

The South African National Minimum Wage: Potential or Concern?

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Abstract

The introduction of a South African national minimum wage has been received with mixed feelings. With the various perceptions in mind, this article considers the role that the South African national minimum wage will possibly assume in the South African context by deliberating on some concerns and the potential it holds based on foreign national evidence and the effect that sectoral determinations have had in South Africa. This article concludes by supporting the introduction of the South African national minimum wage. International evidence and sectoral determinations indicate that the common concerns are often inflated or unwarranted. This is not to say that these concerns should be disregarded, though. The impact and consequences of the South African national minimum wage should be carefully monitored throughout the implementation process in order to optimise its positive impact and minimise any possible negative consequences it may have.

Keywords: minimum wage; South African national minimum wage; unemployment; inequality; poverty; labour market

Introduction

Until now, South Africa has instituted a minimum wage¹ only through sectoral determinations, bargaining council agreements and collective agreements. ‘Sectoral determination’ refers to determining a minimum wage for specific sectors in the labour market that are identified as vulnerable.² ‘Bargaining council agreements’ may refer to collective wage agreements entered into by employer associations and trade unions in a particular sector.³ ‘Collective agreements’ are written agreements concluded directly between registered trade unions and an employer or employers concerning the terms and conditions of employment, including wage agreements.⁴

A South African national minimum wage (SANMW) has been contemplated since the 1930s, with various stakeholders driving the notion of a national minimum wage (NMW) governing all sectors in South Africa.⁵ It was during the 2014 State of the Nation address that the South African president pointed to unemployment, inequality and poverty as major challenges facing South Africa and the possibility of using minimum wages to respond to some of these challenges.⁶

Regarding the current South African context, it is important to note the following: at the time of writing this article, more than 27% of South African citizens were unemployed.⁷ When the individuals ‘who have given up looking for work are included’,⁸ the figure increases to 36%. Furthermore, in 2015, South Africa showed the greatest discrepancies and inequalities in income distribution in the world,⁹ and 51% of the population lived below the food poverty line in 2016.¹⁰ With these figures in mind, it may be argued that the socio-economic measures used to deal with the challenges of inequality, poverty and unemployment did not work or were to a large extent unsuccessful.

It needs to be acknowledged that something drastic is required to resolve these challenges that affect every South African severely either directly or indirectly and have

¹ This article will refer to a ‘minimum wage’ that may include numerous minimum wages.

² E Heppell, *Minimum Wages: A Legal Analysis with Reference to Examples from Developing Countries* (LLM dissertation, North-West University 2016) 69. Also see National Minimum Wage Research Initiative Fact Sheet 1 August 2015 1.

³ National Minimum Wage Research Initiative Fact Sheet (n 2) 1.

⁴ Heppell (n 2) 69.

⁵ ILO 2015 <<http://ilo.org/addisababa>>.

⁶ *ibid*.

⁷ STATSSA 2017 <http://www.statssa.gov.za?page_id737&id=1>. Also see E Huysamen, ‘The Future of Legislated Minimum Wages in South Africa: Legal and Economic Insights’ (2018) *De Jure* 272.

⁸ *National Minimum Wage Panel Report to the Deputy President 2016* <<http://treasury.gov.za/publications/other>> 7.

⁹ ILO 2015 (n 5).

¹⁰ *National Minimum Wage Panel Report* (n 8).

a significant impact on economic growth and social cohesion. A SANMW may be such a drastic measure that holds the potential to alleviate these challenges.

In the case of *S v Makwanyane*,¹¹ the South African Constitution¹² is described as a ‘bridge between the past and the future’, between suffering, injustice and ‘a future founded in human rights’. It is acknowledged that this case does not refer specifically to labour law, but the values and principles outlined in it may be of great value to other aspects of the law, including labour law. The minimum-wage principle (SANMW) may be supporting the Constitution¹³ in bridging the gap between an unjust and unequal society versus a more equal, justifiable and dignified society based on human rights.

A panel was elected to consider the institution of an SANMW and the National Minimum Wage Panel Report was delivered in 2016. The report makes recommendations regarding the practical implementation of the SANMW. Accordingly, an SANMW was recommended and agreed on¹⁴ at R20 an hour (equivalent to €1,02).¹⁵ It is by no means meant to represent a wage level associated with a decent or living wage;¹⁶ it is merely intended to establish a wage floor.¹⁷ In addition to collective and bargaining council agreements, sectoral determinations may still be used to set minimum wages above the wage floor determined by the NMW.¹⁸ The National Minimum Wage Act 9 of 2018 came into operation on 1 January 2019 and the minimum wage was adjusted to R20,76 on 1 March 2020.¹⁹

The introduction of an SANMW has been received with mixed feelings. Some parties have welcomed the proposal for a NMW, whereas others have a more disquieted approach to such a measure.²⁰ The media have generally taken a negative stance on the minimum wage. To provide a context, I refer briefly to some of the main arguments for and against a minimum wage.

¹¹ *S v Makwanyane* 1995 (6) BCLR 793 (CC) para 223.

¹² Constitution of the Republic of South Africa, 1996.

¹³ *ibid.*

¹⁴ Agreement on the introduction of a national minimum wage 7 February 2017.

¹⁵ Calculation: 1 euro = 19,07 South African rands (exchange rate as at 4 November 2020).

¹⁶ Individual living wage R7 222,50, Trading economics 2017 <<http://www.tradingeconomics.com>>. An employee would have to earn R4 400 per month to clear the working poverty line.

¹⁷ National Minimum Wage Research Initiative Fact Sheet (n 2).

¹⁸ Agreement on the introduction of a national minimum wage 7 February 2017, sub-point 16; other minimum wage rates must be no lower than the national minimum wage floor unless exempted or excluded by way of phrase in agreement.

¹⁹ *Government Gazette* 43026, 17 February 2020. Also see M Piek and D Von Fintel, ‘Sectoral Minimum Wages in South Africa: Disemployment by Firm Size and Trade Exposure’ (2020) 37(3) *Development Southern Africa* 462.

²⁰ Huysamen (n 7) 274.

The main argument against a minimum wage centres on the view that it represents an increased wage, which, in turn, represents an increased production cost that will lead to unemployment, particularly in the more regulated formal economy.²¹ The loss of employment in the formal sector may lead to large numbers of workers in the less regulated informal economy,²² and their added presence in the informal economy may further depress wages in the informal economy.²³

It is also argued that a minimum wage or an increased wage may be a source of inflation.²⁴ Inflation may neutralise the buying power of the minimum wage, in this way defeating the possible benefits associated with a minimum wage.

The main argument in support of a minimum wage is that it will protect vulnerable workers in the labour market.²⁵ Vulnerable workers may be characterised as workers with ‘lower productivity, weak bargaining power, certain employment barriers (such as family care responsibilities) and who are often paid less’.²⁶ Vulnerable workers may be classified as the ‘losers in the wage negotiation’,²⁷ and it is these workers whom a minimum wage policy typically aims to protect against unduly low wages by providing a legally determined wage floor. A wage floor may play a role in combatting poverty by supporting the basic needs of workers. A minimum wage is also used as a measure with which to reduce income inequality between the top and the lower spheres in the labour market, and also between genders and geographical areas.²⁸

With these various perceptions in mind, this article considers the role that the NMW has the potential to assume in the South African context by considering some concerns about and the potential of the SANMW.

