necessary. Without the availability of such data, it is impossible to measure the extent of the under-reporting of wages on a national level or make academically defensible adjustments to the existing data.

<sup>113</sup> Wittenberg (2014) tries to assess whether this confusion could account for large differences in reported incomes. One indication that creates some doubt is the fact that when questionnaires explicitly allowed for the "take-home pay" response (as opposed to 'gross income'), the measured incomes were considerably lower, suggesting that the bulk of the respondents do not, in fact, seem to get the concept that badly wrong" Wittenberg (2014:44).

<sup>114</sup> We have made an effort to compare income estimates from the QLFS with estimates from the National Income Dynamics Study (NIDS), which has more comprehensive questions on earnings. However, we find no discernible differences in the estimates between these two surveys.

## Appendix C

### Private and Public Bargaining Council Wage Rates

Table 42. Private Sector Bargaining Councils, Lowest and Highest Monthly Minimum Wage Rates, and Industry Monthly Average Wages

Industry	Bargaining Council	Lowest BC Minimum Wage (Occupation)	Highest BC Minimum Wage (Occupation)	Industry Mean Wage	Industry Median Wage
Electricity; gas and water supply	Amanzi Bargaining Council	N/A	N/A	R12 409,12	R7 000,00
	National Bargaining Council for the Electrical Industry of South Africa	R3 079,05 (Apprentice Stage I)	R16 885,10 (Master Installation Electrician)		
Construction	Bargaining Council for the Building Industry (Bloemfontein)	R3 646,50 (General Worker)	R7 294,95 (Artisan)	R6 257,34	R2 816,00
	Building Industry Bargaining Council (Kimberley)	R2 000,70 (General Worker)	R4 873,05 (Artisans with Certificate of registration)		
	Building Industry Bargaining Council (Southern and Eastern Cape)	R2 121,43 (General Worker)	R4 147,87 (Artisans)		
	Building Industry Bargaining Council (Cape of Good Hope)	R3 393,00 (Labourer LI)	R12 599,00 (Artisan)		
	Building Bargaining Council (North and West Boland)	R2 265,90 (Cleaner)	R11 826,8 (Artisan)		
	Bargaining Council for the Civil Engineering Industry	R5 155,61 (General Worker)	R9 999,60 (Artisan)		
Manufacturing	Bargaining Council for the Canvas Goods Industry (Witwatersrand & Pretoria)	R4 991,44 (Chopper-unqualified)	R8 772,77 (Foreman)	R8 601,75	R3 900,00
	National Bargaining Council for Clothing Manufacturing Industry	R1 455,66 (Learner Sewing Machinist)	R10 280,70 (Artisan)		
	National Bargaining Council for the Chemical Industry	R5 000,00 (Glass & Petroleum Sector)	R7 000,00 (Pharmaceutical Sector)		
	Furniture Bargaining Council	R2 054,89 (General Worker)	R3 451,23 (Foreman Supervisor)		



Manufacturing, Continued	Bargaining Council for the Furniture Manufacturing Industry of the Western Cape	R1 859,12 (Unskilled Employee)	R3 189,70 (Foreman & Supervisors)	R8 601,75	R3 900,00
	Bargaining Council for the Furniture Manufacturing Industry of the Eastern Cape	R2 042,26 (Unskilled)	R3 415,60 (Skilled)		
	Bargaining Council for the Furniture Manufacturing Industry of the South Western Districts	R1 859,12 (Unskilled Employee)	R3 189,70 (Foreman & Supervisors)		
	Bargaining Council for the Furniture Manufacturing Industry, KwaZulu/Natal	R1 864,94 (Unskilled Employee)	R3 189,70 (Foreman & Supervisors)		
	Bargaining Council for the Diamond Cutting Industry (National)	R3 744,31 (Operator - first three months)	R13 682,80 (Craft and related trade employee)		
	National Bargaining Council of the Leather Industry of South Africa	R4 500,60 (General Worker)	R8 080,80 (Splitting Employee)		
	Metal and Engineering Industries Bargaining Council (National)	R3 995,55 (Rate 1(a) Project Labour Agreement)	R12 501,50 (Rate A for various fields)		
	Bargaining Council for the Grain Industry (National)	N/A/	N/A		
	Bargaining Council for the New Tyre Manufacturing Industry (National)	R8 514,08 (Unskilled)	R12 974,20 (Skilled)		
	National Bargaining Council for the Sugar Manufacturing and Refining Industry	R6 469,02 (General Worker)	N/A		
	National Textile Bargaining Council	R2 396,55 (Home Textiles - Grade 1)	R7 415,85 (Wool and Mohair Process - Grade 5)		
	National Bargaining Council for the Wood and Paper Sector	R2 500,00 (Wood and Paper Sawmill Sub-sector)	R6 049,00 (Pulp and Paper Sub-Sector)		

Financial intermediation; insurance; real estate and business services	Bargaining Council for the Contract Cleaning Services Industry (Kwazulu-Natal)	R3 110,25 (General)	N/A	R10 137,40	R4 000,00
Agriculture; hunting; forestry and fish	Bargaining Council for the Fishing Industry (National)	R3 030,72 (Spare hand)	R34 095,80 (Marine Engineer Second)	R3 154,10	R2 145,00
Wholesale and retail trade	Bargaining Council for the Food Retail, Restaurant, Catering & Allied Trades	R2 506,92 (Watchman)	R5 433,14 (Manager)	R7 190,74	R3 033,00
	Bargaining Council for the Restaurant, Catering and Allied Trades	R3 051,75 (Motor Vehicle Driver - light)	R6 470,10 (Chef/Manager)		
	Bargaining Council for the Meat Trade, Gauteng	R2 112,00 (Cleaner)	R7 020,60 (Maters Meat Cutting Tech)		
	Motor Industry Bargaining Council (National)	R2 909,40 (Class 1 Char)	R12 601,90 (Accountant)		
Community; social and personal services	National Bargaining Council for the Hairdressing, Cosmetology, Beauty and Skincare Industry	R1 397,08 (Shampooist)	R5 551,22 (Hairdresser-Qualified)	R10 118,53	R5 000,00
	Bargaining Council for the Laundry, Cleaning and Dyeing Industry (Cape)	R3 209,70 (Grade 1 Employee)	R8 268,00 (Artisan)		
	Bargaining Council for the Laundry, Cleaning and Dyeing Industry (Kwa Zulu Natal)	R2 769,00 (Grade A1 Non-Commercial Worker)	R4 756,05 (Truck Driver)		
Transport; storage and communication	Motor Ferry Industry Bargaining Council of South Africa (National)	R4 327,86 (Cleaner)	R6 600,42 (Carrier Driver)	R7 886,37	R4 000,00
	National Bargaining Council for the Road Freight and Logistics Industry (NBCRFLI)	R4 298,83 (General Worker)	R11 094,10 (Custodian)		
	South African Road Passenger Bargaining Council (SARPBAC)	R 5360,55 (General Worker)	R10 760,10 (Artisan)		
	Transnet Bargaining Council (National)	The council does not have an agreement (it expired in 1999)- No information could be provided by BC			
Average		R3 284,83	R10 670,97	R8 219,41	R3 986,75

Source: Most recent legislated collective agreement for each private sector bargaining council; LMDS (2014), own calculations.

From Table 34, we can see that the lowest minimum wage out of all the bargaining councils is R1 397 per month for shampooists in the National Bargaining Council for the Hairdressing, Cosmetology, Beauty and Skincare Industry – R416 lower than the lowest minimum wage in the SDs for rural domestic workers. The highest minimum wage is R34 095 per month for main engineers in the National Bargaining Council for the Fishing Industry – showing that there is even a large gap between the lowest and highest minimum wage rates in BCs than SDs. On average, the lowest minimum wage across BCs is R3 284 while the average highest minimum wage across BCs is 10 670 – showing that the average lowest minimum wage rate for BCs is R860 higher than the average lowest minimum wage rate for SDs.

When looking at industries in which BCs operate, the agriculture; hunting; forestry and fishing industry has the lowest mean and median wage, on average (R3 154 and R2 145, respectively), while the electricity; gas and water supply industry has the highest mean and median wage, on average (R12 409 and R7 000, respectively). On average, the mean wage across all BC industries is R8 219 while the median wage is R3 986. This average median wage for BC industries is R1 557 higher than the average median wage for SD sectors.

In Table 35, below, we have listed the six public sector bargaining councils with their respective lowest minimum wage, which happen to all be the same given the salary scale provided by the Department of Public Service and Administration.

Table 43. Public Sector Bargaining Councils, Lowest Monthly Minimum Wage

Bargaining Council	Lowest Minimum Wage in Public Service
Education Labour Relations Council	R6 8656,00 (Level I)
General Public Service Sectoral Bargaining Council	R6 8656,00 (Level I)
Public Health and Social Development Sectoral Bargaining Council	R6 8656,00 (Level I)
Public Service Co-ordinating Bargaining Council	R6 8656,00 (Level I)
Safety and Security Sectoral Bargaining Council	R6 8656,00 (Level I)
South African Local Government Bargaining Council	R6 8656,00 (Level I)

Source: Most recent legislated collective agreement for each public sector bargaining council; Department of Public Service and Administration.

