Article

# Setting the level of a national minimum wage: what can South Africa learn from other countries' experiences?

Jeremy Seekings and Nicoli Nattrass
jeremy.seekings@gmail.com; nicoli.nattrass@gmail.com

## Abstract

In 2015, the South African Government, organised business and organised labour agreed to the introduction of a national minimum wage (NMW) in principle, but without any agreement over the level at which it should be set. One of the key arguments for a high NMW is that the experiences of other countries (including especially Brazil and Germany) supposedly show that a NMW can be increased rapidly to a high level and covering a majority of the workforce without any adverse effects on either economic growth or employment. We show that this is a misinterpretation of comparative experiences because in both advanced capitalist and middle-income economies NMWs are set at modest levels, covering the minority of lowest-paid workers, and taking into account the real risks of job destruction. Most countries have slowly raised minima because low unemployment made them confident that modest increases would lead to little or no job destruction. South Africa's current sectoral minima are already broadly in line with minima in most other countries. International experience does not support the contention that South Africa, with its exceptionally high unemployment rate, should raise rapidly the NMW to a very high level without regard for job destruction.

## Introduction

Over the past 20 or so years minimum wage-setting has once again become a popular tool of economic policy in the advanced capitalist democracies of the global North, primarily because low-wage workers have not benefitted from growing prosperity. In the UK, the Conservative Party shifted from opposition to the embrace of a national minimum wage (NMW). In Germany, the Christian Democratic Union-led government (under pressure from the Social Democratic Party) introduced a NMW in 2015. The International Labour Organisation (ILO) has rediscovered its enthusiasm for national minima, including in middle- and low-income countries as part of its package of regulations intended to strengthen 'decent work', improve productivity, reduce poverty, and boost economic growth (ILO 2013, 2014). A number of middle-income countries have raised or introduced a NMW. In Brazil, for example, steady real increases in the NMW contributed to a significant decline in poverty and inequality. Malaysia introduced a NMW (excluding domestic workers) in 2013.

A NMW is firmly on the policy agenda in South Africa also. South Africa has long had a system of sectoral minimum wages: in sectors with strong trade unions (such as the metals and clothing manufacturing industries), unions negotiate with employers in 'bargaining councils', and the agreed minima are then 'extended' countrywide by the minister of Labour (Godfrey et al 2010); in sectors without bargaining councils (such as domestic work and agriculture), minima are set by the minister of Labour on the basis of recommendations from the tripartite Employment Conditions Commission (ECC). Until the 2010s, the Congress of South African Trade Unions (Cosatu) supported and participated in this sectoral system of minimum-setting (Seekings 2016a, 2016b). In 2012, however, Cosatu's Central Executive Committee discussed a widely distributed 'concept paper' by Cosatu strategist Neil Coleman, which argued for a NMW as part of a 'radical overhaul' of South Africa's wage-setting institutions (Coleman 2013:85).[1] Coleman recommended that the NMW be set at between R4,800 and R6,000 per month (in 2011 prices), although lower minima might be set in a transitional stage (2013:34). The following year, Cosatu's National Bargaining Conference supported a proposal that the NMW be set at R4,500 per month.[2] In November 2015, at its National Congress in Midrand, Cosatu resolved to support a call for a NMW set between R4,125 and R5,276/month (Cosatu 2015). This range was 30 per cent lower in real terms (ie taking inflation into account) than Coleman's original proposals, but was nonetheless very much higher than the lowest existing minimum wage set through a sectoral determination (R1,813/month, for domestic workers outside of metropolitan areas, raised to R1,994/month in December 2015)[3] or the weighted average of minimum wages set through sectoral determinations (which we estimate at under R3,000/month at the time).

The governing African National Congress (ANC) included in its 2014 election manifesto a rather vague commitment to 'investigate the modality for the introduction of a national minimum wage as one of the key mechanisms to reduce income inequality' (ANC 2014:7, 26). After the election, deputy-president Cyril Ramaphosa initiated a discussion at the National Economic, Development and Labour Council (NEDLAC) Annual Summit. One year later, in September 2015, Ramaphosa seemed to tell Parliament that organised business, organised labour and the state had agreed on the principle of a national minimum and negotiations were continuing over the details.[4] The crucial details concerned, firstly, the level of a NMW and provision for exemptions and exclusions; and, secondly, the institutional procedures for setting these. Opening Parliament in February 2016, president Jacob Zuma injected a note of caution: the NMW must not be set at a level that impaired economic growth, job creation or small business.[5]

Cosatu and other advocates of a high NMW base their case on three main arguments. First, and uncontroversially, they show that many working people live in households with incomes below the poverty line (Coleman 2013:2, 31-2, Isaacs 2015, see also Vavi 2014). Secondly, they cite macro-economic modelling results that appear to show that, in South Africa, a high NMW would boost growth and reduce inequality and poverty, without any significant effect on employment and unemployment, whilst dismissing the findings of other macro-economic models that suggest the opposite (Isaacs 2016). Thirdly, they claim that the experience of other countries shows that a high NMW reduces poverty and inequality without destroying jobs. Particular emphasis has been placed on the experiences of Brazil – Coleman's foundational paper for Cosatu was subtitled 'Learning from the Brazilian experience', and included a long account of the Brazilian case (Coleman 2013:11-22) – and Germany (see Cosatu 2014). This invocation of comparative experience is particular important because it suggests that a high NMW is 'normal' in the normative sense of being right as well as the empirical senses of being commonplace and feasible.

In this article we examine the evidence on the experience of other countries, focusing especially on Brazil and Germany. We show that, by most measures, South Africa's sectoral minima are already at about the same level or even higher than the NMWs in Brazil, Germany and many other countries. Moreover, the much-cited doubling of the NMW in Brazil was matched almost exactly by the doubling of sectoral minima in South Africa over the same time period, with South Africa's sectoral minima at almost the same real level (in terms of purchasing power) as the Brazilian NMW. We show also that these foreign cases all have tight labour markets, providing very favourable conditions for raising minimum wages, in complete contrast to South Africa. Even in these countries, NMWs were set paying close attention to the risks of job destruction, as the ILO recommends. Finally, we argue that the comparative evidence does not support the macro-economic arguments put forward by advocates of a very high NMW in South Africa.

## Setting the level of the minimum wage

The ILO has long taken the lead in the global push for minimum wages. Its Minimum Wage Fixing Convention (1970) recommended that policy makers consider the following when setting minimum wages:

a) The needs of workers and their families, taking into account the general level of wages in the country, the cost of living, social security benefits, and the relative living standards of other social groups;
b) economic factors, including the requirements of economic development, levels of productivity and the desirability of attaining and maintaining a high level of employment.

Whilst the ILO leaves it up to the national stakeholders to attribute weight to these different social and economic objectives, it has tentatively suggested a variety of possible 'benchmarks'. The ILO's 2008/09 *Global Wage Report* suggested that a minimum wage of 40 per cent of the mean (average) national wage might be a 'useful reference point' given that many countries clustered around that level, but that the final value should depend on 'country-specific factors' (2008:47). Other ILO analysts have pointed out that it is better to set minimum wages in relation to the median wage (ie the mid-point in the wage distribution) because mean wages are biased upwards by very high wages. For example, Belser and Sobeck note that a minimum wage 'is most frequently set at about 50 to 60 per cent of the median wage' and suggest that these figures 'represent a useful benchmark for minimum wage setting' (2012:122). A third suggested benchmark is to set the (annual) minimum wage at between 30 and 60 per cent of GDP per capita (Saget 2008). This makes particular sense in economies where the distribution of wages explains only a part of the overall distribution of incomes, for example because of a large peasant agricultural sector or high unemployment. Yet another possible benchmark is the coverage of the NMW, ie what proportion of workers are directly (and perhaps indirectly) affected in that their wages should rise when the NMW is introduced or raised.

Comparing minima across countries requires compatible data on minima, the actual wage distribution (ie to allow the calculation of mean and median wages, and coverage) and GDP per capita. In middle- and high-income countries there is little controversy over GDP per capita, but there are significant challenges in plotting both minima and the wage distribution. The most comprehensive data are collated by the ILO for its *Global Wage Report* and its 'ILOSTAT' dataset. Unfortunately, most ILO data do not cover the most recent two or so years.

The specification of minimum wages is a challenge for countries that have sectoral or regional minima (such as South Africa) rather than a single NMW (such as Brazil and Germany). In such countries, the ILO seems to report as the minimum wage an employment-weighted average of minima, ie weighting the various minima by the numbers of workers covered. In South Africa, the ILO reports the minimum wage[6] in 2013 as being R2,474/month, which seems to be the employment-weighted average of sectoral minima set through sectoral determinations by the ECC, ie not taking into account the generally (but not always) higher minima set through bargaining councils and extensions.[7] Some sectors (such as civil engineering) have minimum wages set through sectoral determinations that are higher than this, whilst others (such as domestic work) have minimum wages slightly lower. The employment-weighted minimum set through bargaining councils is higher, even though some trade unions have agreed in bargaining councils to sectoral minima lower even than the ECC's minimum for domestic workers (see Coleman 2013:3). The ILO has not yet reported data for years since 2013. Below, we first compare the ILO-reported minimum for South Africa with other countries, then extend the comparison to the lower minimum set for non-metro domestic workers (R1,813/month for most of 2015), the range of levels proposed by Cosatu at its 2015 National Congress (R4,125-5,276/month) and the range originally proposed by Coleman (R4,800-R6,000 in 2011 prices).