One should be mindful that, although a minimum wage is a legal measure, the socio-economic conditions or the climate of the society within which it functions will greatly

²¹ F Eyraud and G Saget *The Fundamentals* (ILO 2005) 48.

²² A de Freitas Barbosa and others 2011 *Minimum Wage in Brazil: A Useful Policy Tool to Reduce Wage Inequality?* <<http://justjobsnetwork.org/report>> <;>; Heppell (n 2) 24.

²³ C Saget *Is the Minimum Wage an Effective Tool?* (ILO 2001) 6; Heppell (n 2) 24.

²⁴ ILO 2012 *International Journal of Labour Research* 4(1): 40; D Belman and P Wolfson 2016 *What Does Minimum Wage Do in Developing Countries? A Review of Studies and Methodologies* <<http://www.ilo.org/public/libdoc/ilo/2015/489328.pdf>> (accessed 30 October 2016) 22; Heppell (n 2) 24.

²⁵ U Rani and P Belser, ‘The Effectiveness of Minimum Wages in Developing Countries: The Case of India’ (2012) 4(1) *International Journal of Labour Research* 46.

²⁶ OECD 2015 <<http://www.oecd.org/Focus-on-Minimum-Wages>>.

²⁷ FLB De Melo, A Figueiredo, AS Mineiro, SEA Mendonça ‘Rescuing the Minimum Wage as a Tool for Development in Brazil’ (2012) 4(1) *International Journal of Labour Research* 37.

²⁸ ILO 2012 (n 24). I Strauss and G Isaac, 2016 *Working Paper Series No 4, National Minimum Wage Research Initiative* 4.

influence the role it assumes in society. A meaningful evaluation of a minimum wage and its effects, therefore, requires a consideration of those countries that share similar socio-economic conditions. However, it is important to retain an overall international context of a minimum wage and its effects; this requires us to consider other countries with better or worse socio-economic conditions. Most likely, no two countries will share identical socio-economic conditions, which should be kept in mind when using international evidence. A further factor to bear in mind is that the impact of the NMW will depend on the level of compliance that is achieved. Developing nations are typically characterised by low levels of compliance with a minimum wage, which may possibly dilute the results when considering the effects of a minimum wage on the labour market.²⁹

This article begins by considering the level of the SANMW. After that, the article raises some concerns about the SANMW and indicates its potential by considering international evidence of countries that, among other things, share similar socio-economic conditions characterised by elevated levels of unemployment, inequality and poverty. The effect that sectoral determinations had in the South African context is also considered before arriving at a conclusion regarding the potential of the SANMW and expressing some concerns about.

Level of the South African National Minimum Wage

For the NMW to be meaningful, it must be determined at a level that is sufficient to provide an adequate wage floor while not being too high, which may translate into either a loss of employment or non-compliance.³⁰

To contextualise the R3 500,00 per month level of the NMW, consideration should be given to the relevant wage figures during the development period of the SANMW. Based on data calculations of 2014, the monthly mean wage stood at R10 634,00 and the median wage stood at R4 485,00.³¹ The large discrepancy between average and median wage is indicative of the excessive income inequality in South Africa. High-

²⁹ S Broecke, A Forti and M Vandeweyer, 'The Effect of Minimum Wages on Employment in Emerging Economies: A Survey and Meta-analysis' (2017) 45(3) Oxford Development Studies 366.

³⁰ DPRU *Working Paper 201601 2016 Investigating the Feasibility of a National Minimum Wage for South Africa* 40. K Bodnár, L Fadejeva, S Lordache, L Malk, D Paskaleva, J PesliaKaité, NT Jemic, P Tóth and R Wyszynski 'How do Firms Adjust to Rises in the Minimum Wage? Survey Evidence from Central and Eastern Europe' (2018) 7 IZA Journal of Labor Policy <<https://link.springer.com/article/10.1186/s40173-018-0104-x>> 6>.

³¹ Agricultural and domestic workers are excluded from these calculations because they are exceptionally low wage sectors and by omitting these sectors, an arguably more contextualised figure is produced that may be more in line with wages in the labour market. Formal and informal workers are included in the figures, which are hourly adjusted for 45 hours per week multiplied by 4,3 weeks per month. *National Minimum Wage Panel Report* (n 8) 39.

income inequality may result in a higher mean or average wage and may not be representative of the majority of wage-earners in the labour market. Consequently, South Africa and other countries with high-income inequality may use the median wage as a comparative benchmark for determining the NMW, as it may be more representative of the majority of wage-earners.³²

‘On average, the lowest sectoral determination (SD) wage across sectors is R2 522 while the average highest SD wage across sectors is R3 624.’³³ On average, the lowest bargaining council (BC) minimum wage across industries is R3 284,83 whereas the average highest BC wage across industries is R10 670,97 per month.³⁴ A 2015 International Labour Organization (ILO) publication calculated a housing-based living wage at R10 224 per month.³⁵ These figures provide some context for the level of minimum wage in South Africa.

As previously mentioned, the SANMW is not intended to represent a living wage; however, the level of a national living wage should not be disregarded as it is important to workers and in the context of the holistic wage hierarchy of South Africa. Figure 1 considers the SANMW during its development period in relation to median and mean wage in various nations that include, but are not limited to, emerging nations.

³² DPRU (n 30) 42.

³³ *ibid.*

³⁴ Figures are representative of private-sector bargaining councils. DPRU (n 30) 157.

³⁵ ILO 2015 (n 5) 24; the housing-based living wage is based on a family being able to afford a low-cost house where 33,33% of total monthly household income is allocated to bond repayments. The average low-cost housing in informal settlements costs R323 000. These calculations come to a figure of R10 224 per month, representative of the housing-based living wage.

Figure 1 The SANMW during its development period in relation to median and mean wage in various emerging and developed nations

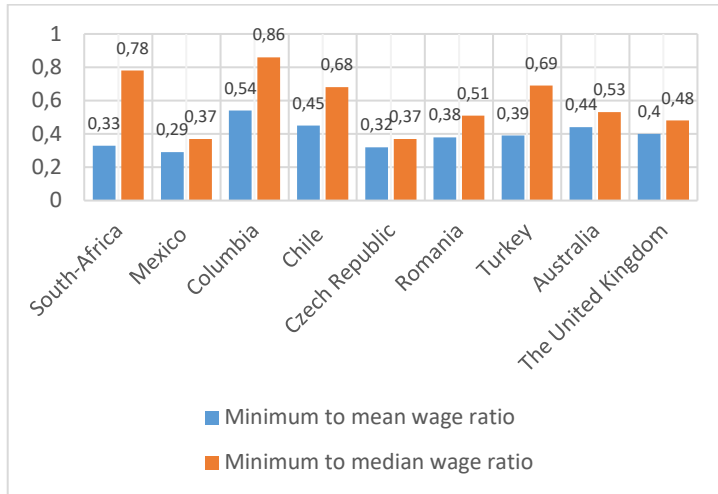


Figure 1 Compiled by the author using Organisation for Economic Co-operation and Development (OECD) data from 2014 and ILO, 2016 Global Wage Database³⁶

It is evident from Figure 1 that the SANMW is not determined at a level that is disconnected from global minimum wage standards. Mexico and Czechia (formerly the Czech Republic) are the only nations in Figure 1 that have a weaker minimum-to-mean wage ratio than South Africa. The rest of the nations in the illustration all have stronger minimum-to-mean wage correlations.