## Appendix D

### Potential Job Losses by Sector and Elasticity, R1 619 and R6 133 scenarios (2014 Rands)

Table 44. Potential Job Losses by Sector and Elasticity, R1 619 and R6 133 scenarios (2014 Rands)

Sector	$\varepsilon = -0.1$		$\varepsilon = -0.3$		$\varepsilon = -0.5$	
	R1 619	R6 133	R1 619	R6 133	R1 619	R6 133
Agriculture	-3 728 (-0.6%)	-50 077 (-7.6%)	-11 619 (-1.8%)	-139 911 (-21.3%)	-45 125 (-6.9%)	-215 624 (-32.8%)
Mining	-486 (-0.1%)	-4 345 (-1.0%)	-1 541 (-0.4%)	-20 780 (-4.9%)	-5 475 (-1.3%)	-35 784 (-8.4%)
Manufacturing	-5 499 (-0.4%)	-76 777 (-4.9%)	-13 277 (-0.8%)	-174 384 (-11.1%)	-43 110 (-2.8%)	-253 558 (-16.2%)
Utilities	-142 (-0.1%)	-2 011 (-1.7%)	-613 (-0.5%)	-8 519 (-7.3%)	-2 459 (-2.1%)	-15 481 (-13.2%)
Construction	-1 173 (-1.7%)	-20 632 (-2.2%)	-2 029 (-0.2%)	-38 534 (-4.1%)	-8 066 (-0.9%)	-56 550 (-6.0%)
Wholesale and Retail Trade	-7 473 (-0.3%)	-109 698 (-4.8%)	-20 080 (-0.9%)	-276 387 (-12.0%)	-69 568 (-3.0%)	-419 056 (-18.2%)
Transport	-2 706 (-0.3%)	-31 292 (-3.9%)	-8 325 (-1.0%)	-95 129 (-11.7%)	-32 307 (-4.0%)	150 801 (-18.6%)
Financial Services	-4 260 (-0.2%)	-77 306 (-4.3%)	-12 816 (-0.7%)	-214 896 (-11.8%)	-51 779 (-2.8%)	-340 189 (-18.7%)
CSP	-8 435 (-0.3%)	-101 434 (-3.1%)	-25 466 (-0.8%)	-328 570 (-10.1%)	-99 170 (-3.0%)	-508 472 (-15.6%)
Private Households	-8 608 (-0.7%)	-123 381 (-10.0%)	-24 034 (-1.9%)	-297 576 (-24.1%)	-94 011 (-7.8%)	-426 190 (-34.5%)
<b>Total</b>	<b>-42 511 (-0.3%)</b>	<b>-596 954 (-4.5%)</b>	<b>-119 798 (-0.9%)</b>	<b>-1 594 687 (-12.1%)</b>	<b>-451 072 (-3.4%)</b>	<b>-1 995 514 (-15.2%)</b>

Source: Own calculations, LMDS (2014).

# Appendix E

## CGE Model Assumptions

The basic assumptions of the minimum wage impacts, in the way that the CGE works, are the following:

1. At the firm level, raising the real wage causes firms, at least, to not want to increase their employment and probably to reduce it. In economic terms, firms' demand curve for labour is at best vertical but most likely downward sloping, meaning higher wages lead firms to prefer less labour.
2. If a firm's demand for labour is inelastic, a wage increase causes the firm's employment to fall by a smaller percentage than the wage increase, and therefore the total wage bill rises. Put simply, raising the minimum wage leads to a higher wage bill for the firm. This assumes that not all costs can be passed on or factored into the price.
3. It is possible that this increase in labour income causes demand for outputs to rise, and therefore the income effects to outweigh substitution (disemployment) effects. In this case, although the firm moves down its labour demand curve, that curve may shift out by enough to cause employment to rise. Whether this happens depends on a number of other assumptions:
  - a. It assumes that there are no leakages from the additional wage income – i.e. it is all spent on domestic goods. This assumption requires several other considerations to hold:
    - i. No savings out of the additional wage income. Given the low savings rates in South Africa, this is probably a reasonable assumption.
    - ii. No taxation out of the additional wage income. Although minimum wage earners will not pay income tax, they will pay VAT on some goods, therefore there is some leakage in this regard.
    - iii. No imports out of the additional income. While the direct import content of minimum wage spending is probably low, the domestic goods consumed by minimum wage workers will have some intermediate inputs that are imported. Hence, some leakage will occur.
  - b. It also assumes that the outputs of firms are sold domestically – i.e. no exports. If exports are affected by minimum wages, then there are likely to be some exchange rate effects that feedback. The effect of this is complicated and difficult to measure.

## Appendix F

Ethical Approval from The University of Johannesburg's Faculty of Humanities Ethics Committee



### FACULTY OF HUMANITIES

### RESEARCH ETHICS COMMITTEE

05 November 2015

**REC 01-22-2015**

**APPLICANT** : Z Kahn

**TITLE OF RESEARCH PROJECT:** An Investigation into the Impacts of a National Minimum Wage on Youth in South Africa

**DEPARTMENT** : CSDA

**DEGREE OR PROGRAMME** : Academic Research

Dear Ms Khan

The Faculty Research Ethics Committee has scrutinised your research proposal and confirm that it complies with the approved ethical standards of the Faculty of Humanities; University of Johannesburg.

The REC would like to extend their best wishes to you with your postgraduate studies.

Yours sincerely,



Prof Tharina Guse  
Chair: Faculty of Humanities REC  
Tel: 011 559 3248  
email: tguse@uj.ac.za

## Appendix G

### Discussion Guide for Focus Groups with Employed Youth



#### Centre for Social Development in Africa

Department of Social Work, Faculty of Humanities

University of Johannesburg

Phone: (011) 559-1904 Fax: (011) 559-1575

Director: Prof. Leila Patel

[www.uj.ac.za/csda](http://www.uj.ac.za/csda) csdainfo@uj.ac.za

#### FOCUS GROUP DISCUSSION GUIDE: EMPLOYED GROUP

##### **An Assessment of the Impact of a National Minimum Wage on Young People's Labour Market Outcomes**

Hello, my name is \_\_\_\_\_ and I am from the Centre for Social Development in Africa at the University of Johannesburg. We are carrying out a study to assess the effect of a National Minimum Wage (NMW) on young people and their job-seeking behaviour.

This research is part of a bigger study that is being conducted on minimum wages with the Development Policy Research Unit (DPRU) at the University of Cape Town. The research is for the Department of Labour. The aim of the research is to assess what the impact of a minimum wage may be on wages, inequalities between rich and poor people, jobs and on the standard of living of workers. Your participation is therefore very important as it could help the Department of Labour in its thinking, planning and implementation of a National Minimum Wage for South Africa.

Presently, only 1 out of every 5 young people between the ages of 18 and 25 are working<sup>115</sup>. We will conduct eight focus group discussions in 5 provinces with these young workers. Our meeting with you today is one of these eight discussions, and we hope to learn about your views and experiences about the following:

- 1) Your experiences of being unemployed before you got your job, and how and where you looked for work.
- 2) The costs of being unemployed, the costs of looking for work, the costs that came up when you started working and other challenges that young people face.
- 3) What the lowest wage rate is that you would be willing to accept for a particular type of job; and how you decide what this lowest wage is.
- 4) Your knowledge and opinions about minimum wages.
- 5) Whether and how minimum wages might influence your job satisfaction or how you look for other jobs.
- 6) Finally, any other issues that are important to you and your work.

#### Participation in the study and informed consent

I will ensure that anything you tell me during this focus group remains confidential and that your name will not be mentioned in any research report. We also request members of the focus group to respect the privacy of the members of the group. You will however be sharing information amongst your peers in this group and while I encourage everyone who is participating to respect everyone's privacy and to treat information as confidential, I cannot guarantee that other members of the group will do so.

---

<sup>115</sup> From Statistics South Africa's Quarterly Labour Force Survey data, Quarter 4 2014.



We will be recording the discussion, because it is important that we remember exactly what you share with us. But the recording will not be shared with anyone beyond the research team, which includes our transcribers.

We know that you are taking time out of your day to provide us with this information and we are very grateful for this. The discussion should not take longer than two hours.

Do you have any questions?

If you are willing to participate in this discussion, please sign the consent form (form 1). By signing you agree to participate in the study. You also show that you have been provided with the information about the study and any additional information you requested. Please also sign the attendance register (form 3) to indicate that you have participated today and that you have received R50 from me.

Also, I am going to hand out a form for you to complete some basic information (form 2). There are 15 questions on the form. Please return this form to me at the end of the discussion. You do not have to write your name on the form.

*[Note to facilitator: ensure that at the end of the discussion participants write their numbers on these forms].*

If you have any questions during the interview, please feel free to ask me. If you have any questions after we have left here today please do not hesitate to contact Zoheb Khan on [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za) or 011 559 1933/ 078 668 9075.

Thank you again for agreeing to participate in this discussion. I'd like to remind you that you can say whatever you like here – there are no right or wrong answers and anything you share with me will not be linked to your name in our research reports. This is your opportunity to be critical – to tell us about what you feel about youth employment and unemployment and the proposed national minimum wage policy.

### Part 1 – Introductions (5 minutes)

To begin with, can each of you tell us your name and also what you think would be a fun or interesting job? *[Prompt: facilitator to do this first]*

### Part 2 – The Experience of Unemployment and work-seeking (25 minutes)

Thank you for sharing with the group.

Before we continue, I am going to hand out some pieces of paper with numbers on them. Before you say anything for the rest of the discussion, please read out your number instead of your name. This is so we can follow your stories on the recordings while maintaining your privacy.

*[Hand out numbered pieces of paper]*

When we invited you to participate in the discussion today, we believed that all of you are working at the moment. Is this correct?

*[Check that everyone is working. If someone says they are not, make a note of this. Ask about the duration of unemployment and establish whether respondent has worked before.]*

While all of you are employed now, we know that it isn't easy to find work. For this reason, for the next parts of the discussion I would like us to think back to when you were unemployed, and to talk about this experience. I think that often when people in business or in government talk about unemployment they know the numbers very well – for example, that there are 2.3 million young people aged 18-25 in South Africa who are unemployed. But we don't hear enough about what it feels like to be unemployed, or about the challenges that young people face when they are not working. So this is an opportunity for you to tell me what you think. This will help us to understand unemployment better, and to understand what kind of support young people might need.