Data on the wage distribution pose a different challenge. In the South African case, different sources suggest very different wages. Coleman, in his original paper, cherry-picked data from three different sources. To emphasise the problem of working poverty, he cited data from Cosatu's own 2012 Workers' Survey which suggested that at least 20 per cent of union members earned less than R2,500/month, and at least 45 per cent earned less than R5,000/month, whilst 80 per cent of non-members earned less than R5,000/month. Because the survey sampled only urban workers, he wrote, these data probably underestimated the proportion of workers with low wages (2013:2). Later, he cites studies using data from *household*-based Labour Force Surveys (conducted by Statistics South Africa) that suggested that many workers in sectors with minimum wages were being paid less than the minima, ie that their employers were not compliant (2013:38-39). His data on mean wages, however, are based on the *firm* survey (the Quarterly Employment Survey) conducted by the parastatal Statistics South Africa (2013:34). These different data are not compatible. Household surveys typically suggest much lower wages than firm surveys, in part because of different coverage (in that firm surveys under-sample or omit entirely small firms, informal employment and low-wage sectors), in part because workers or households under-report earnings whilst employers might even over-report them (see Wittenberg 2014, Seekings 2016c).

The 'ILOSTAT' database relies primarily on household-based labour force surveys for data on wages. The ILO put the mean wage in South Africa in 2013 at just under R8,200/month (ie approximately R9,000/month in 2015 prices).[8] In a detailed study for the National Minimum Wage Research Initiative (NMW-RI), Finn (2015:37) removed implausible outliers from labour force survey data and calculated the mean wage to be under R8,200 in 2014 (ie about R8,500/month in 2015 prices), ie slightly lower than the ILO's figure. Coleman, in stark contrast, cited the Quarterly Employment Survey of firms for 2011 that suggested a mean monthly wage of R13,284. Taking inflation into account (but not allowing for any real increase over time) this is the equivalent of about R16,500 in 2015 prices, ie it is close to double the data provided by the ILO and Finn. Whilst it is likely that labour force surveys in South Africa do underestimate a range of earnings, the firm survey data simply cannot be used to estimate mean earnings given their minimal coverage of low-earners (and possible over-reporting of higher-earners).

Household-based labour force surveys may underestimate some workers' earnings, but the available evidence suggests that this is much more likely to be the case among higher-earning workers in formal employment than among lower-earning workers. Household-based labour force survey data on median wages are therefore more likely to be accurate than data on mean wages (see Seekings 2016c). Given that we use household survey data for our cross-country analysis, South Africa's *relative* position will be unaffected by such under-reporting insofar as other countries are similarly affected.

The ILO does not report median wage data for South Africa. Finn, however, calculates the median at R3,224/month in 2014 (2015:37). This is slightly higher than the estimated median wage for 2015 suggested by the South African National Treasury (R3,145/month) (MacLeod 2015) and is about the same (in real terms) as the estimate suggested by the NMW-RI for 2015 (R3,347/month) (NMW-RI 2015).

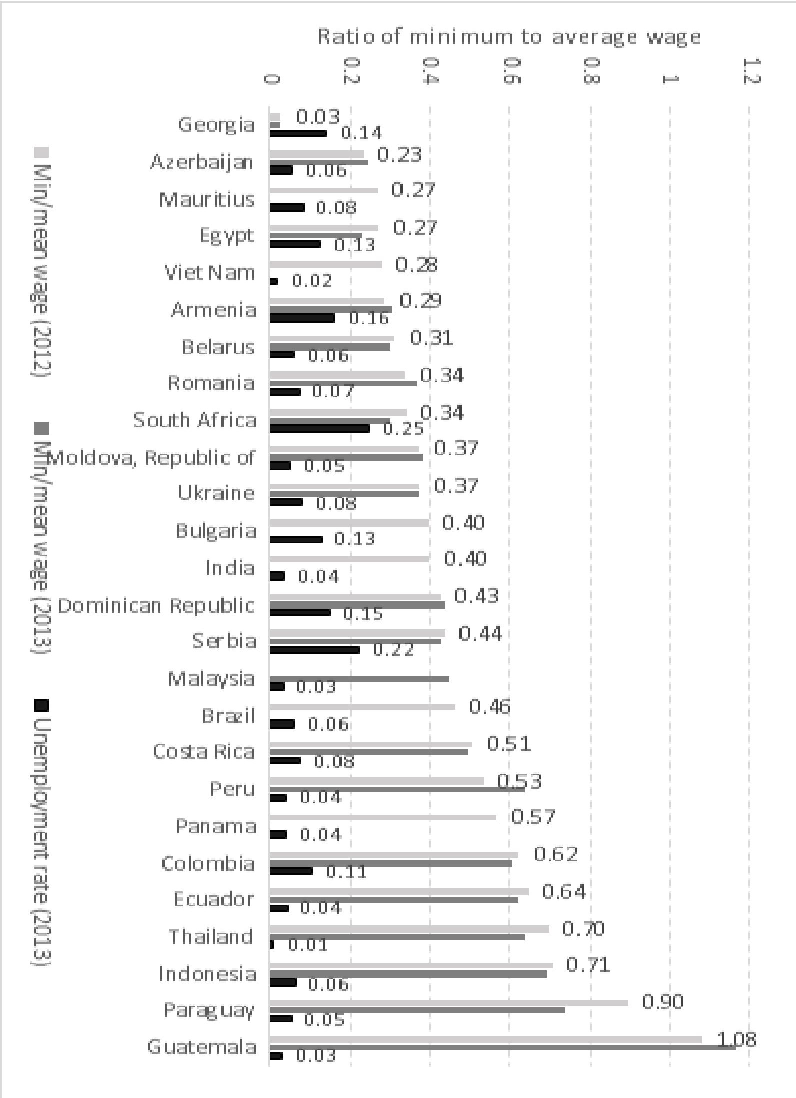
## The ratio of NMW to mean wages

Coleman (for Cosatu) argued that 'international norms' regarding the ratio of minimum to average wages indicate that South Africa ought to raise minimum wages. He calculated that the ratio of minimum to average wages in South Africa was about 20 per cent, compared to 40-50 per cent in OECD countries (and, after big increases, Brazil) (2013:34). His proposal that the NMW be set between R4,800 and R6,000 per month (in 2011 prices) was based on this 40-50 per cent 'norm'. Coleman later reported that Cosatu had 'expressed the view that R4,500 is a useful benchmark, because it approximates the minimum living level and is about 40% of the average national wage' (supposedly 'an internationally used yardstick') (Coleman 2014a).

As noted earlier, Coleman's estimate that South Africa's minimum wage was only 20 per cent of the mean was based on his use of firm survey data that massively overestimate mean wages. The ILO data (from household surveys) suggest that the average South African minimum wage was about 36 per cent of the mean wage in 2011, dropping to about 30 per cent in 2013. Finn's data suggest that the ratio was about 32 per cent in 2014 (Finn 2015). This is below the 40 per cent benchmark recommended in some ILO publications, and is low in comparison with most other middle-income countries in 2012 and 2013 (see Figure 1). The minimum wage for non-metro domestic workers is even lower in relation to the mean wage (at 18 per cent in 2013, using the ILO estimated mean, or 20 per cent in 2014, using Finn's).

The range of minima proposed by Coleman and Cosatu is much higher. Coleman's proposed range (in 2011) of R4,800-6,000/month corresponded to between 80 per cent and 99 per cent of the ILO's mean wage for that year. Cosatu's proposed range (in 2015) of R4,125-5,276 corresponded to between 42 per cent and 54 per cent of our estimate of the mean wage in 2015, based on the extrapolation of the ILO data for earlier years.[9]

**Figure 1: Ratio of minimum to mean wages, and unemployment rate, 2012/13.**




**Source**: ILO, Global Wage Report data (see footnote 6) and ILOSTAT (see footnote 9).

## The ratio of NMW to the median wage

Comparing minimum wages to median rather than mean wages removes the distorting effect of the very high earnings paid to the privileged elite (which pull up the mean wage). Figure 2 shows labour force survey data from the ILO on the ratio of minimum to median wages for all countries for which data are available, and using Finn's estimate from the labour force survey of the median wage in South Africa. Figure 2 shows that the ratio of minimum to median wages in South Africa is towards the top end of the set of countries in the ILO dataset. At 85 per cent, it is well above the 50 to 60 per cent benchmark suggested by Belser and Sobeck (2012). It is substantially higher than the ratio in Brazil (58 per cent). When Germany introduced its minimum wage in 2015, it was set at about 50 per cent of the median for full-time workers.[10] When the UK introduced its NMW, it was set at 46 per cent; by 2010 it has risen to 52 per cent. Indeed, the ratio in South Africa is higher than in every OECD country (Manning 2012).