Developing nations tend to have higher minimum-to-median (also called the Kaitz index)³⁷ ratios than developed countries, which is probably because developing nations have a substantial low-income population in comparison to developed nations.³⁸ In South Africa, for instance:

³⁶ The South African figures calculated using South African national minimum wage of R3 500,00 per month, South African mean monthly wage of R10 634,00 and a median South African wage of R4 485,00. OECD Stats 2019 ‘Minimum relative to Average Wages of Full-time Workers’ <<https://stats.oecd.org/Index.aspx?DataSetCode=MIN2AVE#>>; data from middle-income countries and all available countries were sourced from ILO, 2016. Global Wage Database.

³⁷ ILO 2016 <https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_537846.pdf> 27.

³⁸ DPRU (n 30) 42.

[A] small group earning very high incomes increase the mean wage of the country substantially compared to the median wage, which is a more accurate reflection of the majority of wage earners.³⁹

For this reason, median wages are generally a more accurate representation of workers in the middle of the income distribution.⁴⁰

A noteworthy aspect illustrated in Figure 1 is the extent of the discrepancy between the minimum wage to mean and median ratios in South Africa compared to other nations that indicate more modest discrepancies between these ratios. This discrepancy may be indicative of the vast inequality in the labour market where there is a considerable difference between the level of the minimum wage and wages higher up in the wage hierarchy. Figure 1 indicates that Australia and the United Kingdom – as developed nations – have relatively modest differences between minimum to mean and median wage and this may indicate a more equally distributed wage hierarchy in the labour market compared to that in developing nations.⁴¹

When deliberating the NMW level, it is also important to emphasise the demands placed on wage-earners in terms of the number of individuals dependent on each wage-earner. Finn⁴² estimates that in South Africa a wage-earner living in a poor household supports an average of 2,65 dependants (3,65 people in total, including the wage-earner). If it is assumed that the wage-earner will receive the SANMW, then it has the potential to support not only the wage-earner but numerous dependants – an aspect that must be kept in mind when reflecting on the level of the SANMW.

Approximately 47,3% of all workers in South Africa (equating to 6,2 million workers) earn below R3 500 per month.⁴³ The SANMW will provide better coverage to workers in the labour market because, at present, only 72% of wage workers are covered by minimum wage provisions.⁴⁴ Better coverage may mean that more people may benefit from the institution of a minimum wage because 80% of South African workers are paid employees.⁴⁵ An SANMW will also simplify the current minimum wage structure in

³⁹ *ibid.*

⁴⁰ *ibid.*

⁴¹ The categorisation of nations according to ILO 2018 *World Employment Social Outlook Trends* 54. Chile also qualifies as a developed nation where Figure 1 indicates more significant discrepancies between minimum to mean and median wage and makes Chile an exception to the more equally distributed wage hierarchy of other developed nations.

⁴² A Finn 'A National Minimum Wage in the Context of the South African Labour Market' (2015) *Working Paper Series No 1, National Minimum Wage* Research Initiative 7.

⁴³ *National Minimum Wage Panel Report* (n 8) 68.

⁴⁴ U Rani and S Ranjbar 2015 *Impact of Minimum Wages on Wage Quantiles: Evidence from Developing Countries* <<http://nationalminimumwage.co.za/2015/09>>.

⁴⁵ U Rani, M Oelz and P Belser, (2013) *International Labour Review* 384.

South Africa that comprises 120 different wage levels;⁴⁶ it will also be easier to comply with and enforce.⁴⁷

The next section draws on international experiences in considering various concerns about and the potential of the SANMW.

International Evidence regarding Minimum Wage

Minimum Wage in Relation to Employment

Traditionally, research pointed to employment loss as a major consequence of a minimum wage.⁴⁸ But the important research of Card and Kruger⁴⁹ challenged the notion of employment loss to such an extent that increases in employment were suggested. More recent literature builds on the work of Card and Kruger to claim that limited and neutral employment loss are more likely, which may, in some instances, even present positive employment effects.⁵⁰ This is, of course, conditional on the fact that an NMW is implemented correctly and effectively.

The shift in research outcomes can be attributed to the development of more advanced research methods and data.⁵¹ Recent research undertaken by Broecke, Forti and Vandeweyer considered a substantial number of studies regarding large emerging countries⁵² and concluded that a minimum wage has:

... little detectable impact on employment.⁵³

⁴⁶ G Isaacs, *A National Minimum Wage for South Africa* (University of the Witwatersrand 2016) 19 and *National Minimum Wage Panel Report* (n 8) 53.

⁴⁷ Rani, Oelz and Belser (n 45) 397. Piek and Von Fintel (n 19) 463.

⁴⁸ Isaacs (n 46) 34.

⁴⁹ D Card and AB Krueger, 'Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania' (1994) 85(2) *The American Economic Review*; see also E Heppell, 'Compliance with Minimum Wages: A South African Legal Perspective' (draft LLD thesis).

⁵⁰ Isaacs (n 46) 34; Broecke, Forti & Vandeweyer (n 29) 367 and 375; also see F Saltiel and S Urzúa, *CAF Working Paper 2017/22*; J Mudronova, 'The International Experience of the Relationship between Inequality, Poverty and Minimum Wages' *Working Paper Series No 3*, National **Minimum Wage Research Initiative** (University of the Witwatersrand 2016) 7 and 8.

⁵¹ Isaacs (n 46) 39.

⁵² Countries considered in the study are only large emerging countries; Brazil, China, Colombia, Mexico, Indonesia, India, the Russian Federation, South Africa and Turkey.

⁵³ Broecke, Forti and Vandeweyer (n 29) 384: 'The empirical debate continues, but it seems fair to conclude from the evidence that the impact of minimum wages on employment is minimal, if it exists at all'; G Davidov, 'A Purposive Interpretation of the National Minimum Wage Act' (2009) 72 *The Modern Law Review* 581—606. The literature indicates a similar position in developed nations: M Sargeant, 'The UK National Minimum Wage and Age Discrimination' (2010) 31(3) *Policy Studies*

This may correspond to the increasing consensus regarding the influence of a minimum wage on employment in more developed countries.⁵⁴

It is apparent that the introduction of a minimum wage (ie NMW) or increases in minimum wage do not lead inevitably to employment loss. The reason may be that there are numerous ways in which employers can react to the introduction of a minimum wage, a NMW or the increase in a minimum wage:

First, productivity can be increased.⁵⁵

Where employers must pay a higher wage to their workers, they will try to make the most effective use of their labour. The productive output per unit of input can be increased to compensate for the increased input cost possibly associated with the minimum wage. Employers' productivity can be increased by investing in and developing the following two components: labour (human capital) and capital (technological infrastructure).⁵⁶

Technological infrastructure may be improved and made more efficient. Lordan and Neumark found that increases in a minimum wage (or possibly wages that present an increased relative wage) result in automation, which may result in a loss of employment by low-skilled workers; but this may be offset by increased employment opportunities for higher-skilled employees.⁵⁷ The scope of employment of these higher-skilled employees could typically be to maintain the automation process or technology. Higher-skilled employees would require an investment in further education and developmental programmes, which hold a wide range of socio-economic benefits individually, organisationally and nationally.