- 2.1. To begin with, please raise your hand if this is your 1<sup>st</sup> job?
- 2.2. Please raise your hand if you were unemployed for longer than 6 months before you started in your current job?
- 2.3. Why do you think this was the case?
- 2.4. Would any of you like to share your thoughts about the job that you imagined for yourself? Does the job you have now fit with the expectations you had when you were looking for work? *[Probe for detail]*.
- 2.5. What did it feel like to be unemployed?
- 2.6. When you were looking for work, how did you find out about jobs?

*[Prompts: newspapers, recruitment agencies, heard about jobs from relatives, friends or someone that you know?]*

- 2.7. Now we'll talk a bit about all the jobs you applied for.

- 2.7.1. Why did you choose to apply for those jobs and not others?

- 2.7.2. How many refusals did you get?

*[Prompt: a refusal is when an employer lets you know that your job application was unsuccessful].*

- 2.7.3. If you ever got a refusal, why do you think this was the case?

*[Prompts: didn't have the right skills; a lack of work experience; a criminal record; too many job seekers?]*

- 2.7.4. Why do you think you were successful when you applied for the job that you are working in now?

- 2.7.5. Why did you accept the job that you have now?

*[Prompts: Were you happy with the wage offer, the benefits, or the type of job itself? Did you accept the job because you thought it would allow you to get work experience, or give you the opportunity to learn or receive training? Were you just happy to have a job offer?]*

Part 3 – The costs and challenges of work-seeking (20 minutes)

We've just talked about your experience of unemployment. Now I want to learn more about the costs and other challenges of looking for work.

3.1. If you think about the last few times you searched for a job, what costs were involved in doing so?

*[Prompts: transport; printing; cell phone; postage; internet; faxing; nice clothes for interviews]*

3.2. Besides the costs, what other challenges did you face when you looked for work?

*[Prompts: Did you need to make arrangements to look after people you are responsible for, like children or sick relatives? Did you trust all the job adverts?]*

3.3. Of all the challenges when it comes to looking for work, which do you think is the biggest one?

3.4. What do you think could be done to make the process of looking for work easier?

*[Prompts: employers streamlining application processes; grants for work-seekers; more and better information provided to job-seekers].*

Now I'd like to talk about challenges you have faced while you have been working in your current job.

3.5. When you started working, what costs did you have?

*[Prompts: subsistence for the first month without pay; food; clothes for work; travel costs; finding new accommodation closer to work; care arrangements; paying back loans]*

3.6. Were these costs expected?

3.7. How did you pay for these costs?

Part 4 – Reservation wages (30 minutes)

Now I'd like to turn to the subject of wages.

4.1. Please write down how much you are now earning per month on the yellow piece of paper, along with your number. You don't have to show this to anyone!

*[Note to facilitator: the number is the number given to each participant after the introductions that they have been stating before responding].*

4.2. Now please take a minute to think about what the lowest amount of money is that you are willing to work for per month. When you have decided, please write it down on the red piece of paper, along with your number.

4.3. Now I would like you to think about what you think is a *fair* amount for you to earn per month, and to write this down on the blue piece of paper, along with your number.

4.4. Now I would like you to think about how much money you need just to cover your cost of living for one month, and to write this down on the green piece of paper, along with your number.

*[Facilitator collect the pieces of paper]*

4.5. How did you work out the lowest amount that you would work for? (on the red piece of paper?)

*[Prompts: Did you think about your cost of living? Or how much you deserve to earn given your skills and experience? Or about maintaining your lifestyle? Did you think about what other people earn? Are you the only person working in your household?]*

4.6. Have you turned down any job offer(s) because the wages were too low?

4.7. In what situations might you accept a lower wage?

*[Prompts: What if they trained you on the job? What if you really enjoyed the work? Or if they provided aftercare for your children? Or if you were desperate for money?]*

4.8. Why do you stay in the job you have now?

*[Prompts: Are you paid enough? Are you provided with other benefits, such as child care or healthcare? Do you like your job? Do you like who you work with? Are you scared to be unemployed, or think it is unlikely you will find another job?]*

4.9. Do you think you would work harder if you were paid more? Why or why not?

*[Probe for issues of job satisfaction and work ethic]*

4.10. Do you know how your wages are set?

*[Prompts: is there bargaining by a union? Or bargaining in your company? Are wages set by sectoral determinations, or by a bargaining council in your sector? Or do you not know?]*

Thank you. Please give the four pieces of paper to me.

Part 5 – Knowledge and perceptions of minimum wages (30 minutes)

5.1. In this part of the discussion, we'll be talking about minimum wages. When I say minimum wages, what do you think I am talking about?

*[Obtain feedback from the group, and then distribute pamphlets]*

In your pamphlets there is some information on what minimum wages are. Please take a few minutes to read the information on pages 3 to 6.

...

Do you have any questions?

5.2. What are the advantages of a minimum wage?

*[Prompts: it would guarantee a minimum standard of living; reduce poverty; it would improve my life]*

5.3. What are the disadvantages of a minimum wage?

*[Prompts: if it is set too high employers might be less willing to hire or retain people and it will be harder to find work, or employers might fire workers; it would make young workers prefer to work rather than study. If it is set too low, employers might be encouraged to pay people very little; people may stop looking for work if the wage is low because it's not worth it anymore; too many people would want to study instead of working].*

5.4. What do you think of a different minimum wage for youth?

*[Prompt: do you think it is fair? Do you think it would be better to pay people based on how much experience they have instead? If employers can pay young people less do you think they might hire more young people because it is cheaper?]*

5.5. What do you think would be a fair minimum wage for young people? Why?

Now turn to page 9. Here you can see how much young and older workers were paid in different jobs in the economy in the last 3 months of 2014. These numbers come from Statistics South Africa, which is a government agency that talks with thousands of workers every 3 months and asks them how much they earn at their jobs.

5.6. Now that you know the average wages for youth and adults, what do you think would be a fair minimum for youth and why?

*[Prompts: skills, experience, qualification, income needs, cost of living]*

5.7. If you were being paid less than the minimum wage you are entitled to, what would you do?

*[Prompts: Would you inform your employer; join a union or ask a union representative; report your employer to the DOL or to a Bargaining Council; take your employer to a labour court; or do nothing?]*

5.8. Are there any circumstances where you would not report your employer? Why?

*[Prompts: Are you afraid of losing your job? Do you think it will be hard to find other work? Do you feel confident enough to report your employer?]*

Part 6 – Influence of minimum wages on labour market behaviour (20 minutes)

Just to remind you, in South Africa right now some sectors already have minimum wage laws. Please look at the table on pages 7 and 8 which shows you some of the different minimum wages in different sectors. The lowest monthly minimum wage is R1284 for domestic workers who don't live in cities. In other words, employers of domestic workers who don't live in cities have to pay their domestic workers at least R1284 per month by law. The highest monthly minimum wage is R5807, for artisans who work in private security in big cities. Again, this means that for these artisans, their employers are not allowed to pay them less than R5807 per month. Of all the minimum wages that exist in South Africa right now, this is the highest. These minimum wages are different from the average wages which we talked about before – those relate to how

much workers are *actually* being paid. The average amount of money that South Africans between the ages of 18 and 25 *actually* earn per month is R2600. The average amount of money that older workers earn is R2905 per month.

- 6.1. Now that you know the highest and lowest minimum wages, what is the lowest amount of money that you would now be willing to work for?
- 6.2. As I mentioned, the average amount of money that young people earn is R2600 per month. Would you be willing to accept a job if the wage was this much? If not, why not?
- 6.3. Now that you know that young people earn R2600 per month on average, has this changed your idea of the lowest amount of money you would be willing to work for per month? Why or why not?
- 6.4. Now I will hand out a piece of paper – form 4 - with different policy options regarding minimum wages. Please place a mark next to the option that you think would be the best for South Africa and then give the forms to me. Please also write your numbers on the form.

*[Recap what the options mean, based on the preceding discussions and the pamphlets. The ballot – form 4 - includes (a) National Minimum wage for all workers; (b) Sectoral determinations; (c) a combination of (a) and (b); (d) A lower minimum wage for youth in jobs that provide training and work experience for a specified period]*

#### Part 7 – Other issues

I don't have any more questions – we've come to the end of the discussion. Is there anything else you would like to add regarding youth unemployment and the proposed national minimum wage?

I know that this has been a long and hard discussion, and I want to thank you all for your patience and for sharing so much with me. It is going to be very helpful for our research!

**THANK YOU!**

## Discussion Guide for Focus Groups with Unemployed Youth



### Centre for Social Development in Africa

Department of Social Work, Faculty of Humanities

University of Johannesburg

Phone: (011) 559-1904 Fax: (011) 559-1575

Director: Prof. Leila Patel

[www.uj.ac.za/csda](http://www.uj.ac.za/csda) csdainfo@uj.ac.za

### FOCUS GROUP DISCUSSION GUIDE: UNEMPLOYED GROUP

#### An Assessment of the Impact of a National Minimum Wage on Young People's Labour Market Outcomes

Hello, my name is \_\_\_\_\_ and I am from the Centre for Social Development in Africa at the University of Johannesburg. We are carrying out a study to assess the effect of a National Minimum Wage (NMW) on young people and their job-seeking behaviour.

This research is part of a bigger study that is being conducted on minimum wages with the Development Policy Research Unit (DPRU) at the University of Cape Town. The research is for the Department of Labour. The aim of the research is to assess what the impact of a minimum wage may be on wages, inequalities between rich and poor people, jobs and on the standard of living of workers. Your participation is therefore very important as it could help the Department of Labour in its thinking, planning and implementation of a National Minimum Wage for South Africa.