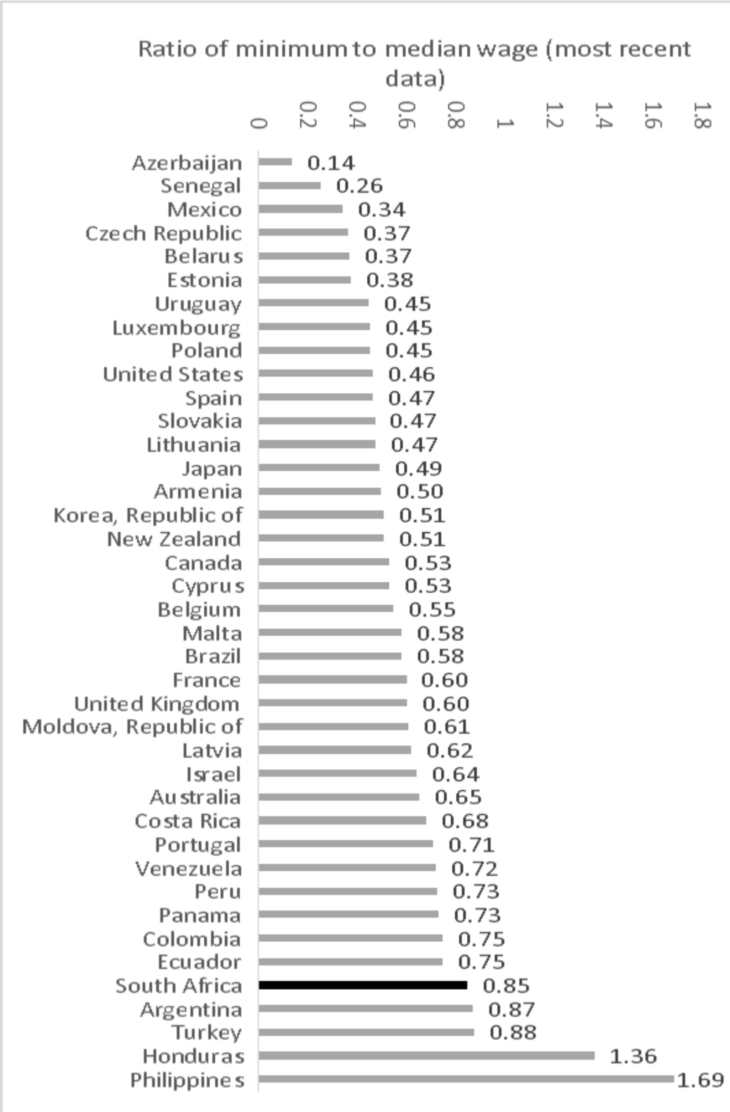
In South Africa, even the minimum wage for domestic workers was 50 per cent of the median in 2014-15. Coleman's original proposals of R4,800-6,000 (in 2011) would raise the ratio of the minimum to the median far above any other country with labour force survey data in the ILO database: 176 per cent and 220 per cent (adjusted for inflation). Even Cosatu's more modest 2015 proposals (R4,125-5,276) corresponded to between 122 and 157 per cent of the median, the midpoint of which is higher than the ratio in every other country except the Philippines (see Figure 2).

## The ratio of NMW to GDP per capita

Benchmarking minimum wages against the median wage is better than benchmarking it against the mean wage but both measures ignore the unemployed and thus also the claims they make on national resources. South Africa has a very high rate of unemployment (see Figure 1), with about a quarter of the labour force unemployed and seeking work (and this is not counting the 'discouraged' unemployed who have stopped looking). If we took these people into account by including them in the wage distribution as zero earners, then both the median wage and the mean wage in South Africa would be reduced massively, to about R1,500/month and R6,000/month respectively in 2015. In most countries, where unemployment rates are low, including them in the calculation of mean and median earnings makes little difference. In South Africa, it would make an enormous difference.

Another way of taking the unemployed into account is to benchmark the

**Figure 2. Ratio of minimum to median wages**



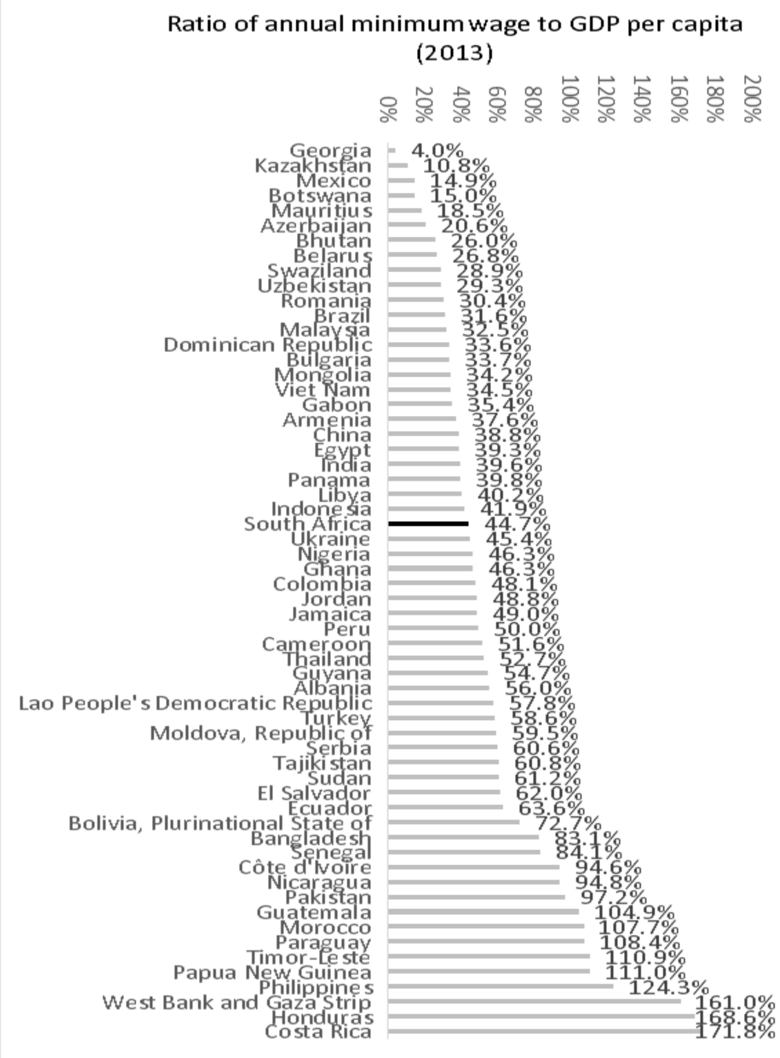

**Source**: see Figure 1, except that median for South Africa from Finn (2015). All data from labour force surveys.

minimum wage not against median or mean wage earnings, but against GDP per capita, ie total income divided by the total population (employed people, unemployed people and their dependents). Data on GDP per capita have the additional advantage of being more reliable than wage data. Saget (2008) suggests that the international norm is a ratio of minimum wage to GDP per capita of between 30 and 60 per cent. Figure 3 reports the ratio of (annualised) minimum wages to GDP per capita in middle-income countries in 2013. South Africa's ratio (using the ILO estimate of the minimum) – at 45 per cent – is in the middle of Saget's range. It is significantly higher than the ratio in Brazil (32 per cent) and is close to the median for middle-income countries (48 per cent).[11] It is also identical to the ratio for Germany (not shown in Figure 3, but see Table 2).

The existing minimum wage for a non-metropolitan domestic worker in South Africa was, in 2013, just 27 per cent of South Africa's GDP per capita, which is very low in comparison with other countries. The NMW levels proposed by Coleman and Cosatu, however, are very high by international standards. Coleman's original proposals (adjusted for inflation) corresponded to 98-123 per cent of GDP per capita in 2011, and Cosatu's 2015 proposals corresponded to 67-86 per cent of GDP per capita.[12]

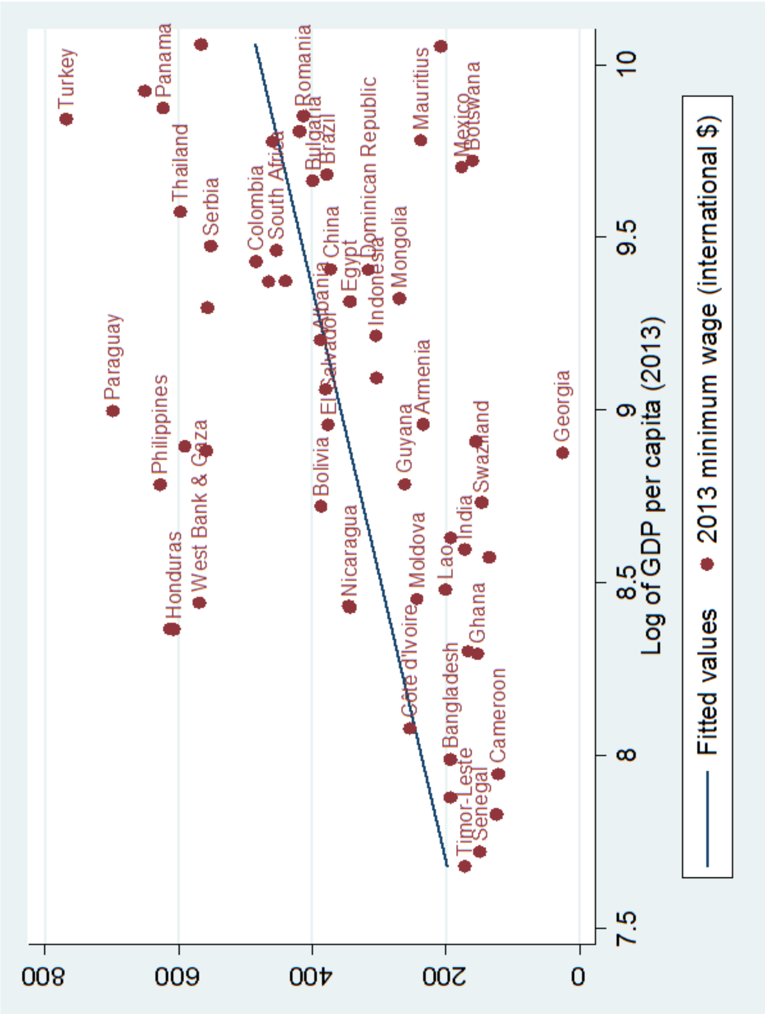
If South Africa's minimum wage was set (in 2015) at the same proportion of GDP per capita as Brazil (32 per cent) it would be R1,961/month, and if it was set at the same proportion of GDP per capita as is the case in Germany (45 per cent) it would be R2,758/month. Even these levels do not take into account the fact that the ratio of minimum wages to GDP per capita tends to rise as a country develops. Figure 4 plots minimum wages (as measured by the ILO) against GDP per capita for middle-income countries. The overall relationship is strongly positive. Figure 4 shows that South Africa's minimum wage in 2013 was close to the value predicted by the overall relationship for middle-income countries, providing further evidence that South Africa's existing sectoral minimum wages are not out of line with appropriate international norms. Given that South Africa's GDP per capita is only 80 per cent of Brazil's, one would expect that its ratio of minimum wages to GDP per capita would be lower than in Brazil. Given that GDP per capita in South Africa is less than one quarter of Germany's, one would expect that the ratio of minimum wages to GDP per capita would be a lot lower in South Africa than in Germany. Yet the ratio of existing minimum wages to GDP per capita is already higher in South Africa than in either Brazil or Germany. The proposals from Coleman and Cosatu would have raised the ratio in South Africa even higher.