Human capital can also be developed or further developed by appropriate investment. Human capital is of particular importance in South Africa because the labour market is

354 and J Bishop, 'The Effect of Minimum Wage Increases on Wages, Hours Worked and Job Loss' *RBA Discussion Paper No 2018-06*, 1–2. Mudronova (n 50) 7 and 8; Schmitt (n 46) 5.

⁵⁴ Broecke, Forti and Vandeweyer (n 29) 365 and 383. In the United Kingdom the number of working hours generally increased, unemployment remained stable and the number of employed persons increased: The National Minimum Wage in 2020, 'Uprating Report April 2020 Low Pay Commission' <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/877174/LPC_2020_uprating_report.pdf> (accessed 8 May 2020) 8.

⁵⁵ Broecke, Forti and Vandeweyer (n 29) 1; Schmitt J 2013 'Why does the Minimum Wage have No Discernible Effect on Employment?' Center for Economic and Policy Research 12.

⁵⁶ NEDLAC *Futures of Work in South Africa* (March 2019) 43.

⁵⁷ Occupations where automation may replace low-skilled workers include cashiers, bricklayers and taxi drivers. G Lordan and D Neumark, 'People versus Machines: The Impact of Minimum Wages on Automatable Jobs' *IZA Institute of Labor Economics Discussion Paper Series 25*, 2018.

characterised by a large proportion of unskilled labour and a scarcity of skilled labour,⁵⁸ not assisted by the historical context in which there was under-investment in the capabilities of the majority of previously disadvantaged workers.⁵⁹ A NMW may therefore drive employers to seek increased productivity by developing the skills and knowledge of employees, which could serve the labour market favourably as a higher-skilled worker is shaped, which may positively influence productivity.⁶⁰ Developing worker skills and knowledge through employer initiatives represents an employer-led financial investment in these workers, which may serve as a catalyst to improved worker retention and reduced worker turnover.⁶¹ Labour and capital can be used more efficiently and this will help to maximise the economic potential.⁶²

The South African market is characterised by low-productivity performance that reflects the-

skills shortage, high cost of doing business and lack of competition in many markets. Student skills are below the OECD average, with the education system being characterised by high inequality as a small share of students excel, but many others do very poorly.⁶³

The NMW may increase South Africa's labour share (in other words, the share of national income going to labour), which coincidentally will force labour productivity to catch up with labour compensation.⁶⁴ Alternatively, the SANMW (or increased wages) can induce workers to work harder in order to keep their employment or as reciprocal effort for the higher wage. This alternative is known as the so-called 'efficiency wage', which has a strong theoretical and empirical base.⁶⁵

Secondly, the higher earnings of workers higher up in the organisational hierarchy may be reduced to compensate for the SANMW or increased wages for workers lower down in the organisational hierarchy.

⁵⁸ M Altman, *Low Skill Work in South Africa* (HSRC 2006) 2; Card and Krueger (n 49) 772–793.

⁵⁹ I Strauss and G Isaac, 2016 *Working Paper Series No 4*, National Minimum Wage Research Initiative 1.

⁶⁰ See NEDLAC (n 56) 43 and 46.

⁶¹ Schmitt (n 55) 21.

⁶² NEDLAC (n 56) 43.

⁶³ OECD 2018 Jobs Strategy <Oecd.org/southafrica/jobs-strategy-South_Africa-EN.pdf> 2; NEDLAC (n 56) 43.

⁶⁴ I Strauss and G Isaac, 'Labour Compensation Growth in the South African Economy: Assessing Its Impact through the Labour Share using the Global Policy Model' 2016 *Working Paper Series No 4*, National Minimum Wage Research Initiative 1.

⁶⁵ Schmitt (n 55) 12.

Workers higher up in an organisation, representing senior management positions, typically receive high earnings. The earnings of these workers may be reduced or may be adjusted to a more moderate level to compensate for increased organisational expenditure because of the SANMW.

This approach is relevant to the South African labour market context characterised by excessive income disparity between the earnings of the top and the bottom levels of the labour market.⁶⁶ The labour share (the part of national income allocated to labour compensation)⁶⁷ has not increased in relation to increases in productivity. According to ILO data, labour productivity has improved close to three times the rate of real wage growth across 36 developed countries. Since the advent of democracy in South Africa, its labour share has decreased to where it is around 5% less than that of its emerging market peers.⁶⁸

Various countries have seen a downward trend in labour shares.⁶⁹ Furthermore, the distribution of the income share in the labour market has been skewed in favour of the highest portion of the distribution that may have benefitted from the proceeds of productivity because it was not distributed to the lower part of the distribution. Engler refers to an Oxfam report where it was indicated that:

the richest one per cent has increased its income by 60 per cent in the last 20 years.⁷⁰

Globally, there has been growing disproportionality between the income of the top portions of the distribution compared to that of the lower part of the distribution. The distribution of the income share is indicative of the disproportionality present not only in South Africa but also globally, as is indicated in Figure 2.

⁶⁶ Oxfam South Africa 2014 <<http://www.oxfam.org.za/downloads/research>>.

⁶⁷ ILO 2016 <<http://oecd.org/g20/topics/employment-and-social-policy/The-Labour-Share-in-G20-Economies.pdf>>. 'Income shares' refers to the shares of national income which reward the different factors of production: M Guerriero, 'The Labour Share of Income Around the World: Evidence from a Panel Dataset' (2012) 3.

⁶⁸ Strauss and Isaac (n 64) ii and 6.

⁶⁹ ILO 2015, *Income Inequality and Labour Income Share in G20 Countries: Trends, Impacts and Causes* <http://ilo.org/publication/wcms_398074> 10.

⁷⁰ M Engler 'The Case for a Maximum Wage' (2013) *New Internationalist* 462 <<http://nwulib.nwu.ac.za/login?url=https://search.ebscohost.com/login.aspx?direct=true&db=f5h&AN=87004322&site=eds-live>> 33. Consideration should be given to the distribution of income because wages and salaries are the main sources of household income and therefore assume an influenceable position in the distribution of income. P Mohr, L Fourie and Associates, 2008, *Economics for South Africa* 278.