Presently, there are about 6.5 million young men and women between 18 and 25 years old who are not working<sup>116</sup>. Some of these young people are studying, but many are not doing anything at all. We will conduct eight focus group discussions in 5 provinces with unemployed youth. Our meeting with you today is one of these discussions, and we hope to learn about your views and experiences about the following:

- 1) The experience of being unemployed and about how and where you look for work.
- 2) The costs of being unemployed, the costs of looking for work, what you think your costs might be when you start working and other barriers that young people face.
- 3) How much money you would be willing to work for; and how you decide what this wage is.
- 4) Your knowledge and opinions about minimum wages.
- 5) Whether and how minimum wages might influence how you look for jobs.
- 6) Finally, any other issues that are important to you and your ability to work in the future.

#### Participation in the study and informed consent

I will ensure that anything you tell me during this focus group remains confidential and that your name will not be mentioned in any research report. We also request members of the focus group to respect the privacy of the members of the group. You will however be sharing information amongst your peers in this group and while I encourage everyone who is participating to respect everyone's privacy and to treat information as confidential, I cannot guarantee that other members of the group will do so.

We will be recording the discussion, because it is important that we remember exactly what you share with us. But the recording will not be shared with anyone beyond the research team, which includes our transcribers.

We know that you are taking time out of your day to provide us with this information and we are very grateful for this. The discussion should not take longer than two hours.

---

<sup>116</sup> From Statistics South Africa's Quarterly Labour Force Survey, Quarter 4 2014.

Do you have any questions?

If you are willing to participate in this discussion, please sign the consent form (form 1). By signing you agree to participate in the study. You also show that you have been provided with the information about the study and any additional information you requested. Please also sign the attendance register (form 3) to indicate that you have participated today and that you have received R50 from me.

Also, I am going to hand out a form for you to complete some basic information (form 2). There are 10 questions on the form. Please return this form to me at the end of the discussion. You do not have to write your name on the form.

*[Note to facilitator: ensure that at the end of the discussion participants write their numbers on these forms].*

Finally, please also take a pamphlet, which has information on what minimum wages are, as well as some contact information for the CSDA and other organisations. You may take this with you after the discussion today.

If you have any questions during the interview please feel free to ask me. If you have any questions after we have left here today please do not hesitate to contact Zoheb Khan on [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za) or 011 559 1933/ 078 668 9075.

Thank you again for agreeing to participate in this discussion. I'd like to remind you that you can say whatever you like here – there are no right or wrong answers and anything you share with me will not be linked to your name in our research reports. This is your opportunity to be critical – to tell us about what you feel about youth unemployment and the proposed national minimum wage policy.

### Part 1 – Introductions (5 minutes)

To begin with, can each of you tell us your name and also what you think would be a fun or interesting job? *[Prompt: facilitator to do this first]*

### Part 2 – The Experience of Unemployment (25 minutes)

Thank you for sharing with the group.

Before we continue, I am going to hand out some pieces of paper with numbers on them. Before you say anything for the rest of the discussion, please read out your number instead of your name. This is so we can follow your stories on the recordings while maintaining your privacy.

*[Hand out numbered pieces of paper]*

When we invited you to participate in the discussion today, we knew that some of you are studying at the moment, or are in a training programme. However, am I correct in believing that no one here is working right now?

*[Check that no one is working. If someone says they are, make a note of this. Ask what kind of job it is and whether it is full- or part-time.]*

For this reason, for the next 15 minutes I would like us to talk about what it is like to be unemployed. I think that often when people in business or in government talk about unemployment they know the numbers very well – for example, that there are 2.3 million young people aged 18-25 in South Africa who are not working. But we don't hear enough about what it feels like to be unemployed, or about the challenges that young people face when they are not working. So this is an opportunity for you to tell me what you think, and about your experiences. This will help us to understand unemployment better, and to understand what kind of support young people might need.

2.8. Why do you think you are unemployed?

2.9. Do you think that you will find a job in the next 6 months? Why, or why not?

2.10. If you are not studying now, why not?

2.11. Would any of you like to share your thoughts about the job that you imagine for yourself? *[Probe for detail]*.

2.12. Now I would like to talk about how being unemployed makes you feel. Would anyone like to share their feelings with the group?

2.13. Do you think that if you had people to talk to that this might help you to feel better? What do you think about the group of you meeting again in future without me, to talk to and motivate each other?

Thank you for sharing your feelings, I appreciate your honesty.

2.14. We would like to now learn more about your experience of looking for work. How do you find out about jobs?

*[Prompts: newspapers, recruitment agencies, heard about jobs from relatives, friends or someone that you know?]*

2.15. Now we'll talk a bit about the jobs you applied for.

2.15.1. Why did you choose to apply for those jobs, and not others?

2.15.2. How many refusals did you get?

*[Prompt: a refusal is when an employer lets you know that your job application was unsuccessful].*

2.15.3. Why do you think you have been unsuccessful with your job applications?

*[Prompts: don't have the right skills; a lack of work experience; a criminal record; too many job seekers?]*

2.16. If you have not looked for work recently, why is this case?

*[Prompts: have given up; too few jobs are available; the available jobs are not nice jobs; family or friends are able to support you]*



Part 3 – The costs and challenges of work-seeking (20 minutes)

We've just talked about your experience of unemployment. Now I want to learn more about the costs and other challenges of looking for work.

3.1. If you think about the last few times you applied for a job, what costs were involved in doing so?

*[Prompts: transport; printing; cell phone; postage; internet; faxing; nice clothes for interviews]*

3.2. How did you pay for these costs?

3.3. Besides these costs, what were your other challenges when you looked for work?

*[Prompts: Did you need to make arrangements to look after people you are responsible for, like children or sick relatives? Did you trust all the job adverts?]*

3.4. Of all the challenges when it comes to looking for work, which do you think is the biggest one?

3.5. What do you think could be done to make the process of looking for work easier?

*[Prompts: employers streamlining application processes; grants for work-seekers; more and better information provided to job-seekers].*

Now I'd like to talk about challenges you might have faced when you were working.

3.6. Please raise your hand if you have worked before.

*[If no one has worked before, skip to part 4.]*

3.6.1. When you were working, what were some of your expenses that you didn't have before?

*[Prompts: subsistence for the first month without pay; clothes for work; travel costs; care arrangements; paying back loans]*

3.6.2. Were these costs expected?

Part 4 – Reservation wages (30 minutes)

Now I'd like to turn to the subject of wages that you would be paid when you start working.

4.1. Please take a minute to think about what the lowest amount of money is that you would be willing to work for per month. In other words, if an employer offers you less than this amount, then you will not accept the job. When you have decided, please write it down on the red piece of paper, along with your number.

*[Note to facilitator: the number is the number given to each participant after the introductions that they have been stating before responding].*

4.2. Now I would like you to think about what you think is a fair amount for you to earn per month, and to write this down on the blue piece of paper, along with your number.

4.3. Now I would like you to think about how much money you would need just to cover your cost of living for one month, and to write this down on the green piece of paper, along with your number.

*[Prompt: If participants ask whether this includes the cost of living of family members, indicate that if participants are personally responsible for family members, then they should include their cost of living as well].*

4.4. How did you work out the lowest amount that you would work for (on the red piece of paper)?

*[Prompts: Did you think about your costs of living? Or how much you deserve to earn given your skills and experience? Or about maintaining your lifestyle? Did you think about what other people earn? Are you the only person working in your household?]*

4.5. Have you turned down any job offer(s) because the wages were too low?

4.6. In what situations might you accept a low wage?

*[Prompts: What if they trained you on the job? What if you really enjoyed the work? Or if they provided aftercare for your children? Or if you were desperate for money?]*

Thank you. Please give the three pieces of paper to me.

### Part 5 – Knowledge and perceptions of minimum wages (30 minutes)

5.1. In this part of the discussion, we'll be talking about minimum wages. When I say minimum wages, what do you think I am talking about?

*[Obtain feedback from the group, and then distribute pamphlets]*

In your pamphlets there is some information on what minimum wages are. Please take a few minutes to read the information on pages 3 to 6.

...

Do you have any questions?

5.2. What are the advantages of a minimum wage (national, sectoral or hybrid)?

*[Prompts: it would guarantee a minimum standard of living; it would reduce poverty; it would improve my life]*

5.3. What are the disadvantages of a minimum wage (national, sectoral or hybrid)?

*[Prompts: if it is set too high employers might be less willing to hire or retain young people and it will be harder to find work, or employers might fire workers; it would make young workers prefer to work rather than study. If it is set too low employers might be encouraged to pay people very little; people may stop looking for work if the wage is too low because it's not worth it anymore; too many people would want to study instead of working].*

5.4. What do you think of a different minimum wage for youth?

*[Prompt: do you think it is fair? Do you think it would be better to pay people based on how much experience they have instead? If employers can pay young people less do you think they might hire more young people because it is cheaper? Do you think it would have an impact on unemployment? Do you think it would make young people look harder for jobs?]*

5.5. What do you think would be a fair minimum wage for young people? Why?

Now turn to page 9. Here you can see how much young and older workers were paid in different jobs in the economy in the last 3 months of 2014. These numbers come from Statistics South Africa, which is a government agency that talks with thousands of workers every 3 months and asks them how much they earn at their jobs.

5.6. Now that you know the average wages for youth and adults, what do you think would be a fair minimum for youth and why?

*[Prompts: skills, experience, qualification, income needs, cost of living]*

5.7. Imagine that you are working, and you find out that you are being paid less than the minimum wage you are entitled to. What would you do?