**Figure 3. Ratio of minimum wages to GDP per capita, middle income countries, 2013**




**Source**: Minimum wage data from ILOSTAT (http://www.ilo.org/ilostat); GDP per capita data from World Bank's World Development Indicators (http://data.worldbank.org/data-catalog/world-development-indicators).

**Figure 4: Minimum monthly wages and GDP per capita (international dollars)**




**Source**: ILOSTAT (http://www.ilo.org/ilostat and *World Development Indicators* (http://data.worldbank.org/data-catalog/world-development-indicators).

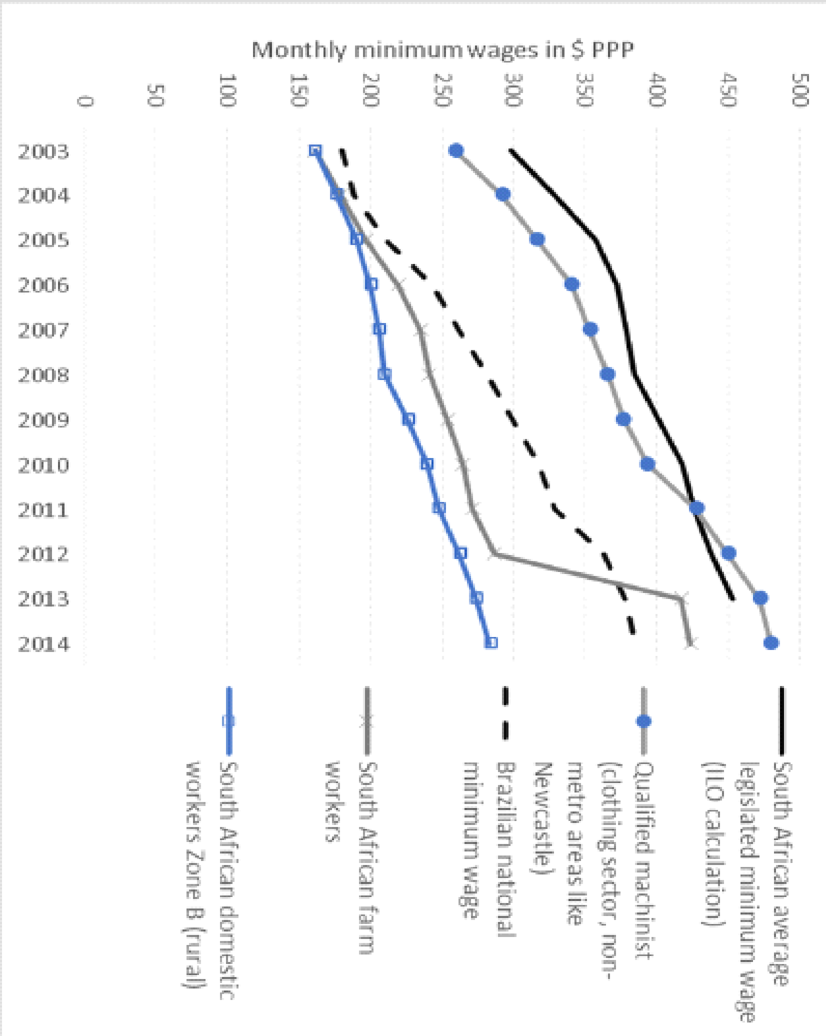
## Changes over time: Brazil and South Africa compared

Coleman and Cosatu recognise that their proposals entail a massive increase in minimum wages in South Africa. That, of course, is their intention. One of their defenses of a massive increase is that the Brazilian experience supposedly 'shows' that minima can be increased massively without having adverse effects. The real value of the NMW in Brazil was indeed doubled between 2003 and 2012 (see Figure 5), as was also the case in Argentina and Uruguay.[13]

As Figure 5 shows, the real value of minimum wages in South Africa also rose over this period. The ILO's average minimum wage was higher (in terms of purchasing power) than the Brazilian NMW in 2003 and was still higher ten years later. Figure 5 also reports the real value of South African sectoral minima in the low-wage sectors of (rural) domestic work and agriculture. Even these minima rose steadily, although not as fast as Brazil's NMW, at least until 2013, when the lowest minimum for farm workers was increased sharply to a level above the Brazilian national minimum. The ECC, worried about employment effects, decided not to raise the minimum for domestic workers in rural areas (ie the lowest sectoral minimum in South Africa) as rapidly as the minimum for farmworkers, but did resolve to raise it steadily in real terms (by 4.5 per cent pa). Given this and the economic crisis in Brazil, the gap in purchasing power between the lowest sectoral minimum in South Africa and the NMW in Brazil can be expected to shrink significantly (whilst the gap between the average sectoral minimum in South Africa and the NMW in Brazil will widen again).

Finally, the increases in minimum wages in Latin America did not raise them to anywhere near the proportion of median wages as is already the case in South Africa. In Brazil, the NMW was raised from 44 per cent of the median wage in 2003 to 50 per cent in 2011. The rise in Argentina was from 39 to 53 per cent (2003-2012). In Uruguay, it was from 18 to 37 per cent (2004-12) and in Chile it was from 49 to 60 per cent.[14] By comparison, as we saw above, the ILO average minimum in South Africa in 2013 was more than 80 per cent of the median wage.

**Figure 5: Minimum Wages in South Africa and Brazil (adjusted for purchasing power)**




**Source**: ILOSTAT (http://www.ilo.org/ilostat and *World Development Indicators* (http://data.worldbank.org/data-catalog/world-development-indicators), various South African government gazettes.

## Coverage

The ILO has not, to our knowledge, proposed that coverage be taken into account when setting the level of a NMW or wage minima, but the comparison of coverage does indicate the role that minima play in the labour market as a whole. By ‘coverage’, we do not mean the level coverage of minimum wages. By definition, a NMW has universal coverage. Rather, we mean the proportion of wage-earners who are or would be affected directly (and perhaps indirectly) by the level at which a NMW is (or minima are) set. Workers already earning wages at or above the minimum will not be affected directly by the minimum, although there might be an indirect effect if their wages are nudged up further above the minimum.

In the UK, Manning (2012) reports that a ‘generous estimate’ of the proportion of workers affected directly by the NMW in 2011 was 5 per cent. Indirect or spillover effects might benefit as many as an additional 10-15 per cent of workers, ie workers up to the 15th to 20th percentiles of the earnings distribution. In Germany, only 7 per cent of workers were, in 2012, paid less than €8.50, ie the level at which the NMW was later introduced. Preliminary studies of the impact of the NMW suggest that it raised the wages – ie directly and indirectly – of 15 per cent of workers. In Malaysia, the minimum wage introduced in 2013 was set at a level that also affected 15 per cent of workers.[15] In each of Brazil, Uruguay and Chile, the NMW appears to affect directly less than 10 per cent of workers; in Argentina, it appears to affect a little more than 10 per cent. Some workers with wages above the NMWs benefit indirectly, however, through spillover and ‘lighthouse’ effects.[16]

Finn’s analysis of the distribution of earnings in South Africa (using Labour Force Survey data for 2014) allows us to assess how many workers would be affected by a NMW set at various levels (see Finn 2015:51). A NMW set at R2,500 would affect about one in three workers, including most domestic and agricultural workers. The NMW proposed by Coleman would have affected about two in three workers. The NMW proposed by Cosatu in 2015 would affect between 55 and 65 per cent of workers. It is clear that the proportion of workers affected by any of these proposed NMWs would be very much larger than the proportions affected in other middle-income or advanced capitalist countries.

This is important in terms of the purpose of a NMW. The purpose of the NMW in most countries is to improve the welfare of the ultra-poor. In South Africa, Coleman and Cosatu envisage using the NMW not to improve the welfare of the ultra-poor but to transform most of the wage distribution. This is, to the best of our knowledge, unprecedented internationally and historically.

## Benchmarking the cost of living

The ILO recommends that minimum wages be set taking into account the cost of living, but does not presume to recommend precisely how the cost of living should be calculated. In South Africa, advocates of a very high NMW point to the high cost of living in South Africa. Cosatu (2015), for example, declares that the poverty line is a 'key benchmark for setting a NMW'. Cosatu points to studies suggesting that the poverty line for a four-person household in South Africa was (in 2015) R5,276, as well as to a study conducted by Finn for the NMW-RI. Finn showed that a significant minority of workers live in households with incomes below a poverty line set at R4,125/month.[17] Finn notes that setting a NMW at R4,125/month would bring 'an average poor household with at least one wage earner up to the poverty line' (Finn 2015:47, see also Isaacs 2015).

Setting a NMW at these levels in South Africa would mean setting it far higher in terms of purchasing power than in any comparable economy elsewhere in the world. In Brazil, the minimum wage in 2014 was 724 reis per month, which in terms of purchasing power was worth R2,198/month in South Africa. In 2015, the Brazilian minimum wage was raised to 788 reis per month, worth R2,392 per month. The Brazilian minima are much lower, in terms of purchasing power, than the NMW proposed by Cosatu in South Africa. Indeed, in terms of purchasing power, South Africa's existing sectoral minima are remarkably in line with the Brazilian NMW.