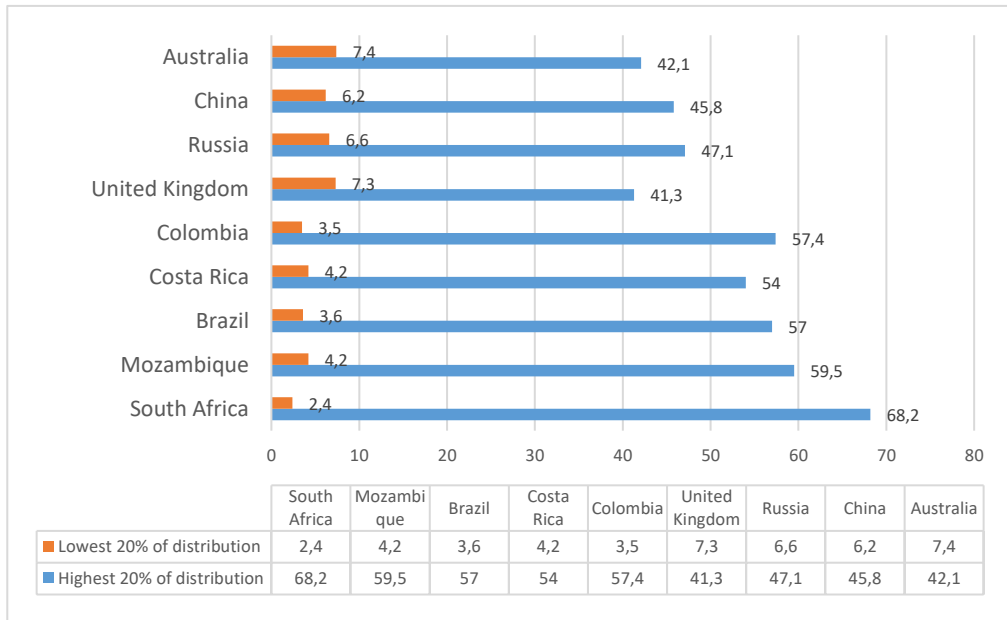


Figure 2 Distribution of income share, compiled by the author using World Bank data for 2014

The inequality and income disproportion are very visible in South Africa, where the top 10% of income-earners had approximately 50% of the total income share, whereas the bottom 10% had less than 2% of the total income share of the income distribution in 2010.⁷¹ Furthermore, the income share held by the highest 20% is substantial in relation to the modest portion of the income share held by the lowest 20% in South Africa. This disproportionality is acknowledged by considering the income share distribution of its neighbouring countries. In 2015,⁷² Botswana’s income share of the lowest 20% stood at 3,9%, whereas the income share of the highest 20% stood at 58,5%. Namibia’s income share of the highest 20% was 63,7%, whereas the income share of the lowest 20% stood

⁷¹ World Bank Database <<http://data.worldbank.org/indicator/SI.DST.FRST.10?locations=ZA&start=2007>>; Oxfam South Africa (n 66) 6.

⁷² Figure 2 uses data from 2014. Data from 2015 are used for the discussion on neighbouring countries. Statistics from different years should be compared with caution and in this instance different years are used because of the lack of available data. Nonetheless, the inclusion of this comparative information is important to providing context to the South African income share disproportionality compared to that of other countries.

at 2,8% in 2015. The data of another neighbouring country, Mozambique (indicated in Figure 2), also reinforces the disproportionate South African position.

Figure 2 also indicates South Africa's income share disproportionality when compared to other countries such as Brazil, China, Colombia and Costa Rica. These countries are also classified as emerging economies (upper-middle-income) according to the World Employment and Social Outlook Trends 2018.⁷³ The disproportionality faced in South Africa is more pronounced when compared to developed nations such as Australia, the Russian Federation and the United Kingdom (as indicated in Figure 2).

World Bank data indicate that the labour share of the bottom 10% had generally decreased from 1993 up until 2011, whereas the labour share of the top 10% had generally increased in the same period.⁷⁴ It may, therefore, be that the wealthy are getting wealthier while the poor are staying poor or are becoming poorer. Some may argue that this is indicative of the capitalistic nature of the South African economy, where human beings (labour) are dehumanised and reduced 'to functions of production in the effort to make profit'.⁷⁵

A practical example of this is the Marikana tragedy (it occurred August 2012 at the Lonmin mine in South Africa), where 44 people lost their lives, many were injured and millions of rands' worth of property was damaged because of a labour dispute. A predominant demand of the workers was a higher monthly wage of R12 500 per month, which the employers considered absurd. This took place in a context in which the media reported that the Lonmin chief executive officer earned about R1 200 000 a month compared to the average earnings of a rock driller at R10 500 a month.⁷⁶ This disparity may be one of the greatest weaknesses of the free market, and it is therefore contended

⁷³ ILO 2018, *World Employment Social Outlook Trends* 54.

⁷⁴ World Bank Data 2018, personal correspondence.

⁷⁵ JF Boöttger and M Rathbone, 'The Marikana Massacre, Labour and Capitalism: Towards a Ricoeurian Alternative' (2016) 81(3) *Koers* 2. Piketty contends that inequality is one of the fundamental problems facing capitalism, which is especially relevant in the unequal South African context: T Piketty, *Capital in the Twenty-first Century* (Brief and to the Point Publishing 2013) 1.

⁷⁶ News 24 2012 <<http://news24.com>>: '[B]etween 2000 and 2008 labour (workers) at the three large platinum producers (employers) only received 29% of value added produced, considerably lower than the average for the South African economy as a whole over this period (50%) and below the OECD average of 52%. At the same time, 61% of value produced went to profit, with just under half of this (28% of total value added) distributed to shareholders'; Bowman and Isaacs 2014 *Demanding the Impossible? Platinum Mining Profits and Wage Demands in Context* <<http://wits.ac.za>> 1, this indicates not only that mine workers are receiving disproportionately low wages when compared to South Africa as a whole but also with reference to the OECD. It may be contended that profits should be redistributed to the wages of workers.

that the bottom sphere of the labour market requires statutory intervention in the form of a minimum wage.⁷⁷

The disparity of income distribution is also present between races⁷⁸ and genders in South Africa. The persistent industrial and social unrest in South Africa may be indicative of this unequal landscape.⁷⁹ The complexity and relatedness of inequality to other problems can be indicated by the fact that in 2015 South African women received a median wage of only 77,1%, compared to the wage for employed men across the income distribution spectrum.⁸⁰ Women are more exposed to poverty and unemployment; and gender inequality may create power imbalances in households. The National Minimum Wage Panel reported that a ‘lower household wealth index increases the chance of intimate partner violence’.⁸¹ The following statistics need to be highlighted to indicate the severity of the problem in South Africa:

- husbands or boyfriends are the killers in 40% to 70% of female murders,⁸² and
- ‘63 603 cases of rape and sexual assault were recorded between 2010 and 2011’.⁸³

What is even more concerning is that these figures are considered conservative.⁸⁴ The instance of gender inequality illustrates the complexity and interconnectedness of poverty, inequality and unemployment, leading to various other problems South Africa faces today. Inequality and the various interconnected challenges are major obstacles that require measures and approaches to deal with these challenges to be considered and developed. A minimum wage may be used as one such approach to overcoming the challenges of inequality, poverty and even unemployment.

When considering income share levels, it is apparent that there is definite proportional disparity between the top and bottom spheres of the distribution, which indicates that there is definite scope to rebalance the current position. The SANMW may increase the

⁷⁷ ILO 2015 (n 5) 4.; Oxfam South Africa (n 66); ‘In a free market (capitalist market) economy all decisions are made by individual households and firms with no government intervention’, technically the free market does not exist as there are always some form of government influence but the degree of government influence/involvement may vary: P Mohr, L Fourie and Associates 2008, *Economics for South Africa* 28. It is argued in this article that government intervention is necessary in the form of a minimum wage to help to deal with inequality.