*[Prompts: would you inform your employer; join a union or ask a union representative; report your employer to the DoL or to a Bargaining Council; take your employer to a labour court; or do nothing?]*

### Part 6 – Influence of minimum wages on job-seeking behaviour (20 minutes)

Just to remind you, in South Africa right now some sectors already have minimum wage laws. Please look at the table on pages 7 and 8 which shows you some of the different minimum wages in different sectors.

The lowest monthly minimum wage is R1284 for domestic workers who don't live in cities. In other words, employers of domestic workers who don't live in cities have to pay their domestic workers at least R1284 per month by law. The highest monthly minimum wage is R5807, for artisans who work in private security in big cities. Again, this means that for these artisans, their employers are not allowed to pay them less than R5807 per month. Of all the minimum wages that exist in South Africa right now, this is the highest. These minimum wages are different from the average wages which we talked about before – those relate to how much workers are *actually* being paid. The average amount of money that South Africans between the ages of 18 and 25 *actually* earn per month is R2600. The average amount of money that older workers earn is R2905 per month.

6.1. Now that you know the highest and lowest minimum wages, what is the lowest amount of money that you would now be willing to work for?

6.2. As I mentioned, the average amount of money that young people earn is R2600 per month. Would you be willing to accept a job if the wage was this much? If not, why not?

- 6.3. Now that you know that young people earn R2600 per month on average, has this changed your idea of the lowest amount of money you would be willing to work for per month? Why or why not?
- 6.4. Now I will hand out a piece of paper – form 4 - with different policy options regarding minimum wages. Please place a mark next to the option that you think would be the best for South Africa and then give the forms to me. Please also write your numbers on the form.

*[Recap what the options mean, based on the preceding discussions and the pamphlets. The ballot – form 4 - includes (a) National Minimum wage for all workers; (b) Sectoral determinations; (c) a combination of (a) and (b); (d) A lower minimum wage for youth in jobs that provide training and work experience for a specified period]*

Part 7 – Other issues

I don't have any more questions – we've come to the end of the discussion. Is there anything else you would like to add regarding youth unemployment and the proposed national minimum wage?

I know that this has been a long and hard discussion, and I want to thank you all for your patience and for sharing so much with me. It is going to be very helpful for our research!

**THANK YOU!**

# Appendix H

## Informed Consent Forms

### Centre for Social Development in Africa

Faculty of Humanities, University of Johannesburg

Phone: (011) 559-1907 Fax: (011) 559-1575

Director: Prof Leila Patel



### An Investigation into the Impacts of a National Minimum Wage on Young People

#### FOCUS GROUP DISCUSSION WITH EMPLOYED YOUTH

#### FORM I, INFORMED CONSENT

The Centre for Social Development in Africa (CSDA) at the University of Johannesburg (UJ) is carrying out a study to assess the effect of a National Minimum Wage (NMW) on young people and their job-seeking behaviour. This research is part of a bigger study that is being conducted on minimum wages with the Development Policy Research Unit (DPRU) at the University of Cape Town (UCT). The research is for the Department of Labour. The aim of the research is to assess what the impact of a minimum wage may be on wages, inequalities between rich and poor people, jobs and on the standard of living of workers. Your participation is therefore very important as it could help the Department of Labour in its thinking, planning and implementation of a National Minimum Wage for South Africa.

Presently, only 1 out of every 5 young people between the ages of 18 and 25 are working. We will conduct eight focus group discussions in 5 provinces with these young workers. Our meeting with you today is one of these eight discussions, and we hope to learn about your views and experiences about the following:

- 7) Your experiences of being unemployed before you got your job, and how and where you looked for work.
- 8) The costs of being unemployed, the costs of looking for work, the costs that came up when you started working and other challenges that young people face.
- 9) How much money you would be willing to work for; and how you decide what this wage is.
- 10) Your knowledge and opinions about minimum wages.
- 11) Whether and how minimum wages might influence your job satisfaction or how you look for other jobs.
- 12) Finally, any other issues that are important to you and your work.

I will ensure that anything you tell me during this focus group remains confidential and that your name will not be mentioned in any research report. We also request members of the focus group to respect the privacy of the members of the group. You will however be sharing information amongst your peers in this group and while I encourage everyone who is participating to respect everyone's privacy and to treat information as confidential, I cannot guarantee that other members of the group will do so.

We will be recording the discussion, because it is important that we remember exactly what you share with us. But the recording will not be shared with anyone beyond the research team, which includes our transcribers.

We know that you are taking time out of your day to provide us with this information and we are very grateful for this. The discussion should not take longer than two hours.

Do you have any questions?

If you are willing to participate in this discussion, please sign this consent form. By signing you agree to participate voluntarily in the study. You also show that you have been provided with the information about the study and any additional information you requested.

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Place: \_\_\_\_\_

Sign: \_\_\_\_\_

If you have any questions during the focus group discussion please feel free to ask the facilitator. If you have any questions afterwards, please do not hesitate to contact Zoheb Khan on [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za) or 011 559 1933/ 078 668 9075.

**Centre for Social Development in Africa**

Faculty of Humanities, University of Johannesburg

Phone: (011) 559-1907 Fax: (011) 559-1575

Director: Prof Leila Patel

**An Investigation into the Impacts of a National Minimum Wage on Young People****FOCUS GROUP DISCUSSION WITH UNEMPLOYED YOUTH****FORM I, INFORMED CONSENT**

The Centre for Social Development in Africa (CSDA) at the University of Johannesburg (UJ) is carrying out a study to assess the effect of a National Minimum Wage (NMW) on young people and their job-seeking behaviour. This research is part of a bigger study that is being conducted on minimum wages with the Development Policy Research Unit (DPRU) at the University of Cape Town (UCT). The research is for the Department of Labour. The aim of the research is to assess what the impact of a minimum wage may be on wages, inequalities between rich and poor people, jobs and on the standard of living of workers. Your participation is therefore very important as it could help the Department of Labour in its thinking, planning and implementation of a National Minimum Wage for South Africa.

Presently, there are about 6.5 million young men and women between 18 and 25 years old who are not working. Some of these young people are studying, but many are not doing anything at all. We will conduct eight focus group discussions in 5 provinces with unemployed youth. Our meeting with you today is one of these eight discussions, and we hope to learn about your views and experiences about the following:

- 13) The experience of being unemployed and about how and where you look for work.
- 14) The costs of being unemployed, the costs of looking for work, what you think your costs might be when you start working and other barriers that young people face.
- 15) How much money you would be willing to work for; and how you decide what this wage is.
- 16) Your knowledge and opinions about minimum wages.
- 17) Whether and how minimum wages might influence how you look for jobs.
- 18) Finally, any other issues that are important to you and your ability to work in the future.

I will ensure that anything you tell me during this focus group remains confidential and that your name will not be mentioned in any research report. We also request members of the focus group to respect the privacy of the members of the group. You will however be sharing information amongst your peers in this group and while I encourage everyone who is participating to respect everyone's privacy and to treat information as confidential, I cannot guarantee that other members of the group will do so.

We will be recording the discussion, because it is important that we remember exactly what you share with us. But the recording will not be shared with anyone beyond the research team, which includes our transcribers.

We know that you are taking time out of your day to provide us with this information and we are very grateful for this. The discussion should not take longer than two hours.

If you are willing to participate in this discussion, please sign this consent form. By signing you agree to participate voluntarily in the study. You also show that you have been provided with the information about the study and any additional information you requested.

Name: \_\_\_\_\_

Date: \_\_\_\_\_

Place: \_\_\_\_\_

Sign: \_\_\_\_\_

If you have any questions during the focus group discussion please feel free to ask the facilitator. If you have any questions afterwards, please do not hesitate to contact Zoheb Khan on [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za) or 011 559 1933/ 078 668 9075.

# Appendix I

## 12.1 Demographic Forms

Centre for Social Development in Africa

Faculty of Humanities, University of Johannesburg

Phone: (011) 559-1907 Fax: (011) 559-1575

Director: Prof Leila Patel



### **An Investigation into the Impacts of a National Minimum Wage on Young People FOCUS GROUP DISCUSSION WITH EMPLOYED YOUTH FORM 2, PERSONAL INFORMATION**

Please fill in this form and give it to the facilitator at the end of the discussion.

1. What is your age?
2. What is your sex? (Mark with an X)
  - ☐ Male
  - ☐ Female
  - ☐ Other
3. What is the highest level of education that you have completed? (Mark with an X)
  - ☐ Grade 9
  - ☐ Grade 10
  - ☐ Grade 11
  - ☐ Grade 12
  - ☐ A trade or occupational certificate (tertiary)
  - ☐ A diploma (tertiary)
  - ☐ A degree (tertiary)
  - ☐ Other (please write what this is in the space below) \_\_\_\_\_
4. For how long have you been working in your current job?
5. Thinking of the people you live with, how many of them have jobs?
6. Please write a sentence describing your job (for example, I work as a cashier in a clothing shop).
7. Do you have an employment contract?
  - ☐ Yes
  - ☐ No
  - ☐ Don't Know
8. What benefits do you have at your job? 'Benefits' means any compensation that you may receive from your employer *that is not* your normal salary or wage (Mark all the options that apply to you with an X)
  - ☐ Deductions from salary for Provident/Retirement Fund
  - ☐ Deductions from salary for Medical Aid
  - ☐ Child care facilities for your children
  - ☐ Housing allowance
  - ☐ Travel allowance
  - ☐ Skills training
  - ☐ Other (please write what this is in the space below) \_\_\_\_\_
9. Do you earn tips, bonuses or commission?