The NMW in Brazil in 2015 was almost exactly the same, in terms of purchasing power, as the ILO's estimate of the average of the minima set by the ECC in sectoral determinations the previous year, 2014 (ie R2,362/month). The Brazilian NMW was in terms of purchasing power, about 15-30 per cent higher than the lowest sectoral minimum wage set by the ECC in South Africa (for domestic workers outside of the metropolitan areas). But the Brazilian NMW was lower than the minimum wage set by the ECC for workers on farms (R2,606/month from March 2015), in contract cleaning (R2,683/month from January 2015) and various other sectors. The NMW in Brazil was also lower in terms of purchasing power than the average minimum set by bargaining councils (R2,732/month). It was lower than the minimum wage set by ministerial extension in the South African clothing industry (R2,638/month) and was considerably lower than the minimum wage for qualified machinists in the clothing industry in Cape Town (R3,834/month). If South Africa was to set a NMW in 2015 with the same purchasing power as the Brazilian NMW, it would be set at R2,392, which would make no difference to workers in most of the sectors regulated through either bargaining councils (and ministerial extensions) or the ECC. As Figure 4 showed, minimum wages tend to rise in line with GDP per capita, and South Africa's existing sectoral minima are very much in line with the global pattern.

Simplistic invocations of the poverty line ignore the fact that the relationship between wages and poverty is mediated through employment: households can have incomes below any poverty line *either* because working household members have low earnings *or* because household members are unemployed and not earning anything. Households can and do rise above the poverty line through multiple earnings, despite the fact that individual workers earn low wages. In South Africa, the very high rate of unemployment among the poor means that job creation is as important as – or is even more important than – raising the wages of the working poor. Studies such as Finn's that neglect the effects on poverty-reduction of low-wage job creation exaggerate the importance of wages. Finn in fact did acknowledge that he did not consider the impact of NMWs on employment (or other dynamic economic effects on poverty, including through raising the cost of living), and referred readers to a dynamic micro-simulation that found that higher minimum wages are likely to have only a marginal impact on inequality, that job losses are likely to affect the poorest among minimum wage workers and that because of this and rising prices, increasing minimum wages are 'not an effective anti-poverty tool in South Africa' (Pauw and Leibbrandt 2012:771).[18]

## South Africa in comparative context

Coleman and Cosatu focus on the 'benchmark' that is most favourable to their ambitions. South Africa's highly unequal wage distribution means that the ratio of current minimum wages to mean wage is low by international standards (although not nearly as low as Coleman suggested originally, using misleading data on mean wages). By other more appropriate benchmarks (including relative to GDP per capita), however, South Africa's existing sectoral minima look high in comparison with other countries, and the proposals by Coleman and Cosatu would raise them even higher. These comparisons are summarised in Table 1.

**Table 1: South African current and proposed minimum wages in comparative context**

| | Brazil | Germany | South Africa | | | | | |
|---|---|---|---|---|---|---|---|---|
| | NMW | NMW | ILO average SD | Rural domestic workers | Coleman proposed lowest | Coleman proposed highest | COSATU proposed lowest | COSATU proposed highest |
| Minimum/month (in local currency) | 724 reis (2014) 788 reis (2015) | €1,473 (2015) | R2,474 (2013) | R1,813 (2014-15) | R4,800 (2011) | R6,000 (2011) | R4,125 (2015) | R5,276 (2015) |
| Minimum: mean | 0.45 (2014) | 0.4 | 0.3 | 0.18 | 0.8 | 0.99 | 0.42 | 0.54 |
| Minimum: median | 0.58 | 0.5 | 0.8 | 0.5 | 1.76 | 2.2 | 1.22 | 1.57 |
| Minimum: GDP per capita | 0.32 (2013) | 0.48 | 0.44 | 0.3 | 0.98 | 1.22 | 0.67 | 0.86 |
| Approximate proportion of workers affected directly | <0.1 | 0.07 | - | - | 0.65 | 0.7 | 0.55 | 0.65 |
| Minimum/month in Rand, adjusted for purchasing power, 2015 | R2,392 | R10,255 | R2,744 | R1,813 | R5,946 | R7,432 | R4,125 | R5,276 |

**Sources**: See text.

## Why benchmark? International evidence on the direct effects of minimum wages on employment

The value of international benchmarks is to suggest what is 'normal' and feasible. Their relevance therefore depends on whether the conditions and challenges in the specific case – South Africa – are typical of the broader set of global cases. The ILO points to two sets of factors that should be taken into account when setting the level of minimum wages: the 'needs of workers and their families' and 'economic factors'. Above we have shown South Africa's existing sectoral minima are broadly in line with international practice in terms of purchasing power. We also showed that South Africa's existing sectoral minima are high in relation to both GDP per capita (ie national resources) and median wages, although they are low in relation to mean wages. We showed that a NMW set at the level of the existing average sectoral minima would affect a much larger proportion of workers than the NMW in other countries. This leaves one, crucially important question: are international benchmarks useful in taking 'economic factors' into account in setting the level of minimum wages?

Cosatu (2015) argues that the 'international experience' does *not* show that 'a NMW would lead to high levels of job loss'. Coleman argues that both international and South African evidence shows that anxieties over job destruction are misplaced, and goes as far as claiming that every purported link between high minima and unemployment is a 'myth' (Coleman 2014b). In this view, the international experience and literature shows that the level of a NMW does not affect *directly* job destruction or creation. The only way in which 'economic factors' are relevant is through the *indirect* effects of changes in wages on economic growth (which we shall examine in a later section below).

This view entails a serious misreading of the international experience and literature, and leads Cosatu to gross complacency over the risk of job destruction in South Africa. While it is true that there has been a widespread backlash among economists against the view, rooted in theory, that wage regulation *necessarily* reduces employment, a wide range of progressive and other economists and policy-makers nonetheless recognise that raising wages above a certain level is likely to contribute to job destruction. The higher the level at which minima are set, the higher the risk of job destruction.

The view that wage regulation necessarily results in job destruction was challenged in the mid-1990s by Card and Krueger (1994), using evidence from the USA. They employed a difference-in-difference comparison, contrasting the change in employment in firms in a sector and area covered by an increased regional minimum wage with the change in employment in a control group of employers in the same sector but in an area not affected by the increased minimum. In one case, they found that a raised minimum wage was associated with relative employment growth. The Achilles heel of this methodology was the quality of the counterfactual comparison. Neumark and Wascher (2008) comprehensively reviewed research from the USA and concluded that the evidence for positive employment effects was poor, and evidence of modest negative employment effects on unskilled employment was strong (see also Neumark, Silas and Wascher 2014). More recent evidence from the UK as well as preliminary evidence from Germany suggests that minima set at modest levels did not destroy jobs.[19]

A series of recent studies in the USA has argued that negative employment effects may have been underestimated because studies have focused too much on short-term changes in employment. Sorkin (2015) suggested that the demand for labour might be inelastic in the short-term, but elastic in the longer-term, as employers substitute capital for labour. Meer and West (2015) argue that minimum wages affect employment over time ‘through changes in growth rather than an immediate drop in relative employment levels’. Using data from three administrative panel datasets from the USA, over the period 1975-2012, they found that the negative employment effect peaks three or more years after the relative increase in minimum wages. Aaronson, French and Sorkin (2015) examined the mechanism through which firms substitute capital for labour. They found that existing employers (often family-owned businesses) in the fast-food restaurant industry are unable easily to substitute capital for labour in response to minimum wage increases, but new employers (who are typically restaurant chains) can do so. Even over the short-term, industries adjust to changed wages through the exit of more labour-intensive employers and the entry of less labour-intensive ones. In light of this research, *The Economist* backed away from its earlier endorsement of minimum wages, concluding that evidence of modest short-term effects might be a ‘poor guide’ to the long-term effects of large increases.[20]

Evidence from developing countries suggests even more strongly that policy-makers exercise caution in raising wage minima. The ILO is emphatic in concluding that minimum wages have had small or no effects on employment in *developed* countries, but concludes that employment effects in *developing* countries depend on the economic context, the level of the minimum wage, enforcement, and the 'labour market peculiarities and institutions prevailing in each country' (2013:49). A World Bank study goes further:

> The clear majority of developing-country studies find some adverse employment effects, but this is not always the case. … Not surprisingly, researchers tend to find that employment effects are generally more significant at the segment of the wage distribution where the minimum wage actually 'bites'…. A negative employment effect can extend beyond workers earning around the minimum wage, but it tends to dissipate as one moves up the wage distribution. (Betcherman 2014:8)

The primary losers are therefore young workers and women, the less skilled, and workers in small firms. This study concurs with the ILO that the effects are often modest either because of non-compliance or because minima are set at low levels, anticipating employment effects. Large increases in minima have tended to have substantial negative effects on employment especially when demand for labour was weak (for example, in Colombia in the 1990s) (2014:10).

Minimum wage increases in the USA, UK, Germany and most developing countries rarely had dramatic effects on aggregate employment because policy-makers usually take likely employment effects into account when they set the level of the minimum: 'policy-makers are aware of the potential harm of very high minimum wages, so they tend to set them at a reasonable level, roughly in line with prevailing market wages for unskilled workers' (Freeman 2010, cited in Betcherman 2014). Showing that minimum wages usually have a limited effect on employment tells us more about the decision-making of the wage-setting institutions than it does about the general relationship between wages and employment. As Freeman emphasises, finding that minimum wages generally have modest negative effects on employment 'does not mean that demand curves do not slope downward or that a high minimum wage cannot decimate employment' (2010: 4,667). Even Card – widely acknowledged as a champion of minimum wages – is quoted as saying that 'if you raise the minimum wage a little – not a huge amount, but a little – you won't necessarily cause a big employment reduction'.[21]

The case of Brazil is often cited as demonstrating that wage minima can be raised without destroying jobs. In Brazil, steady real increases in minimum wages did coincide for a while with declining unemployment and even a shift from informal to formal employment. But minimum wages remained modest (as we saw above) and employment trends were made possible by unusual and probably unsustainable macro-economic expansion (as we discuss further below).

