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The impact of sectoral minimum wage laws in South Africa

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The introduction of minimum wage laws in five non-agricultural sectors has not been associated with a significant loss in employment in the years following their promulgation – a period when most sectors also saw a significant increase in real hourly wages. Indeed, several sectors recorded an increase in employment. However, in some sectors there is evidence of a relatively small reduction in the hours worked by employees. On the whole, the effects of minimum wages are varied.

Introduction

In an era of intense debate on unemployment and jobs, the issue of minimum wages is controversial. Do they promote fair remuneration and social justice, or do they price workers out of the labour market and, in so doing, aggravate unemployment?

In a recent *Econ3x3* article, Stanwix (2013) reported on the extent of minimum wage compliance in agriculture and the impact of minimum wage legislation on actual wages. He found a general upward movement in wages in all provinces since the introduction of minimum wages in agriculture in 2003.¹

This article goes further by showing evidence of the impact of the introduction of minimum wages on employment, the hours worked and the wage levels in five other (non-agricultural) sectors of the South African economy.²

Contrary to the experience in agriculture, minimum wages in other sectors in South Africa have not had a negative effect on employment. However, there may have been other consequences, such as a reduction of the number of hours worked. In general, the effects of minimum wages are more varied and perhaps unpredictable than one might expect from a standard economic analysis.

¹ New Zealand was the first country to introduce minimum wage legislation in 1894. Minimum wages first came into effect in the United States as part of the Fair Labour Standards Act in 1938.

² This article draws on Borat, Kanbur and Mayet (2013; also 2012).

Analysing minimum wages in different sectors

In South Africa, the body responsible for issuing state legislation in sectors it deems vulnerable is the Employment Conditions Commission (ECC), a representative body within the Department of Labour (DoL).³ It was established in 1999 to advise the Minister of Labour on appropriate and feasible minimum wages for different sectors or sub-sectors in the economy (on so-called 'sectoral determinations'). At the moment there are 11 sectoral determinations,⁴ of which the most important are the Farmworker, Wholesale and Retail, Domestic Workers, Forestry, Taxi, Private Security, Civil Engineering, Contract Cleaning, Hospitality, and Performing Arts sectors.

Due to limitations in the data of the Labour Force Survey (LFS), sectoral determinations of only nine sectors can be identified in the data. Furthermore, the assessment requires sector data for the periods both before and after the introduction of minimum wages. This leaves six sectors (of which agriculture is one) for which the impact of minimum wage laws may be analysed using available survey data.

With the agricultural sector having been investigated in another piece of research, this analysis considers minimum wages in five non-agricultural sectors: the wholesale and retail, domestic workers, forestry, taxi, and private security sectors.⁵ Together, these sectors accounted for approximately 2.2 million workers in September 2007, which amounts to 17.2% of non-agricultural employment.

Table 1 presents the affected sectors, the date of the introduction of minimum wages and the original and current (May 2013) minimum wages for these five sectors. Domestic workers constitutes the largest affected sector in terms of its share of total employment. The wholesale and retail sector is another large one; it also is complicated with several different occupations.

We use data on people of working age from the Labour Force Survey (LFS) for 2000-2007 to analyse the course of employment numbers, wages and working hours in the affected sectors before and after the introduction of minimum wages.

³ The ECC was established in 1999 when it replaced the Wage Board, in accordance with the Basic Conditions of Employment Act (BCEA), No 75 of 1997. Bhorat, Kanbur and Mayet (2012) provide a detailed description of minimum wage institutions in South Africa.

⁴ The other two are: Children in the Performance of Advertising, Artistic or Cultural Activities, and Learnerships. Schedules concerning minimum wages vary according to occupations, location and/or the size of the establishment. In total, South Africa has around 167 different individual minimum wage rates across the 11 sectoral determinations.

⁵ The impact of minimum wages on the agricultural sector was previously investigated by Bhorat, Kanbur and Stanwix (2012). Also see Stanwix (2013) for a short discussion of the impact of minimum wages on farm workers' wages.

Table 1: Sectoral minima and date of introduction

Sector	Date	Share in total employment	Occupation	Initial minimum (Rands per hour)	Current minimum (Rands per hour)
Wholesale and retail	Feb 2003	5.4 %	Manager	14.87	28.15
			Cashier	7.93	14.97
			Clerk	9.39	17.75
			Driver*	7.15 – 10.38	13.52 – 19.62
			Forklift operator	6.76	12.87
			Sales person	9.39	17.75
			Shop assistant	7.42	14.06
			Security guard	6.33	11.99
Domestic workers	Aug 2002	7.6 %		4.10	8.95
Forestry	March 2006	0.2 %		4.28	7.02
Taxi	July 2005	0.1 %		6.49	11.78
Private security	Nov 2001	2.5 %		12.66	17.58

Source: Government Gazettes available from: <http://www.labour.gov.za>.