- ☐ Yes
- ☐ No
- ☐ Don't Know

10. Are you a member of a union?

- ☐ Yes
- ☐ No
- ☐ Don't Know

11. What area do you live in? (for example, Soweto, Hillbrow, Langa, Vrygrond, Clare Estate...)

12. How much did you earn when you started working?

13. How much do you earn now?

14. How often do you get paid?

- ☐ Every day
- ☐ Once a week
- ☐ Once a month

15. How often do your wages increase? (For example, once a year? Or once every 6 months?)



**Centre for Social Development in Africa**

---

Faculty of Humanities, University of Johannesburg

Phone: (011) 559-1907 Fax: (011) 559-1575

Director: Prof Leila Patel



**An Investigation into the Impacts of a National Minimum Wage on Young People**  
**FOCUS GROUP DISCUSSION WITH UNEMPLOYED YOUTH**  
**FORM 2, PERSONAL INFORMATION**

Please fill in this form and give it to the facilitator at the end of the discussion.

1. What is your age?
2. What is your sex? (Mark with an X)
  - ☐ Male
  - ☐ Female
  - ☐ Other
3. What is the highest level of education that you have completed? (Mark with an X)
  - ☐ Grade 9
  - ☐ Grade 10
  - ☐ Grade 11
  - ☐ Grade 12
  - ☐ A trade or occupational certificate (tertiary)
  - ☐ A diploma (tertiary)
  - ☐ A degree (tertiary)
  - ☐ Other (please write what this is in the space below) \_\_\_\_\_
4. For how long have you been unemployed?
5. Thinking of the people you live with, how many of them have jobs?
6. Have you ever worked before?
  - ☐ Yes
  - ☐ No
7. If you have worked before, please write a sentence describing the job you had (for example, I worked as a cashier in a clothing shop)
8. Please write a sentence describing the kind of job you would like to have (for example, I would like to work as a cashier in a clothing shop).
9. What area do you live in? (for example, Soweto, Hillbrow, Langa, Vrygrond, Clare Estate...)
10. How much did you earn when you started working?

# Appendix J

## Voting Sheets for Preferred Minimum Wage System

**Centre for Social Development in Africa**

---

Faculty of Humanities, University of Johannesburg

Phone: (011) 559-1907 Fax: (011) 559-1575

Director: Prof Leila Patel



### **An Investigation into the Impacts of a National Minimum Wage on Young People**

#### **FOCUS GROUP DISCUSSION**

#### **FORM 4. WHAT IS THE BEST MINIMUM WAGE SYSTEM?**

Below there are four different types of minimum wage systems. Please place a tick next to the option that you think is best.

- ☐ A national minimum wage which is the same for all workers.
- ☐ Sectoral determinations: different minimum wages for workers in different jobs and places.
- ☐ A hybrid system: a mix of a national minimum wage and sectoral determinations.
- ☐ A youth minimum wage: a lower minimum wage for young workers in jobs that provide work experience and training for a specified period.

# Appendix K

## Pamphlet Provided to Focus Group Respondents

### CENTRE FOR SOCIAL DEVELOPMENT IN AFRICA

Faculty of Humanities, University of Johannesburg  
Phone: (011) 559-1907 Fax: (011) 559-1575  
Director: Prof Leila Patel



### An Investigation into the Impacts of a National Minimum Wage on Young People



### Contents

<a href="#">Minimum Wages</a>	184
<a href="#">What are they?</a>	184
<a href="#">What is the purpose of minimum wages?</a>	184
<a href="#">What are the different types of minimum wage systems around the world?</a>	184
<a href="#">National</a>	185
<a href="#">Sectoral</a>	185
<a href="#">Hybrid (which is just another word for mixed!)</a>	185
<a href="#">Age-differentiated or youth minimum wages</a>	186
<a href="#">We have learned about what minimum wages are, what they are for and the different types of minimum wages. What kind of minimum wage system does South Africa have?</a>	186
<a href="#">Different sectoral determinations in South Africa</a>	187
<a href="#">The average wages earned by South Africans in different types of jobs</a>	188
<a href="#">South African workers aged 18-25 who earn less than R50 per hour</a>	188
<a href="#">South African workers older than 25 who earn less than R50 per hour</a>	188
<a href="#">Contact details</a>	189
<a href="#">Employment and training organisations:</a>	189
<a href="#">Helplines:</a>	189
<a href="#">Information about worker rights, minimum wages etc.</a>	189
<a href="#">The Centre for Social Development in Africa:</a>	189

## Minimum Wages

What are they?

A minimum wage is the lowest amount of money that must be paid to a worker for the work that he or she does. It could be calculated on a daily, monthly, yearly or other basis. For example, if it is calculated on a daily basis, this means that there is a minimum amount of money that the employer must give to their workers every day. It could also be calculated according to the work that is done. For example, a worker who cleans cars might earn a minimum wage for each car that he or she cleans. After minimum wages have been negotiated, they are passed into law. This means that if an employer pays workers less than the minimum wage, this is illegal. A worker may earn more than a minimum wage, but not less.

The International Labour Organisation (ILO) is a large international organisation that most countries of the world are members of, including South Africa. The ILO's mission is to promote worker rights and decent jobs, and this includes promoting minimum wages. When countries become members of the ILO, they make a commitment to try to achieve the ILO's mission. ILO Minimum Wage Fixing Convention No 131 and 135 (1970) states that a minimum wage is the legal floor below which no employee may fall. Minimum wages are set for a specific time period, and can be reviewed and adjusted annually or at another time. Adjustments (changes) are made based on the situation in a country and usually this involves consultation between workers, trade unions and employers. In some countries, an independent body is established that takes all the factors into account in setting the minimum wage.

Many different factors are considered when minimum wages are set. Some of these are:

- The needs of workers and their families
- The cost of living - how much does it cost to meet the needs of workers and their families?
- Inflation – how quickly are prices increasing?
- The level of wages in a country – how much do workers earn on average and in different jobs?
- The economic situation – is the economy growing? Can employers afford to pay higher wages? Are many people out of work? How productive are workers (how much work can they do in a certain time period)?
- Social factors: is the worker the only wage earner in the household? How big is the average family? Are women participating in the economy as much as men? How many households only have one adult living in them?

What is the purpose of minimum wages?

Minimum wages can have many purposes. Some of them are listed below.

- It protects all groups of workers against being paid wages that are too low.
- It prevents workers from being exploited.
- It attempts to meet the needs of workers and their families
- To reduce poverty.
- To reduce the gap between the rich and the poor (inequality).

What are the different types of minimum wage systems around the world?

Minimum wages now exist in almost all countries in the world. But they are implemented in different ways in different countries. There are four basic types of minimum wage systems: National, Sectoral, Hybrid, and Age-differentiated.

## National

In some countries there is one minimum wage which applies to all workers. So it doesn't matter where in the country the worker lives or works, or what kind of job he or she has. All workers have the right to the same amount of money. The exact amount of money is usually negotiated between employers, employees, and the organisations that represent them, such as trade unions. It also usually changes from one year to the next because the cost of living, and other conditions in society, don't usually stay the same for a long time. Examples of countries with national minimum wage systems are:



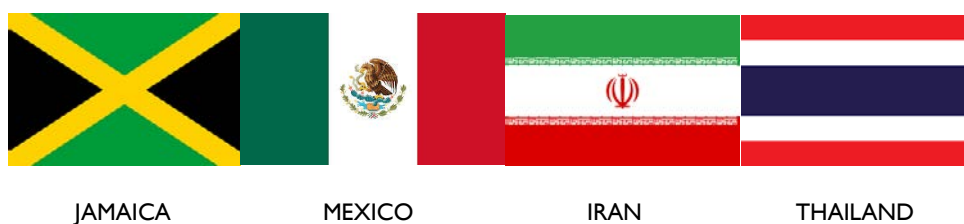
## Sectoral

On the other hand, in other countries, minimum wages are only for some workers, or only for certain types of jobs. For example, people who work on farms, or people who work as cleaners in other people's houses, may be entitled to a minimum wage, while other types of workers might not be. This might be because the government knows that farm workers and cleaners are vulnerable workers who do not get paid enough, and who might be earning a lot less than other workers in the economy. So a minimum wage just for them would be to protect these groups of workers because they are vulnerable. Different minimum wages might also exist for different parts of a country. For example, cities are often more expensive to live in, so sometimes governments guarantee a higher minimum wage to workers who live in cities, and a lower minimum wage to workers who do not live in cities. These sectoral minimum wages are also usually negotiated and updated every year. Examples of countries with sectoral minimum wage systems are:



## Hybrid (mixed systems)

Hybrid minimum wage systems have a mix of features of national minimum wage systems and sectoral minimum wage systems. For example, there could be one minimum wage which is the same for all the different workers in a country. At the same time, there could also be some workers who could be entitled to a minimum wage which is a little bit higher – for example, workers who live in big, expensive cities. Examples of countries with hybrid minimum wage systems are:



### Age-differentiated or youth minimum wages

Finally, in some countries, young people are entitled to lower minimum wages. So, a country could have a national system, a sectoral system or a hybrid system, and at the same time the minimum wage for young workers is set at a lower level than for older workers. Some people argue that if young people are paid less, then employers will hire more young people. Also, younger workers are sometimes less valuable to employers than older workers. After workers have worked for a long time they have a lot of experience and can be more productive than younger workers. So if younger workers and older workers cost the same for employers, they would choose the older workers. In addition, some businesses, especially smaller ones, cannot afford to hire many workers. For this reason, countries with lower minimum wages for youth do it because it makes hiring young people cheaper. If young workers become cheaper, it is hoped that employers will hire young people. This could be important in countries that have high levels of youth unemployment. If more employers hire more young people, this gives young people the chance to get work experience and also on-the-job training. Examples of countries with youth minimum wages are:



We have learned about what minimum wages are, what they are for and the different types of minimum wages. What kind of minimum wage system does South Africa have?