The South African evidence on the relationship between minimum wages and employment is also ambiguous. The ECC had generally exercised caution in raising minimum wages, out of concern about job destruction (Seekings 2016b). Econometric analyses suggest that limited increases in non-tradable sectors (ie sectors producing goods or services that cannot be traded across borders, so South African firms and workers do not compete with imports, eg domestic work) have generally had modest effects on employment (Bhorat, Kanbur and Mayet 2013). This suggests that the ECC generally struck a good balance between wages and employment (although methodologicial weaknesses in the econometric studies might result in an underestimation of job destruction). Tradable sectors (including agriculture and clothing manufacturing) have been more susceptible to job destruction, however (Bhorat, Kanbur and Stanwix 2014, Conradie 2007, Murray and van Waalbeek 2007, Nattrass and Seekings 2014). The evidence thus suggests that the labour demand curve slopes downwards at modest wage levels in some but not all sectors (see also Pauw and Leibbrandt 2012). Given that South Africa has an exceptionally high unemployment rate, and unemployment affects disproportionately the poor, it is appropriate for the ECC, trade unions and government to be very concerned about the risk that high minimum wages would lead to job destruction (and perhaps the destruction of entire sectors, especially tradable sectors such as clothing manufacturing). South Africa needs to pay special attention to what the ILO Minimum Wage Fixing Convention calls the 'desirability of attaining and maintaining a high level of employment'.

## Minimum wages, economic growth and the economic growth path

Cosatu (and Coleman) have one final defence of very high minima. In their view, massive increases in minimum wages would generate wage-led growth, perhaps through wage-related productivity increases. As the (then) general secretary of Cosatu put it, 'we must pay higher wages that will stimulate the demand for locally produced goods', adding that the manufacturing sector had lost jobs 'because workers can't afford [the goods] because of the low pay' (quoted in Zwane 2014).[22] In support of this argument, they cite the case of Brazil, where wages helped to fuel economic growth until recently, and point also to the German experience. Unfortunately, these arguments misunderstand the possibilities for and constraints on economic growth in countries such as Brazil, Germany and South Africa.

Theoretically, wage-led growth is possible if employers are compensated sufficiently for the higher wages they pay workers by increased sales due to the increased demand for their products that in turn results from higher wages across the economy as a whole. The idea here is that higher domestic sales will generate sufficient profits and funds for investment that output and employment and output rise (Marglin and Bhaduri 1990). Employers may invest to raise productivity, but jobs will be not be destroyed as long as demand rises at least as fast as productivity. This, however, is less likely in an open economy as some of the beneficial impact of increased demand on jobs is lost through imports (Bowles and Boyer 1995).

During the mid-2000s, Brazil did experience demand-led growth, fuelled by rising minimum wages (see Figure 5), rising social security payments (including old age pensions, *Bolsa Familia* and other programmes, fuelling demand without increasing labour costs) and domestic savings that sufficed to finance investment. This helped cushion the impact of the 2008 global financial crisis, especially on the poor (ILO 2011, Serrano and Suma 2011). But this wage- and social-security-led growth dramatically ran up against the constraints of weakening global demand, falling commodity prices, an excess of consumption over investment, and domestic inflation. By 2013, Brazil was running a large current account deficit (see Table 2) as domestic demand fuelled imports. The deepening fiscal deficit compelled the government to austerity measures. Investment remained sluggish. The Brazilian economy first stagnated (in the early 2010s) and then collapsed (in 2014-15).

South Africa also experienced a surge in domestic demand at this time, with household consumption and government consumption at much the same shares of GDP as in Brazil (see Table 2). Demand was boosted by both wages and debt. Rising sectoral minima (see Figure 5) contributed to rising wages. Economic growth was sluggish, however, and the economy experienced massive job destruction in 2008-09. Like Brazil, South Africa ran a current account deficit, as domestic demand fuelled imports (indicating that South Africa remained supply- rather than demand-constrained).

Germany was in a very different situation. Table 2 shows that the share of consumer spending in the GDP was lower in Germany than in South Africa and Brazil, and that the country was running a significant current account surplus. Unemployment was low. There was some macroeconomic room for higher wages (through a NMW) to boost domestic demand.

**Table 2. Brazil, Germany and South Africa: Key Indicators**

| | Brazil | Germany | South Africa |
|---|---|---|---|
| Government consumption as % GDP (2013) | 21.9% | 19.3% | 22.2% |
| Household consumption as % GDP (2013) | 62.6% | 55.9% | 61.2% |
| Current account deficit as % GDP (2013) | -2.4% | 6.9% | -2.8% |
| Government budget deficit as % of GDP (2014) | -6.7% | 0.1% | -3.8% |
| Labour force participation rate (2013) | 70% | 60% | 52% |
| Employment to population ratio, 15+, total (%) (modelled ILO estimate) (2013) | 66% | 57% | 39% |
| Unemployment, total (% of total labour force) (modelled ILO estimate) 2013 | 5.9% | 5.3% | 24.9% |
| GINI index (World Bank estimate) | 0.53 | 0.36 | 0.65 |
| Poverty headcount ratio at $1.25 a day (PPP) (% of population) 2011 | 4.5% | N/A | 9.4% |

**Source**: World Development Indicators, http://www.bloomberg.com/news/articles/2015-01-30/brazil-s-budget-deficit-in-december-twice-as-wide-as-forecast, http://www.tradingeconomics.com/south-africa/government-budget. * Using PPP conversion factor for private consumption (international $) 2013.

Even in Germany, where unemployment is low, the national minimum wage was introduced only after widespread consultation and concern about potential job losses. Germany has a long tradition of co-determination. Trade unions and employers concurred that the NMW should be set at a level consistent with maintaining German economic competitiveness. Wages in Eastern Germany are typically lower than in West Germany, but even in Eastern Germany the national minimum wage of €8.50/hour was generally not seen as a threat to employment. For example, the largest low-wage employer in the formerly East German city of Erfurt – Amazon's online supply depot – was already paying €9.50/hour, set by collective bargaining with the workers on the understanding that anything above that would result in the firm relocating to Poland.[23] German jobs most at risk from a national minimum wage were restaurant waiters/waitresses, taxi drivers, and part-time 'mini' jobs, ie jobs (mostly aimed at married women wanting to work part-time) paying up to €450/month, the cut-off salary above which social security contributions needed to be made by employers.

As of May 2015, indications were that the new national minimum wage had caused some job losses (notably with regard to mini-jobs), but that these job losses were more than offset by the effects of continuing economic growth (Tiefensee 2015).[24] German export competitiveness was not affected but there was anecdotal evidence that taxi fares and restaurant prices had increased in some cities because of the new national minimum wage. The Confederation of German Employers' Associations (BDA), which had initially opposed the introduction of a national minimum wage, argued that the biggest challenge for employers was not the hourly wage rate per se but rather the bureaucratic costs of compliance (because employers are required to keep detailed records of wages and working hours).[25]

Unlike in South Africa, where employers are treated with suspicion if not hostility by labour and government, great care was taken in Germany to assist employers with the introduction of the national minimum wage. A hotline was created for workers and employers to obtain advice and assistance and various vulnerable occupations were provided additional flexibility and time to comply. Wages of below €8.50/hour could continue for up to two years if these were the result of a collective agreement, and some sectors such as newspaper delivery, meat packing and agriculture were also given an additional two years to comply (German Federal Ministry of Labour and Social Affairs 2015: par 1.7-1.9).[26] The national minimum wage did not apply to those in apprenticeships or enrolled in measures to promote their participation in the labour market (par 2.1).

In short, the national minimum wage was set in Germany at a level specifically designed not to threaten its national competitiveness, in a way that was flexible to the needs of different sectors, and in the context of a welfare system that provides income and job-related support for those in vulnerable occupations who may lose their jobs. Indications are that it was a successful policy in that employment continued to grow, social security contributions increased and many low-wage German workers benefited from rising incomes without losing their work. The impact on employment and profitability in foreign owned firms (which had previously been paying below minimum wages and which were a key target of the German NMW) is, however, unknown. In any event, if there are to be any 'lessons' for South Africa from this experience it is that any proposed NMW should be set only after widespread consultation with all interest parties including small as well as large employers from across the whole country, that it should not undermine competitiveness, and it should be introduced gradually and flexibly where there is concern about job losses, and that there should be adequate welfare support for the unemployed in place.

## Conclusion

There are good reasons for South Africa to ensure that its system of regulating minimum wages becomes national through the setting of a NMW that serves as a floor for workers in *all* sectors. Some workers, in some sectors, are currently covered by neither the minima set through collective bargaining nor the minima set by the ECC. A NMW would ensure that no workers slip through the cracks in the system. International evidence tends to suggest that a NMW set at a modest level, with due regard for effects on job destruction, would improve the welfare of the working poor and their dependents.

The challenge is to determine the appropriate level of a NMW, which in turn requires a decision on the procedures to be followed in setting the level of a NMW. Cosatu and Coleman advocate very high NMW, and justify this in terms of their preferred international 'benchmark', the cost of living in South Africa, and the purported global consensus that a NMW never destroys jobs but instead is in fact good for economic growth and job creation.

None of these claims stands up to close scrutiny. First, Cosatu and Coleman select only one international benchmark (the ratio of the NMW to mean wages), ignoring other benchmarks recommended by the ILO (the ratio of the NMW to median wage and to GDP per capita) or that might otherwise be taken into account (coverage), and without considering the appropriateness of different benchmarks. They also use obviously inappropriate data (from firm surveys) to exaggerate how relatively low South Africa's existing sectoral minima are in relation to mean wages. The other international benchmarks show that existing sectoral minima are in fact high relative to international benchmarks.

Secondly, South Africa's existing sectoral minima are not low in terms of purchasing power in comparison with minima in other countries at similar levels of development, such as Brazil. Thirdly, the predominant view on minimum wages and job destruction globally is that minima set taking into account likely job destruction rarely result in aggregate job destruction (although they can destroy jobs for unskilled workers), but a NMW can certainly be set at a level that would cause massive job destruction. Finally, the global experience is that wage-led growth is sustainable and poverty-reducing only in contexts where unemployment rates are low, domestic consumption is initially low as a share of GDP, and there is no pressure on the current account. All three conditions exist in Germany, only some of them existed in Brazil (hence its plunge into economic crisis) and none of them exist in South Africa.