⁷⁸ ILO 2015 (n 5) 8, 19.

⁷⁹ Oxfam South Africa (n 66).

⁸⁰ *National Minimum Wage Panel Report* (n 8) 46.

⁸¹ *National Minimum Wage Panel Report* (n 8) 7.

⁸² Republic of South Africa, Department of Social Development 2014 <<http://dsd.gov.za>> 10.

⁸³ *ibid.*

⁸⁴ *ibid.*

labour share for the bottom sphere of the labour market because wages are a major source of household income in developing and developed economies alike.⁸⁵ In South Africa, 80% of workers are paid employees⁸⁶ (dependent, that is, on paid employment).⁸⁷ Because of the high proportion of workers dependent on wages, a minimum wage can be used as a minimum wage floor with which to decrease income inequality⁸⁸ and to increase the labour income share held by the bottom sphere of the labour market.

Thirdly, profit margins can be reduced and moderate price increases may occur.

The employer can deal with the increased financial burden associated with a higher wage (NMW) by electing to reduce profits to facilitate the increased cost associated with the NMW. Alternatively, the employer may pass the increased cost of production and services on to the consumer by effecting moderate price increases.

There may be concerns regarding the effects of inflation neutralising the purchasing power of the minimum wage. But in Brazil the effects of the minimum wage on inflation were limited,⁸⁹ despite cautioning over the effects of minimum wage on inflation. The Brazilian inflation experience correlates with that of other countries which also implemented an NMW, where inflation generally rose less than 1%.⁹⁰

Fourthly, companies may opt to reduce the dividends received by shareholders.

Jacobs and Mazzucato state that:

over the past decade or so, an increasing percentage of corporate profits has been used for share buybacks and dividend payments rather than for reinvestment in productive capacity and innovation.⁹¹

⁸⁵ ILO 2015 <http://ilo.org/global/publications/books/WCMS_324678/lang--en/index.htm>.

⁸⁶ Section 213 of the Labour Relations Act 66 of 1995 (LRA) defines employee as: (a) any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to receive, any remuneration; and (b) any other person who in any manner assists in carrying on or conducting the business of an employer; and 'employed' and 'employment' have meanings corresponding to that of 'employee'.

⁸⁷ Rani, Oelz and Belser (n 45) 384.

⁸⁸ GA Cornia and B Martorano, 'Development Policies and Income Inequality in Selected Development Regions' (2013) *Working Paper Series – Economics*, Università degli Studi di Firenze 33.

⁸⁹ FLB De Melo, A Figueiredo, AS Mineiro, SEA Mendonça, 'Rescuing the Minimum Wage as a Tool for Development in Brazil (2012) 4(1) *International Journal of Labour Research* 41.

⁹⁰ ILO 2015 (n 5) 11; Mudronova (n 50) 14 and 15.

⁹¹ M Jacobs and M Mazzucato, *Rethinking Capitalism: Economics and Policy for Sustainable and Inclusive Growth* (Wiley-Blackwell 2016) 5. Also see ILO 2015, *Income Inequality and Labour*

Coincidentally, in addition to innovation, productivity growth has slowed down (relative to historical trends).⁹² South Africa has low productivity growth (relative to other developing nations), which arguably establishes a desperate need for investment in productivity and innovation.⁹³

The lowering of shareholder dividends may be relevant to South Africa. A 1999 to 2014 study by Nyere and Wesson concluded that Johannesburg Stock Exchange-listed industrial companies had a growing propensity to pay regular dividends for the period under consideration.⁹⁴ Furthermore, a significant increase in dividend pay-outs was found after the recession of 2008–2014 compared to the period before the recession (1999–2007).⁹⁵ It may, therefore, be argued that dividends could be lowered in order to absorb the possible increased cost of labour through the introduction of a minimum wage.

Finally, working hours may be reduced.

An employer may attempt to reduce employee working hours to compensate for the increased hourly minimum wage (that the SANMW may represent). This approach may erode the benefit obtained by the SANMW. Sectorally determined minimum wages did have an effect on the usual number of hours worked by employees over a predetermined period in South Africa.⁹⁶ It is suspected that employers elected to cut the working hours of employees ‘to afford, or counter, higher hourly wages’:⁹⁷ the reduction in hours could have limited the gains achieved through the increase in wages (because of the sectoral minimum wage). However, in most sectors under a sectoral minimum wage, the increase in the hourly wage ‘was sufficient to outweigh any reductions in hours worked’⁹⁸ and, as a result, workers were better off.⁹⁹

Income Share in G20 Countries: Trends, Impacts and Causes
<http://ilo.org/publication/wcms_398074> 1.

⁹² Jacobs and Mazzucato (n 91) 7.

⁹³ <<https://www.ceicdata.com/en/indicator/labour-productivity-growth>>.

⁹⁴ L Nyere L and N Wesson, (2019) *Factors Influencing Dividend Decisions: Evidence from South Africa* <<http://www.sajbm.org/index.php/sajbm/article/view/1302/1381>>.

⁹⁵ *ibid.*

⁹⁶ H Bhorat and N Mayet 2013 *The Impact of Sectoral Minimum Wage Laws in South Africa* <<http://www.econ3x3.org/article/impact-sectoral-minimum-wage-laws-south-africa>> (accessed 25 July 2017).

⁹⁷ *ibid.*

⁹⁸ *ibid.*

⁹⁹ *ibid.*

Cognisance should be taken of the fact that working hours cannot be altered unilaterally¹⁰⁰ by employers as a result of the introduction of the SANMW. The legislative framework ensures a controlled process in the variation of terms (working hours) in the employment contract by prohibiting unilateral variations by the employer.¹⁰¹ Employees must be engaged in such employment contract variations that protects their interests and ensures that they have a say. Should variations in the reduction of working hours be agreed on in the employment relationship, this provides the opportunity for these employees to seek supplementary employment or engage in alternative economic activities that may supplement their income and counteract any erosion as a result of reduced working hours.¹⁰² This is beneficial, as it may result in individuals having more money, which might result in consumption-fuelled growth.

As indicated by these arguments, employers can react to the SANMW or increases in the minimum wage in numerous ways other than by reducing the number of workers.¹⁰³ How employers react depends on many factors that are determined by industry or sector characteristics. A 2018 study of a number of central and eastern European countries found that the adjustment of product prices, the reduction of non-labour costs and increases in productivity were the most popular adjustment channels used to cope with a rise in a minimum wage.¹⁰⁴

It should be emphasised that the argument is not that there is no employment loss in all instances where a minimum wage applies. In instances where employment is negatively affected by a minimum wage, the impact is often limited in size and primarily restricted to specific groups or categories of worker.¹⁰⁵ The literature suggests that it may be vulnerable groups that are most affected by increases in a minimum wage in instances where negative effects arise. Vulnerable groups typically include low-wage earners, youth workers and unskilled workers. This is a concerning aspect, considering that minimum wage policies are typically instituted to protect such vulnerable groups. The National Minimum Wage Panel Report makes provision for an annual review¹⁰⁶ of the impact of the NMW by the Decent Work Commission (DWC).¹⁰⁷ Reviews will consider

¹⁰⁰ Includes hours of work as per private contracts, sectoral determinations and collective agreements: sub-point 7 on the agreement on the introduction of a national minimum wage 7 February 2017.