South Africa's minimum wage system is a sectoral system, which is the second type of minimum wage discussed on page 3.

In South Africa, wages are set in two ways:

- (1) Through bargaining councils. Bargaining councils are made up of unions and employers and they negotiate wages and other aspects of employment.
- (2) Through sectoral determinations. Sectoral determinations are minimum wages which apply to certain types of workers or in different sectors of the economy. They are set by the Department of Labour.

## Different sectoral determinations in South Africa

There are many different sectoral determinations in South Africa, and they usually change every year. In the table below you can see some of the sectoral determinations for 2015. For a full list of sectoral determinations, and also to see where in the country they apply, go to <http://www.mywage.co.za/main/salary/minimum-wages>). The numbers that are highlighted yellow are the highest and lowest sectoral determinations.

<b>Private security</b>		<i>per hour</i>	<i>per week</i>	<i>per month</i>
Artisans	Big cities	R 29.78		R 5 807.00
Clerical assistants	Other areas	R 12.31		R 2 400.00
	Big cities	R 15.09		R 2 942.00
Driver of a light motor vehicle	Big cities	R 15.62		R 3 046.00
<b>Wholesale &amp; Retail</b>				
Cashiers	Big cities	R 17.75	R 798.58	R 3 460.27
	Smaller cities	R 14.98	R 674.09	R 2 920.84
Sales assistant, Sales person	Big cities	R 21.04	R 946.70	R 4 102.04
	Smaller cities	R 17.92	R 806.15	R 3 493.08
Shop assistants	Big cities	R 16.67	R 750.05	R 3 249.98
	Smaller cities	R 14.09	R 634.32	R 2 748.51
<b>Taxi Industry</b>				
Drivers		R 14.51	R 697.13	R 3 020.67
<b>Agriculture</b>				
Forestry and farm workers		R 13.37	R 601.61	R 2 606.78
<b>Hospitality</b>				
Hospitality Sector	1-10 employees	R 14.15	R 637.10	R 2 760.59
	11-50 employees	R 15.77	R 710.12	R 3 076.98
<b>Domestic Workers</b>				
Cities (more than 27 hours per week)		R 10.95	R 476.68	R 2 065.47
Other areas (more than 27 hours per week)		R 9.30	R 418.32	R 1 812.57
Cities (less than 27 hours per week)		R 12.40	R 334.74	R 1 450.33
Other areas (less than 27 hours per week)		R 10.98	R 296.35	R 1 284.09
<b>Contract Cleaners</b>				
Cities		R 16.98		
Other areas		R 15.47		

## The average wages earned by South Africans in different types of jobs

South African workers aged 18-25 who earn less than R50 per hour<sup>117</sup>

Industry	Number of workers	Average wage per month
Agriculture	111278	R 1 926.00
Mining	13862	R 4 536.00
Manufacturing	127681	R 2 592.00
Electricity, gas and water supply	2658	R 4 066.00
Construction	97444	R 2 110.00
Wholesale and retail trade	377414	R 2 815.00
Transport, storage and communication	71675	R 2 948.00
Financial services, real estate, business services	121756	R 3 356.00
Community, personal and social services	165288	R 2 509.00
Private households	64081	R 1 316.00
<b>ALL</b>	<b>1153137</b>	<b>R 2 606.00</b>

South African workers older than 25 who earn less than R50 per hour<sup>118</sup>

Industry	Number of workers	Average wage per month
Agriculture	523539	R 2 295.00
Mining	211087	R 4 581.00
Manufacturing	890418	R 3 317.00
Electricity, gas and water supply	47029	R 4 002.00
Construction	685973	R 3 019.00
Wholesale and retail trade	1310798	R 3 135.00
Transport, storage and communication	462840	R 3 510.00
Financial services, real estate, business services	1014568	R 3 264.00
Community, personal and social services	1607129	R 2 885.00
Private households	1073717	R 1 562.00
<b>ALL</b>	<b>7828334</b>	<b>R 2 905.00</b>

<sup>117</sup> Source: Stats SA (2014). This is the same table as Table 1, and similarly excludes approximately 22% of the (relatively) high-earning youth population, given the focus of this research on low-wage earners. The mean wage for the entire sample of youth – i.e. without the earnings restriction of ≤ R50 per month – is R5 596 per month; the median R2 500 per month (Statistics South Africa 2014 - own calculations from Quarterly Labour Force Survey Quarter 4 2014 dataset with earnings data, provided by Stats SA).

<sup>118</sup> Source: Statistics South Africa (2014). The calculations were made in the same way as those for workers aged 18-25 as per the table above.



## Contact details

Employment and training organisations:

**Harambee Youth Employment Accelerator (national)**

<http://harambee.co.za/harambee/work-seekers>

**loveLife (national)**

<http://www.lovelife.org.za/>

**The National Youth Development Agency (NYDA) (national)**

[www.nyda.gov.za](http://www.nyda.gov.za)

**Siyafunda (National)**

<http://www.siyafundactc.org.za/our-centres/>

**The National Rural Youth Service Corps programme (NARYSEC) (for youth in rural areas)**

<http://www.gov.za/about-government/government-programmes/national-rural-youth-service-corps-programme>

**EOH Youth Job Creation Initiative (Gauteng, KZN)**

<http://www.eoh.co.za/about-eoh/sustainability/job-creation-initiative#.VffnSRGqqko>

<http://www.talentplacement.com/VacancyDetails.aspx?v=2>

**Etafeni (Nyanga, Cape Town)**

[http://www.etafeni.org/?page\\_id=17](http://www.etafeni.org/?page_id=17)

**AV AFRICA (Cape Town)**

<http://www.avafrica.org.za/about-ava.html>

**Afrika Tikkun (Gauteng, Western Cape)**

<http://www.afrikatikkun.org/what-we-do/core-programmes/>

**Raymond Ackerman Academy (Gauteng, Western Cape)**

<http://www.ackermanacademy.co.za/>

**Siyasebenza (Eastern Cape)**

<http://www.siya-sebenza.co.za/about-siya-sebenza.php>

**World Changers Academy (KZN)**

<http://www.worldchangers.org.za/profile-vision.html>

**Khetha National Career Development Services**

<http://www.careerhelp.org.za/>

Helplines:

**South African National Council on Alcoholism and Drug Dependence**

086 14 SANCA/ 086 14 72622

**The South African Depression and Anxiety Group (SADAG)**

0800 20 50 26

**Lifeline** (Counsellors help callers with challenges such as trauma, suicide, and relationship issues)

0861 322 322

**National AIDS Helpline**

0800 012 322

**Stop Gender Violence helpline**

0800 150 150

**Marie Stopes Clinics** (Sexual and Reproductive Health and Family Planning services)

0800 11 77 85

Information about worker rights, minimum wages etc.

**The South African Department of Labour**

<http://www.labour.gov.za/DOL/>

**Minimum wage rates in South Africa and information on worker rights**

<http://www.mywage.co.za/main/salary/minimum-wages>

<http://www.mywage.co.za/main>

**The Black Sash**

<http://www.blacksash.org.za/index.php/your-rights/labour/item/you-and-your-rights-7>

**The Congress of South African Trade Unions (COSATU)**

<http://www.cosatu.org.za/index.php>

**The International Labour Organisation**

<http://www.ilo.org/inform/online-information-resources/research-guides/minimum-wages/lang--en/index.htm>

The Centre for Social Development in Africa:

**Zoheb Khan** (Researcher)

Email: [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za); Phone: 011 5591 933

# Appendix L

## Employer Interview Guide



### Centre for Social Development in Africa

Department of Social Work, Faculty of Humanities

University of Johannesburg

Phone: (011) 559-1904 Fax: (011) 559-1575

Director: Prof. Leila Patel

[www.uj.ac.za/csda](http://www.uj.ac.za/csda) csdainfo@uj.ac.za

### EMPLOYERS INTERVIEW GUIDE

#### An Assessment of the Potential Impact of a National Minimum Wage on young people's labour market outcomes

Hello, my name is \_\_\_\_\_ and I am from the Centre for Social Development in Africa at the University of Johannesburg. We are carrying out a study for the Department of Labour to assess the possible impacts of a National Minimum Wage (NMW) on young people's labour market outcomes. In determining these possible impacts we are in the process of conducting interviews with unemployed and employed young people, as well as with employers of young people.

This research is part of a bigger study that is being conducted on minimum wages with the Development Policy Research Unit (DPRU) at the University of Cape Town. The research is for the Department of Labour (DoL). The aim of the research is to assess what the impact of a national minimum wage may be on wages, inequalities between rich and poor people, its effects on jobs and on the standard of living of workers. Your participation is therefore very important as it could help the DoL in its thinking, planning and implementation of a National Minimum Wage for South Africa.

Presently, only about one in five 18-25 year olds are in formal, regular employment, and there are about 3.4 million young people between 18 and 25 years who are not in education, employment and training (Stats SA, 2014). We will conduct seven interviews with employers in selected sectors that employ large numbers of young people, such as wholesale and retail. This is one of those seven interviews, and in it we hope to learn about your views of the proposed national minimum wage as an employer and how it might impact your hiring behaviour. The following will be explored during the interview:

- 19) The profile of your workforce, particularly young workers.
- 20) The nature of your organisation's demand for young workers.
- 21) Personal views about the minimum wage policy and its implications for your sector.
- 22) Whether and how minimum wages might influence your hiring behaviour as an employer.
- 23) Your practices relating to the training of young workers.
- 24) Your thoughts on unemployment.
- 25) Any other issues that are important to you as an employer.

#### Participation in the study and informed consent

I will ensure that anything you tell me during this interview remains confidential and that your name will not be mentioned when we report on the findings. We are aware that you are taking time out of your day to provide us with this information and we are very grateful for this. The interview should not take longer than an hour.