Perhaps most importantly of all, Cosatu and Coleman's proposals for the procedures for setting the NMW are completely out of line with global experiences. The ILO is clear in its recommendation that the minimum or minima be set through a consultative process involving employers, workers (through trade unions) and independent experts appointed by the government. This is how the South African ECC is constituted. Cosatu, however, demands that the NMW be set through a national political process (in which it, of course, wields considerable influence) without any recourse to independent experts (who Cosatu dismisses as 'conservative technocrats'). This is a procedure which ensures that an NMW is set according to the balance of political power between big business and Cosatu, without regard for job destruction and the effects on the poor and small businesses. Few countries in the world set minima through such as a nakedly political process. The most prominent of these is the USA – a strange role-model for Cosatu to emulate.

International experience suggests that South Africa's existing system of minimum-setting needs to be strengthened, not replaced. The minister of

Labour can instruct the ECC to recommend a minimum wage to cover all workers who are not covered by any existing sectoral determination (set through the ECC) or a minimum set through bargaining councils and ministerial extensions. The ECC is required, under the Basic Conditions of Employment Act, to take into account the factors recommended by the ILO, ie the needs of workers and economic factors including especially possible job destruction. Trade unions are represented in the ECC, and can make the case for a higher minimum. The resulting minimum would serve as a NMW, except in cases where trade unions themselves have agreed to lower minima in bargaining councils. The ECC would continue to set higher sectoral minima in sectors that could afford higher wages, and trade unions could continue to push for higher wages and a reduced wage gap through bargaining councils (backed up by strike action if and when they deem this to be in their members' interests). Setting a NMW does not require any new legislation nor any new institution nor any recourse to an inappropriate political process.

Wage-setting institutions do require some reforms if they are to protect vulnerable workers without destroying their jobs. First, the Labour Relations Act needs to be reformed to ensure that the interests of small businesses are taken into account more effectively in bargaining councils. Secondly, the extension mechanism provided under the LRA needs to be reviewed, requiring the minister of Labour to take job destruction into account when extending collective agreements reached in bargaining councils. Thirdly, the Department of Labour and especially ECC require substantial additional resourcing in order to allow more substantial research on the likely benefits and risks of new wage minima. The contrast between the minimal research capacity of the ECC and the considerable capacity of (say) the Low Wage Commission in the UK is very striking. It is possible that improved information would justify higher minima than at present in some sectors (such as domestic work).

Recognising that a high national minimum wage is not a panacea for poverty in the South African context does not mean that nothing more can be done about poverty or inequality. On the contrary, redistributing from rich to poor through tax-financed social assistance and job creation programmes (whether through wage subsidies or public employment programmes, and perhaps even an employment guarantee scheme as in rural India) serves to reduce the disposable income of the rich and increase the disposable income of the poor without increasing labour costs. Poverty and inequality can thus be reduced without undermining international competitiveness or incentivising employers to substitute capital (and more skilled labour) for less skilled labour. Policy reforms like these really do have the weight of international experience behind them.

In South Africa, the real earnings of higher-earners – including many members of trade unions – have risen considerably since the end of apartheid (Wittenberg 2014, Seekings 2015a). Finn reports that the ratio of wage earnings of richest to poorest deciles was 15 in South Africa, as compared to 7 in Brazil (Finn 2015:32). Setting a high NMW would reduce wage inequality, but at the cost of fewer jobs for relatively unskilled people. A preferable way of addressing earnings inequality is to restrict bonuses and raise marginal income tax rates. Between 1998 and 2002 South Africa's top personal income tax rate was decreased from 45 per cent to 40 per cent and effective personal income tax has remained below its peak of 20.6 per cent in 1999/2000 (South Africa 2015:46). The Davis Tax Committee concluded that 'there appears to be some scope to increase taxes on capital income, marginal personal income tax and indirect taxes such as fuel levies and VAT' (47). A small increase in personal income tax was effected in the 2015 budget. Further increases in progressive income taxation should be considered as part of a wider strategy to fund poverty-reduction, especially through job creation including an expanded public works programme (Seekings and Nattrass 2016).

## Notes

1. Coleman's paper was presented to the CEC in May 2012 (Coleman 2012a). A revised version was presented at a conference in Cape Town in September 2012 (Coleman 2012b) and published as a Working Paper by the ILO in November 2013 (Coleman 2013). Page references are to the version published by the ILO.
2. See Coleman (2013:1, fn 1); 'COSATU calls for increase to minimum wage', *Mail & Guardian* online, March 12, http://mg.co.za/article/2013-03-12-cosatu-calls-for-increase-to-minimum-wage (accessed May 16, 2015).
3. 'Domestic worker minimum wage increases from 1 December 2015', http://www.labour.gov.za/DOL/downloads/legislation/sectoral-determinations/basic-conditions-of-employment/domesticwages_dec2015.pdf (accessed March 24, 2016).
4. Carol Paton, 'Minimum wage negotiations proceeding well, says Ramaphosa', *Business Day Live*, September 3, 2015, http://www.bdlive.co.za/national/labour/2015/09/03/minimum-wage-negotiations-proceeding-well-says-ramaphosa.

5. ‘State of the Nation Address 2016’, February 11, 2016, http://www.news24.com/SouthAfrica/News/full-speech-state-of-the-nation-address-2016-20160211. Later in the debate, however, Ramaphosa seemed to suggest that the minimum wage was good because it would boost demand; see Wyndham Hartley and Bekezela Phakathi, ‘We side with a minimum wage, says Ramaphosa’, *Business Day* March 3, 2016, http://www.bdlive.co.za/national/2016/03/03/we-side-with-a-minimum-wage-says-ramaphosa.
6. Precisely: the statutory nominal gross monthly minimum wage effective 31 December in local currency; in the ILO’s Global Wage Report dataset. http://www.ilo.org/ilostat/faces/help_home/data_by_subject/subject-details/indicator-details-by-subject?subject=EAR&indicator=EAR_INEE_NOC_NB &dataset Code=GWR&collectionCode=GWR&_afrLoop=145643147103835#%40%3F indicator%3DEAR_INEE_NOC_NB%26subject%3DEAR%26_afrLoop %3D145643147103835%26datasetCode%3DGWR%26collectionCode%3 DGWR%26_adf.ctrl-state%3D13ox4drwz3_302.
7. The National Treasury has calculated employment-weighted average minima as set through (a) collective agreements outside of the public sector and the Metal and Engineering Industries, at R3,500/month, and (b) sectoral determinations, at R2,704. This latter figure is very similar to the ILO’s figure, converted into 2015 prices. Coleman (2013a:fn 6) refers to an estimate (by the pro-union Labour Research Service) of the employment-weighted minimum in 2011 at R2,118/month. Taking into account inflation and the steady real increase in minima set by the ECC, these estimates are all very close to each other.
8. http://www.ilo.org/ilostat (data downloaded September 8, 2015).
9. We assume a real increase in the mean wage of 4 per cent per annum, which is much lower than the real increase in the ILO’s reported mean wage for the two preceding years.
10. Presentation by Gabriele Sterkel (from the trade union Ver.di), at the NMW-RI workshop on the National Minimum Wage, University of the Witwatersrand, February 2016. She argued that German trade unions wanted to raise this to 60 per cent.
11. It was also in line with the German figure (45 per cent) reported in Table 1.
12. South African GDP per capita data from South African Reserve Bank, variable KBP6270J.
13. Presentation by Roxana Maurizio to NMW-RI workshop, Wits, February 2016.
14. Ibid.
15. Presentations at NMW-RI workshop, Wits, February 2016, by Gabriele Sterkel and Shanmugum Thiagarajan.
16. This is inferred from the presentation by Roxana Maurizio at the NMW-RI workshop. She reports that, in 2011/12, the NMW was lower than the tenth percentile of the wage distribution in Brazil, Uruguay and Chile, but was slightly

higher in Argentina. She also shows that almost all of the workers affected were in informal employment. This research is forthcoming in the *International Labour Review*.

17. Finn acknowledges that wage earnings might be under-reported in household surveys, with the result that poverty rates are over-reported (Finn 2015:38).
18. In addition, South Africa has a long history of setting poverty lines at a higher level than most other economies with similar levels of GDP per capita. This is because 'absolute' poverty lines in South Africa have always been informed by relative considerations. Initially, poverty lines were defined for the privileged white population, who were deemed to need to live at a higher standard of living than the much poorer black majority. Notoriously, white households were defined as living in poverty in the 1920s if they were unable to afford a domestic worker (Seekings 2015b). Later, the extension of poverty lines to black workers was shaped by the large wage gap between black and white people (see Davie 2015). South Africa tends towards higher poverty lines, in terms of purchasing power, because the distribution of incomes is so unequal.
19. Manning (2012); presentation by Gabriele Sterkel at NMW-RI workshop, Wits, February 2016.
20. 'Destination Unknown' (Free Exchange), *The Economist*, July 25, 2015:60.
21. He adds that 'in some cases you could even get an employment increase'. Quoted by Ben Stanwix, in presentation to NMW-RI workshop, Wits, February 2016.
22. Neither Vavi nor Coleman (2013, 2014a) nor Isaacs and Fine (2015) confront the obvious question that if there is no trade-off between wages and employment why not propose wage increases significantly higher than even R6,000/month? Why not raise the NMW to R10,000/month or even higher? The fact that they do not suggests that at some level, they accept that economic consequences are not always so rosy. It is unfortunate that they do not articulate this explicitly as their macroeconomic arguments give the impression that they believe there is *never* a trade-off between wages and employment.
23. Interview with Michael Panse, CDU Chairperson, Erfurt City Council, June 1, 2015.
24. This was the view of the national Department of Labour (interviews with Thorben Albrecht and Thomas Keysers, June 4, 2015), trade unions (interviews with Alexander Kirchner, the chair of EVG June 4, 2015, and Eva Welskop-Deffaa from Verdi, June 3, 2015), employers (interviews with Stephan Fauth, the CEO of the Verband der Wirtschaft Thuringens e.V, June 2, 2015 and Peter Clever, BDA, June 4, 2015). It was also the view of elected officials in Eastern Germany (Michael Panse, CDU Chairperson, Erfurt City Council, June 1, 2015).
25. This was argued to be the case by Thorben Albrecht of the Ministry of Labour and by Peter Clever (BDA) (both interviewed on June 4, 2015). See also

presentation by Gabriele Sterkel at NMW-RI workshop, Wits, February 2016.
26. Interview with Albrecht.