Notes: We only show values for municipal areas with an average household income above R2 4000. Initial values for minimum wages are original minima (nominal) at the time of their introduction. Current minimum wages are current values effective from May 2013 for full-time workers (i.e. working more than 27 hours per week).

Employment shares are estimated using the September 2007 LFS.

*Depends on Gross Vehicle Mass.

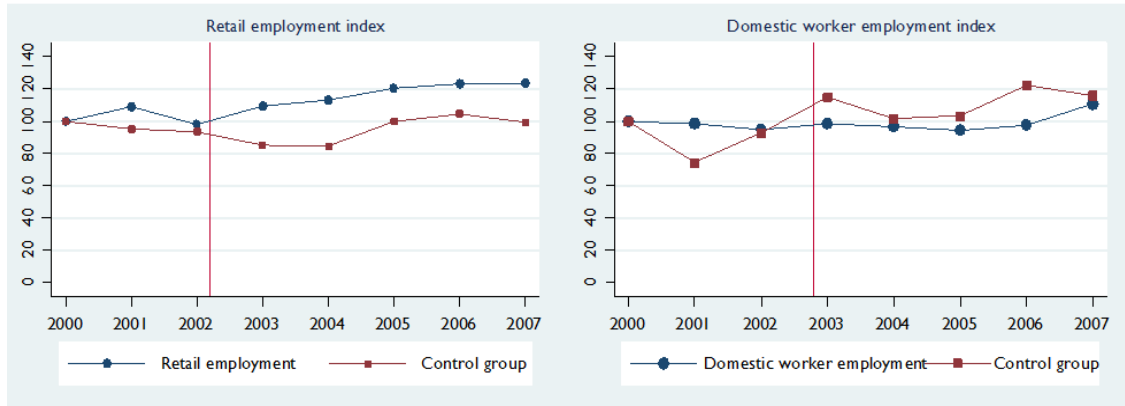
Is there evidence that minimum wages have caused employment to decline?

To isolate any impact of the introduction of minimum wages on employment, we compare the changes in employment in the affected sector to such changes in a control group. This is a group of similar workers who are not covered by minimum wage laws, i.e. workers in other sectors who have characteristics (schooling, age, race, gender) similar to those in the affected sector.

If the before-and-after patterns of employment in the affected sector and in the control group differ significantly, it will indicate that the introduction of minimum wages has had a significant impact on employment in the affected sector. (Common patterns would reflect economy-wide shocks.)

Figures 1 and 2 show employment in selected sectors before and after the introduction of a minimum wage, relative to employment in the corresponding control group. The dark line depicts employment in the affected group. The vertical red line indicates the date when minimum wages were introduced in that sector. Employment is expressed as an index to ease comparability.

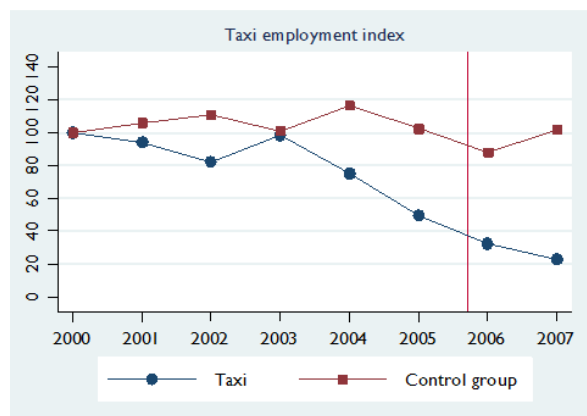
**Figure 1: Employment before and after the introduction of a minimum wage:
Wholesale & Retail and Domestic Work**



For the wholesale and retail sector, there was an increase in employment following the introduction of minimum wages. For domestic workers there was an insignificant initial decline (which also was much less than in the control group), after which it increased to new highs. Employment in the forestry sector showed a statistically insignificant decline; the private security sector experienced a sustained and large increase in employment (not shown).