¹⁰¹ Section 4 (8) NMWA. Any unilateral changes in this context will constitute an unfair labour practice.

¹⁰² If supplementary employment is prohibited in an employee's employment contract, the variation of the contract for reduced working hours may allow the employee to renegotiate such a prohibition.

¹⁰³ Schmitt (n 46) 22.

¹⁰⁴ K Bodnár, L Fadejeva, S Lordache, L Malk, D Paskaleva, J Pesliakaité, NT Jemic, P Tóth and R Wyszynski, 'How do Firms Adjust to Rises in the Minimum Wage? Survey Evidence from Central and Eastern Europe' (2018) 7 IZA Journal of Labor Policy 3 and 30.

¹⁰⁵ Broecke, Forti and Vandeweyer (n 29) 366, 384; also see Saltiel and Urzúa (n 50).

¹⁰⁶ *National Minimum Wage Panel Report to the Deputy President* (n 8) 93.

¹⁰⁷ *National Minimum Wage Panel Report to the Deputy President* (n 8) 11.

various factors, such as the socio-economic impact on employment, working poverty and wage inequality¹⁰⁸ that will have to be closely monitored in order to ensure that the SANMW is functioning optimally while at the same time having a positive influence in the South African labour market.

With the possible dis-employment effects on vulnerable individuals in mind, South Africa arguably has ample legislative provisions that take effect through social security initiatives to act as a ‘safety net’ to catch those workers that may possibly be negatively affected (in terms of employment loss) by the institution of a NMW.¹⁰⁹

Social security initiatives are not recommended as a solution to possible employment loss, but are recommended as a measure to mitigate the consequences of possible employment loss associated with the NMW. It may be argued that the South African social security framework is overburdened and that it cannot sustain funding more individuals. The NMW will represent an increased wage to approximately 47,3%¹¹⁰ of the workforce and because of the tendency of these workers to spend a larger ratio of their earnings¹¹¹ (compared to the top earners in the labour market, who tend to save), the state will possibly receive more funds through value-added tax (VAT). The increase in funds in the state coffers may then theoretically be distributed to various state agencies, including the South African Social Security Agency, which may help to accommodate any additional dependants. Because of the interconnectedness of other social benefits to the minimum wage, increases in the minimum wage may have a profound impact on the economy and specifically on domestic consumption.¹¹²

Studies of Brazil¹¹³ and other Latin American countries¹¹⁴ highlight the importance of a minimum wage policy to stimulate domestic consumption that may result in consumption-fuelled growth. The consequence of a higher wage or minimum wage is an increase in the domestic demand for goods and services that results in gross domestic

¹⁰⁸ Agreement on the introduction of a national minimum wage 7 February 2017, sub-point 5.

¹⁰⁹ Section 27(1)(c) of the South African Constitution determines that everyone has the right to have access to social security, including if they are unable to support themselves and their dependants. Social security includes a ‘wide variety of public and private measures that provide cash or in-kind benefits or both, first, in the event of an individual’s earning power permanently ceasing, being interrupted, never developing, or being exercised only at unacceptable social cost and such person being unable to avoid poverty and, secondly, in order to maintain children’ (White Paper for Social Welfare of August 1997 chapter 7(1); also see E Heppell, 2018 *A Philosophical Critique of the Social Grant System in South Africa* (MPhil dissertation NWU) 8.8.

¹¹⁰ *National Minimum Wage Panel Report* (n 8).

¹¹¹ A higher labour share reduces the rate of aggregate savings and increases aggregate consumption: Strauss and Isaac (n 64) iii and 3.

¹¹² ILO 2009 <<http://ilo.org/americas/publicaciones>>.

¹¹³ De Melo and others (n 89) 41.

¹¹⁴ ILO 2014 <http://ilo.org/publications/wcms_334089> 38.

product (GDP) growth and possibly to economic growth. Economic growth in turn holds definite benefits for employment.

Increased consumption and spending are particularly important in difficult economic times, where a minimum wage policy (that represents an increased wage) could help to reduce the effects of recession and assist with recovery in the aftermath.¹¹⁵ This implication is particularly relevant to South Africa because, at the time of writing this article, South Africa faced a recession compounded by the downgrading of the country to junk status by various credit-rating agencies along with the effects of the Covid-19 pandemic.¹¹⁶

One concern – among some prominent economists – is that the SANMW will not result in consumption-fuelled growth because the increased demand (associated with an NMW) will be directed at imports and for this reason will not benefit the domestic market. This concern may be unfounded, because it assumes that the expenditure of destitute individuals and households will be directed at imported products that do not hail from the domestic South African market. But destitute individuals and households spend most of their income on the basic human necessities. This practice is evident in the fact that the bulk of the expenditure in poor South African households is directed at food and non-alcoholic beverages that amount to one-third (or 33,5%) of their expenditure.¹¹⁷ Breads and cereals account for the majority of expenditure on food and non-alcoholic beverages, and a large proportion of these products are produced domestically,¹¹⁸ which means that domestic demand will be stimulated and this could result in consumption-fuelled growth.

A concern associated with the minimum wage (introduction of the SANMW) is that it may result in an influx of workers from the formal to the informal sector, as is discussed in the following section.

Minimum wage and informality

If there are any employment losses in the formal sector, these losses may be absorbed in the informal sector, which will not affect overall employment levels.¹¹⁹ The absorption of workers in the informal sector may be an alternative to the possibility of

¹¹⁵ ILO 2009 (n 112); see also Schmitt (n 55) 12.

¹¹⁶ BBC 2017 <<http://bbc.com/news/business-40173590>>.

¹¹⁷ STATSSA 2014 <<http://www.statssa.gov.za/?p=2591>> 54.

¹¹⁸ White and brown bread and cake wheat flour, as per Table 20, STATSSA 2014. <<http://www.statssa.gov.za/?p=2591>> 54, contain wheat of which South Africa is a major producer: Figure 6, USDA <<http://pecad.fas.usda.gov/highlights/2013/08/SouthAfricaWheat/>>. Mealie/, mealie meal or maize flour, and South Africa is usually a net exporter of corn. Export. <<http://export.gov/article?id=South-Africa-agricultural-equipment>>.