## References


Aaronson, Daniel, Eric French and Isaac Sorkin (2015) ‘Industry dynamics and the minimum wage: a putty clay approach’, unpublished paper.

ANC (2014) ‘Together we move South Africa forward’ (2014 election manifesto). Johannesburg: African National Congress.

Belser, Patrick and Kristen Sobeck (2012) ‘At what level should countries set their minimum wages?’, *International Journal of Labour Research* 4(1).

Betcherman, Gordon (2014) ‘Labor market regulations: what do we know about their impacts in developing countries?’, *World Bank Research Observer,* published online, version ‘lku005’.

Bhorat, Haroon, Ravi Kanbur and N Mayet (2013) ‘The impact of sectoral minimum wage laws on employment, wages, and hours of work in South Africa’, *IZA Journal of Labour and Development* 2(1).

Bhorat, Haroon, Ravi Kanbur and Ben Stanwix (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*, published online.

Bowles, Samuel and Robert Boyer (1995) ‘Wages, aggregate demand, and employment in an open economy: an empirical investigation’, in Gerald Epstein and Herbert Gintis (eds), *Macroeconomic Policy after the Conservative Era: studies in investment, saving and finance*. Cambridge: Cambridge University Press.

Card, David and Alan B Krueger (1994) ‘Minimum wages and employment: a case study of the fast-food industry in New Jersey and Pennsylvania’, *American Economic Review* 84(4).

Coleman, Neil (2012a) ‘Concept paper: towards new collective bargaining, wage and social protection strategies: learning from the Brazilian experience’, input to Cosatu Central Executive Committee, May.

———— (2012b) ‘Concept paper: towards new collective bargaining, wage and social protection strategies: learning from the Brazilian experience’, paper presented at the Conference on Strategies to Overcome Poverty and Inequality, University of Cape Town, September 4.

———— (2013) ‘Towards new collective bargaining, wage and social protection strategies in South Africa – learning from the Brazilian experience’, *Working Paper* 17. Geneva: Global Labour University, ILO.

———— (2014a) ‘Common ground over wage accord growing’, *Business Day*, August 29.

———— (2014b) ‘Myths and so-called “facts” about the National Minimum Wage’, *Daily Maverick* (online), November 10.

Conradie, Beatrice (2007) ‘Revisiting labour casualisation on fruit farms in the Western Cape’, *CSSR Working Paper* 177. University of Cape Town: Centre for Social Science Research.

Cosatu (2014) ‘COSATU welcomes Germany’s national minimum wage’: http://www.cosatu.org.za/show.php?ID=9063, Cosatu Press Release, Patrick Craven, July 4.

———— (2015) ‘National Minimum Wage: Cosatu calls for R4,125 to R5,276 a month’, *GroundUp* (December 2): http://www.groundup.org.za/article/national-minimum-wage-cosatu-calls-r4125-r5276-month_3571/.

Davie, Grace (2015) *Poverty Knowledge in South Africa: a social history of human science, 1855-2005.* Cambridge: Cambridge University Press.

Finn, Arden (2015) ‘A national minimum wage in the context of the South African labour market’, National Minimum Wage Research Initiative Working Paper no.1. Johannesburg: University of the Witwatersrand.

Freeman, Richard (2010) ‘Labour regulations, unions and social protection in developing countries: market distortions or efficient institutions?’, in Dani Rodrik and Mark Rozensweig (eds) *Handbook of Development Economics*, volume 5. Amsterdam: Elsevier.

German Federal Ministry of Labour and Social Affairs (2015) ‘The Minimum Wage Act in detail: objectives, application, implementation and control’. www.ilo.org/dyn/natlex/docs/electronic/99504/118810/F-412371288/deu99504%20 Guidelines.pdf

Gernetzky, Karl (2015) ‘Varying minimum wage proposals at public hearing’, *Business Day*, February 4.

Godfrey, Shane, Johann Maree, Darcy du Toit and Jan Theron (2010) *Collective Bargaining in South Africa: past, present and future?* Cape Town: Juta.

ILO (2008) *Global Wage Report 2008/09: minimum wages and collective bargaining.* Geneva: International Labour Organisation.

——— (2011) *Brazil: An innovative income-led strategy*. Geneva: International Labour Organisation.

——— (2013) *World of Work Report 2013*. Geneva: International Labour Organisation.

——— (2014) *World of Work Report 2014*. Geneva: International Labour Organisation.

Isaacs, Gilad (2015) ‘South Africa’s 5 million working poor’, *Daily Maverick*, August 26.

——— (2016), 'National minimum wage's maximum gains', *Business Day*, January 11.

Isaacs, Gilad and Ben Fine (2014) 'The minimum wage debate – logic, evidence and need', *Daily Maverick*, November 25.

MacLeod, Catherine (2015) 'Measuring the impact of a National Minimum Wage', Presentation to Nedlac, October.

Macun, Ian (2014) 'The state of organised labour: still living like there's no tomorrow', in Gilbert Khadiagala, Prishani Naidoo, Devan Pillay and Roger Southall (eds) *New South African Review 4*. Johannesburg: Wits University Press.

Manning, Alan (2012) 'Minimum wage; maximum impact'. London: The Resolution Foundation.

Marglin, Stephen and Amit Bhaduri (1990) 'Profit squeeze and Keynesian theory', in Stephen Marglin and Juliet Schor (eds) *The Golden Age of Capitalism: reinterpreting the post-war experience*. Oxford: Clarendon Press.

Meer, Jonathan and Jeremy West (2015) 'Effects of the minimum wage on employment dynamics', unpublished paper.

Murray, J and Corne van Walbeek (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', *CSSR Working Paper* 181. University of Cape Town: Centre for Social Science Research.

NMWRI (presented by G Isaacs) (2015) 'National Minimum Wage Research Initiative: Presentation of Research Programme. NEDLAC, June 15.

Nattrass, Nicoli and Jeremy Seekings (2014) 'Job destruction in Newcastle: minimum wage-setting and low-wage employment in the South African clothing industry', *Transformation* 84.

Neumark, David and William Wascher (2008) *Minimum Wages*. Boston: MIT Press.

Neumark, David, Ian Salas and William Wascher (2014) 'Revisiting the minimum wage-employment debate: throwing out the baby with the bathwater?', *Industrial and Labor Relations Review* 67(3).

Pauw, Karl and Murray Leibbrandt (2012) 'Minimum wages and household poverty: general equilibrium macro-micro simulations for South Africa', *World Development* 40(4).

Saget, Catherine (2008) 'Fixing minimum wage levels in developing countries: common failures and remedies', *International Labour Review* 147(1).

Seekings, Jeremy (2015a) 'Workers, the state and wages', in Jeremy Seekings and Nicoli Nattrass, *Policy, Politics and Poverty in South Africa*. London: Palgrave Macmillan.

———— (2015b) ‘State-building, market regulation and citizenship in South Africa in the early twentieth century’, *European Journal of Social Theory*, published online (September).

———— (2016a) ‘Trade unions and the redesign of South Africa’s minimum wage-setting institutions in the 1990s’, *CSSR Working Paper*. Centre for Social Science Research, University of Cape Town.

———— (2016b) ‘Minimum wage-setting by the Employment Conditions Commission in South Africa, 1999-2015’, *CSSR Working Paper*. Centre for Social Science Research, University of Cape Town.

———— (2016c) ‘The quality of South African wage data’, *CSSR Working Paper*. Centre for Social Science Research, University of Cape Town.

Seekings, Jeremy and Nicoli Nattrass (2016) ‘Redistribution and labour market transformation: minimum wage-setting, social assistance and poverty’, in Andries du Toit, Ingrid Woolard and Ayanda Nyoka (eds) *Radical Reconciliation: critical choices for economic justice* (*Transformation Audit 2015*). Cape Town: Institute for Justice and Reconciliation.

Serrano, Franklin and Ricardo Summa (2011) *Macroeconomic Policy, Growth and Income Distribution in the Brazilian Economy in the 2000s.* Washington, DC: Center for Economic and Policy Research.

Sorkin, Isaac (2015) ‘Are there long-run effects of the minimum wage?’, *Review of Economic Dynamics* 18(2).

South Africa (2015) *National Budget Review 2015.* Pretoria: Treasury.

Tiefensee, Wolfgang (2015) ‘Towards a national minimum wage in South Africa. Exchange on the German Case’, Roundtable discussion, Johannesburg, May 4, hosted by the Friedrich Ebert Stiftung.

Urbach, Jasson (2015) ‘Minimum wages taunt the poor’ (Free Market Foundation), http://freemarketfoundation.com/issues/minimum-wages-taunt-the-poor.

Vavi, Zwelinzima (2014) ‘Poverty report strengthens COSATU’s case for national minimum wage and comprehensive social security’, *The Shopsteward* (Cosatu) 23(6).

Wittenberg, Martin (2014) ‘Analysis of employment, real wage, and productivity trends in South Africa since 1994’, *Conditions of Work and Employment series paper* no.45. Geneva: International Labour Organisation.

Zwane, Thuletho (2014) ‘Ramaphosa’s minimum wage remarks stir up maximum debate’, *Mail & Guardian*, September 10.