The only sector in which we see a significant decline in employment is the taxi sector – the smallest of the affected sectors. However, as figure 2 shows, this decline was amidst a decline that had started two to three years earlier; and the control group also experienced a decline around 2004-6. Thus it is not clear whether, or to what extent, the drop in employment in the taxi sector can be attributed to the introduction of minimum wages.

**Figure 2: Employment before and after the introduction of a minimum wage:
Taxi sector**



Our econometric analysis confirms the findings indicated by the diagrams. Contrary to orthodox predictions, the results do not show that the minimum wages have had any general negative impact on employment that is statistically significant. Statistical calculations for the wholesale and retail, domestic work, and private security sectors actually suggest that the probability of finding employment in these sectors was significantly *higher* in the period after the introduction of minimum wages. Only the taxi sector shows a statistically significant drop in the likelihood of employment – but in a certain context only, as noted above. For the forestry sector, this probability did not change significantly.

These findings contrast strongly with those of the agricultural sector, in which minimum wage laws appear to have contributed to an overall decline in the likelihood of employment of as much as 13% in the four years after the law was introduced (Bhorat, Kanbur and Stanwix, 2012).

On the whole, the effect of the introduction of minimum wages on employment in the affected non-agricultural sectors has been much more varied than one might have expected; a significant decline in employment has been the exception.

The impact of minimum wages laws on actual wages

All affected sectors and their respective control groups experienced a statistically significant increase in *nominal* hourly wages between 2000 and 2007, with the exception of the taxi sector, in which nominal wages showed no significant change.

As far as *real* wages are concerned, at face value the only significant changes were increases in two sectors. In the wholesale and retail sector, real wages increased significantly – and also relative to the control group. The domestic work sector⁶ experienced a sustained upward trend in real hourly wages from 2002 to 2007 (the first minimum wage in this sector was announced in August 2002).⁷ In terms of their real hourly wages, the other three sectors appear to have experienced changes that were not statistically significant. However, a more fine-grained econometric analysis that considers additional factors that determine earnings, indicates that increases in real hourly earnings actually occurred in four of the five sectors.

Collectively the results suggest that the introduction of minimum wage laws were associated with subsequent positive increases in real hourly earnings in four of the five sectors, i.e. in all sectors except forestry. Not unexpectedly, wages tended to rise more in districts where wages initially were further below the introduced minimum wage.

⁶ Department of Labour, Regulation Gazette No. 7434. Vol. 446 Pretoria 15 August 2002 No. 23732.

⁷ Both these sectors simultaneously experienced a growth in employment numbers (see above).

The impact of minimum wages on hours of work

Whilst there is no evidence of a decline in the number of people employed in the affected sectors, it appears that the minimum wage has had an effect on the deployment of workers in terms of the usual number of hours worked per week. Statistically significant declines in hours of work occurred in wholesale and retail (a 4.5% decline – 2.2 hours per week – from the year before minimum wages were enacted to 2007), domestic work (7.7%: 3.3 hours) and the security sector (4.5%: 2.7 hours). These are also the sectors in which the employment numbers continued to rise after minimum wage laws were enacted. This suggests that employers may have started to reduce the usual work hours of employees in order to afford, or counter, higher hourly wages.

However, as far as the effect of the laws on real monthly income is concerned, the wholesale and retail, domestic work and security sectors showed an increase in real hourly wages that was sufficient to outweigh any reductions in hours worked – workers ended up being better off in the aggregate. (Workers in the forestry and taxi sectors appear to have been unaffected in real income terms.) The link between new real hourly wages and amended hours of work following the advent of a minimum wage is therefore crucial.

Conclusion

Conventional economic analysis predicts that minimum wages will cause a decline in employment. However, whilst employment in the agricultural sector has fallen following the introduction of minimum wage laws, minimum wages in four out of five affected sectors in South Africa have not had a negative effect on employment – despite real wages having increased in most of the affected sectors after the minimum-wage date. What did occur, in some cases, was a reduction in the number of hours of work per week – though this was proportionally small, relative to the wage increases. These results suggest that the introduction of a minimum wage may not always have a negative effect on employment.

As an aside, one should note the low level of compliance with prescribed minimum wages in the period analysed: in four of the five sectors, 40-60% of workers were paid less than the applicable minimum wage. In domestic work, non-compliance was even worse, averaging 75% (though declining). This could have diluted any negative reaction of employers to the minimum wage.

All in all, the medium-term consequences of the minimum wage policy for the labour market in South Africa appear to have been far more varied and unpredictable than one might expect.

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