We will be voice recording the interview. The recording will allow me to accurately recall your statements. The recording will not be shared with anyone beyond the research team, which includes our transcribers.

Do you have any questions?

If you are willing to participate in this interview, please sign this form to declare that you have been provided with the above information and any additional information you requested. This indicates that you are willing to participate in the study on a voluntary basis:

Name: \_\_\_\_\_

Organisation: \_\_\_\_\_

Sector: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

☐ I consent to the interview being voice recorded

Should you have any questions during the interview please do not hesitate to ask me. If you would like to contact us after the interview, please contact Zoheb Khan on [zkhan@uj.ac.za](mailto:zkhan@uj.ac.za) or 011 559 1933.

Thank you again for agreeing to participate in this interview. I'd like to remind you that anything you share with me will not be linked to your name or your organisation when we report on the results of the research. We don't come into these interviews with any preconceived ideas of right and wrong answers -this is your opportunity to talk freely about what a minimum wage policy might imply for you.

## Start of the interview

### Part 1: The profile of workers hired by the employer

- I.1. To begin with, please could you tell me how many employees are currently on your payroll?
- I.2. Approximately how many of these employees are young people aged between 18 and 25?
- I.3. I realise that there may be considerable variation, but I would like to gain an understanding of the profile of your young workers (whenever I mention the term 'young workers' from now on, I am referring to those workers aged between 18 and 25).
  - I.3.1. For example, what are their levels of education? For instance, a third have a matric, a third have less than this and another third have a tertiary qualification?
  - I.3.2. What is their age profile?
  - I.3.3. What proportion of your young workers work full-time?
  - I.3.4. How many hours per week does this amount to?
  - I.3.5. What is the typical job description?
  - I.3.6. For how long, on average, do your young workers stay with you?
  - I.3.7. What is the average wage paid to these young workers?
- I.4. In your experience, what are some of the biggest challenges when it comes to hiring young people?
 

*[Prompts: do young workers have sufficient work experience and does this matter? Do they have the right skills (technical skills and also soft skills like work ethic)? How does retention of young workers differ from older workers and what are the challenges related to this?]*
- I.5. And what are some of the advantages of hiring young people?
 

*[Prompts: is it possible for young workers to work more flexible hours, due to for example having fewer family commitments; due to studying; or due to a greater willingness to work night shifts and weekends? Are they more willing to learn on the job?]*
- I.6. Do you prefer to hire younger people over older people? Why or why not?

### Part 2: The nature of demand for young workers

In this part of the interview I would like for us to talk about the nature of your organisation's demand for young workers.

- 2.1. Do you feel that you could be hiring more young workers at this time? Why or why not?
- 2.2. Thinking about the young workers who are currently in your employ:
  - 2.2.1. How important would you say they are to your operations?
  - 2.2.2. Do you find that the number of young workers in your employ is fairly constant over time, or does it fluctuate significantly? Please explain.
 

*[Prompt: for example, seasonal work? Or if business is slow?]*
  - 2.2.3. If it becomes less attractive to hire young workers for whatever reason, is it possible for you to hire different types of workers, for example more skilled, part time or older workers, to do the same jobs? Why or why not?
  - 2.2.4. If young workers become expensive, would you reduce the hours they work? Please motivate your answer?
  - 2.2.5. Is it also possible for you to substitute young workers for other inputs? For example, if it became less attractive for you to hire young people could you possibly switch to machines or automated processes? Why or why not?
- 2.3. In your experience, do you think if you pay your young workers more that they will work harder and be more committed? Please elaborate?

### Part 3: General perceptions of national minimum wage policy

#### 3.1. How are wages set in your organisation?

*[Prompt: is your sector covered by a sectoral determination? is there bargaining by a union? Or bargaining in your company? Are wages set by a bargaining council in your sector? Or do you have complete freedom to set wages?]*

*[The following question should be asked only to those employers who have indicated that they are either covered by sectoral determinations or constrained by bargaining].*

#### 3.2. Do you think that the negotiated wage which covers your sector is set at a fair level? Please elaborate?

As you might be aware, government is currently debating the possibility of introducing a national minimum wage which would be applicable to all workers.

#### 3.3. What do you think about this proposed national minimum wage policy, generally?

#### 3.4. Do you think that the majority of employers in your sector would comply with the new policy? Why or why not?

### Part 4: Perceived impacts of a youth National Minimum Wage

Another policy which is implemented in some countries, such as the Netherlands and the UK, is a national minimum wage differentiated by age. What this means is that there might be a nationally-binding standard minimum wage rate for 'adult' workers, and a lower rate for young workers aged 18-25.

#### 4.1. What is your opinion of this idea?

*[Prompts: Do you think it is fair to pay younger workers less, who may have less skills, work experience or family responsibilities? Would a lower wage offset investments you make in training? Do you think young workers would object to being entitled to less than older workers?]*

#### 4.2. If a lower minimum wage were to be implemented for young workers, what would be a fair percentage of the adult minimum wage?

#### 4.3. How do you think it would impact on your sector?

*[Prompts: Do you think it would lead other employers to hire more or less young workers?]*

I'd now like to discuss how a youth minimum wage might impact your organisation specifically. We don't know the level at which a youth minimum wage might be set. But these are the average wages for paid employees in South Africa:

*[Show the table of average earnings for adult and youth workers on page 7].*

The average wage for young workers is R2600 per month, and for older workers it is R2900 per month.

#### 4.4. Just to recap, what is the average wage that your organisation pays to young workers?

#### 4.5. What do you think would be the impact on your organisation of a youth national minimum wage which is set below the average wage level of R2600 for young workers?

*[Prompts: would you hire more young workers? Would you hire fewer older or more skilled workers? Would you not retain young workers once they reach adult age and hire new young workers instead? Would your profit margins be affected? Would the ability of your organisation to grow be impacted? Would you change your business model, by for example using technology?]*

#### 4.6. What do you think would be the impact on your organisation of a youth national minimum wage which is set above the average wage level for young workers?

*[Prompts: would you hire fewer young workers? Would you hire more older or more skilled workers? Do you think a higher youth wage might allow you to attract more skilled or committed young workers? Would your profit margins be affected? Would the ability of your organisation to grow be impacted? Would you change your business model, by for example using technology?]*

### Part 5 – Training

#### 5.1. Do you provide training to your workers who are older than 25? Why or why not?

#### 5.2. Do you provide training to your younger workers? Why or why not?

#### 5.3. What are the challenges you face when providing training for young people?

5.4. Would you prefer paying lower wages in lieu of investing in training?

**Part 6 – Unemployment**

6.1. According to the latest data from Statistics South Africa, only one in five 18-25 year olds are in regular, paid employment.

6.1.1. What do you think is the best way for government to deal with the youth unemployment challenge?

6.1.2. What do you think is the best way for business to deal with the youth unemployment challenge?

6.2. Young South Africans face enormous challenges when they are looking for work. What do you think could be done to make the process of looking for work easier?

*[Prompts: what about stipends for job-seekers? Or streamlining application processes among employers? What about a centralised recruitment agency? Or employers recruiting directly in especially disadvantaged communities? How could government and business provide more and better information to job-seekers?]*

**Part 7 – Other issues**

I've come to the end of the interview. Is there anything else you would like to add?

**THANK YOU SO MUCH FOR YOUR TIME!**

## The average wages earned by South Africans in different types of jobs

South African workers aged 18-25 who earn less than R50 per hour<sup>119</sup>

Industry	Number of workers	Average wage per month
Agriculture	111278	R 1 926.00
Mining	13862	R 4 536.00
Manufacturing	127681	R 2 592.00
Electricity, gas and water supply	2658	R 4 066.00
Construction	97444	R 2 110.00
Wholesale and retail trade	377414	R 2 815.00
Transport, storage and communication	71675	R 2 948.00
Financial services, real estate, business services	121756	R 3 356.00
Community, personal and social services	165288	R 2 509.00
Private households	64081	R 1 316.00
<b>ALL</b>	<b>1153137</b>	<b>R 2 606.00</b>

South African workers older than 25 who earn less than R50 per hour<sup>120</sup>

Industry	Number of workers	Average wage per month
Agriculture	523539	R 2 295.00
Mining	211087	R 4 581.00
Manufacturing	890418	R 3 317.00
Electricity, gas and water supply	47029	R 4 002.00
Construction	685973	R 3 019.00
Wholesale and retail trade	1310798	R 3 135.00
Transport, storage and communication	462840	R 3 510.00
Financial services, real estate, business services	1014568	R 3 264.00
Community, personal and social services	1607129	R 2 885.00
Private households	1073717	R 1 562.00
<b>ALL</b>	<b>7828334</b>	<b>R 2 905.00</b>

<sup>119</sup> Source: Stats SA (2014). This is the same table as Table 1, and similarly excludes approximately 22% of the (relatively) high-earning youth population, given the focus of this research on low-wage earners. The mean wage for the entire sample of youth – i.e. without the earnings restriction of ≤ R50 per month – is R5 596 per month; the median R2 500 per month (Statistics South Africa 2014 - own calculations from Quarterly Labour Force Survey Quarter 4 2014 dataset with earnings data, provided by Stats SA).

<sup>120</sup> Source: Statistics South Africa (2014). The calculations were made in the same way as those for workers aged 18-25 as per the table above.



Development Policy Research Unit  
University of Cape Town  
Private Bag  
Rondebosch 7701  
Cape Town  
South Africa

Tel: +27 21 650 5705  
Fax: +27 21 650 5711

[www.dpru.uct.ac.za](http://www.dpru.uct.ac.za)



Like us at [www.facebook.com/DevelopmentPolicyResearchUnit](https://www.facebook.com/DevelopmentPolicyResearchUnit)