¹¹⁹ Broecke, Forti and Vandeweyer (n 29) 384.

unemployment in the formal sector due to a minimum wage. However, the concern has been expressed that there will be an influx of workers to the often less-remunerated and less-regulated informal sector.¹²⁰ This phenomenon is known as ‘informality’.¹²¹

The Brazilian minimum wage did not promote illegal or undeclared hiring,¹²² and the gap between the wages of the informal (unregistered workers) and the formal sectors (registered workers) narrowed.¹²³ Research substantiates the trend that the minimum wage often has a positive influence on wages in the informal sector¹²⁴ (the so-called lighthouse effect). Accordingly, the minimum wage in the formal sector is used as a benchmark, which results in increased wage in the informal sector. Already there is evidence of an increased average wage in the South African informal sector due to the introduction of sectoral determinations.¹²⁵ Elsewhere in the world, countries such as Mali, Argentina, Chile, Mexico, Uruguay, Paraguay and Nicaragua have indicated similar findings.¹²⁶ In addition, there is an indication that increased wage in the formal sector resulted in informal-sector job creation due to the increased demand for goods and services associated with a minimum wage (ie consumption-fuelled growth).¹²⁷

In Brazil, employment increased in the formal sector whereas the informal sector experienced slower employment growth but also at higher wage levels.¹²⁸ The Brazilian

¹²⁰ Mention should be made of the fact that there is no uniform definition of ‘informal sector worker’. It may be defined by some as self-employed workers, whereas others will regard informal workers as workers without signed labour cards. Alternatively, informal workers may be regarded as those workers who do not have any written employment contracts. The fact that a worker is not registered in the social security system may also be used as a criterion for determining whether they are an informal worker.

¹²¹ Isaacs (n 46) 39.

¹²² De Melo and others (n 89) 41.

¹²³ MN Foguel, L Ramos and F Cameiro, 2015 Institute for Applied Economic Research *Discussion paper 108* http://repositorio.ipea.gov.br/bitstream/11058/4974/1/DiscussionPaper_108.pdf (accessed 5 August 2019), 16 and 31: the minimum wage may have a greater impact on ‘the earnings of the informal sector, which is the sector with the lowest salaries and where most of the poor are likely to be found’; also see De Freitas and others (n 22) 16.

¹²⁴ Minimum wages are used as a reference, a benchmark for determining wage levels in the informal sector.: N Kristensen and W Cunningham, ‘Do Minimum Wages in Latin America and the Caribbean Matter? Evidence from 19 Countries’ *Policy Research Working Paper No 3870*. Washington, DC: World Bank, 25; Mudronova (n 50) 6.

¹²⁵ Isaacs (n 46) 32; Schmitt (n 55) ii, 6 and 7.

¹²⁶ Isaacs (n 46) 31.

¹²⁷ *ibid.* Informal-sector job creation may not represent or promote informality, as these additional job opportunities may be occupied by individuals in the labour market who are currently not employed in the formal sector of the economy. In other words, inactive, unemployed workers in the labour market may be used, which does not mean that workers are not necessarily leaving formal employment for informal employment (informality).

¹²⁸ De Freitas and others (n 22).

minimum wage (that represents an increased wage) therefore resulted in more workers entering the labour market.¹²⁹ Some studies indicate several positive effects on formality in Columbia, Indonesia, the Russian Federation and South Africa.¹³⁰ There may be various reasons for this phenomenon; for example:

- that the higher wage (minimum wage) in the formal sector acts as an incentive to individuals to find work in the formal sector;¹³¹
- that the increased income (because of minimum wage) results in increased consumption, which in turn increases the demand for goods and services, resulting in more employment opportunities;¹³²
- that household members in the informal sector could choose to ‘reduce their labour supply in the informal sector’¹³³ due to family members of the same household being employed with an increased wage in the formal sector.

Coincidentally, a minimum wage may stimulate the economy, which results in various beneficial effects.

As indicated earlier, excessive income inequality is a problematic occurrence in the South African labour market but also in the larger international sphere. In the following section, the role of a minimum wage is considered as a combative measure against excessive inequality.

Minimum wage and inequality

Internationally, concern is growing regarding the functionality of the capitalist system. This is seen against the background of the economic instability epitomised by the 2007–2008 global financial crisis, where Western capitalism came close to collapsing; and, what is more, it has still not recovered.¹³⁴ Growing income inequality is a problem currently associated with capitalism.

Wage inequality is the foremost contributor to overall inequality.¹³⁵ As a result, wages play an influential role in determining income inequality because ‘wages are a major

¹²⁹ De Melo and others (n 89) 41.

¹³⁰ Broecke, Forti and Vandeweyer (n 29) 7.

¹³¹ P Fajnzylber, *Minimum Wage Effects throughout the Wage Distribution: Evidence from Brazil's Formal and Informal Sectors* (Textos Para Discussão 151 Universidade Federal de Minas Gerais, Belo Horizonte) 4.

¹³² Broecke, Forti and Vandeweyer (n 29) 1.

¹³³ Fajnzylber (n 131) 14.

¹³⁴ Jacobs and Mazzucato (n 91) 1.

¹³⁵ Isaacs (n 46) 28.

source of household income in both developed economies and emerging and developing economies'.¹³⁶ Isaacs elaborates on this by stating that wages represent the principal source of income in middle-income countries.¹³⁷ Consequently, a wage in the form of minimum wage may be used to reduce income inequality.

The literature suggests that the Brazilian minimum wage policy contributed to reducing inequality between sexes, races, economic sectors and demographical regions.¹³⁸ The useful role of a minimum wage in dealing with these forms of inequality is encouraging because of the prevalence of similar challenges experienced in the South African context.¹³⁹

Furthermore, the Brazilian minimum wage assisted with attaining a more equal income distribution in the labour market that, in turn, helped towards fighting poverty.¹⁴⁰ The Brazilian minimum wage helped the vulnerable or disadvantaged groups in the labour market such as young, uneducated workers, senior citizens, women, and poor workers, who are often not represented by unions or find themselves in positions with little bargaining power.¹⁴¹ Argentina, Chile, Colombia, Costa Rica, Paraguay, Uruguay, Jamaica, Guyana, Panama, the Russian Federation, India, Indonesia and China are some examples of developing countries where a minimum wage had a positive impact on unequal income distribution in the formal sector.¹⁴²

It is also important to note that research indicates a close interrelated relationship between inequality, poverty and unemployment:¹⁴³ by changing one of these elements, the other two may also be affected. A South African NMW has the potential to influence inequality favourably by establishing a legal floor below which workers cannot legally be remunerated. Effectively, the bottom end of the pay scale and the higher end are brought closer together, therefore decreasing inequality. The increased wage may help to relieve poverty by assisting the so-called working poor and advancing these individuals closer to a living wage that strives to enable a dignified existence.

¹³⁶ ILO 2015 <http://ilo.org/global/publications/books/WCMS_324678/lang--en/index.htm>.

¹³⁷ Isaacs (n 46) 28.

¹³⁸ ILO 2009 (n 112).

¹³⁹ *National Minimum Wage Panel Report* (n 8) 7 and 46; the presence of violence indicates the complexity and interconnectedness of poverty, inequality and unemployment with various other problems South Africa faces today. See Department of Social Development Republic of South Africa 2014 <<http://dsd.gov.za>> 10.

¹⁴⁰ ILO 2009 (n 112); see also Foguel, Ramos and Cameiro (n 123) 16 and 31.

¹⁴¹ ILO 2009 (n 112).

¹⁴² Isaacs (n 46) 29.

¹⁴³ Chibba and Luiz, 2011 *Economic Papers* 307, 313 and 314.

Countries where a link between a minimum wage and reduced poverty has been found include Brazil,¹⁴⁴ Honduras, India, Thailand and the Philippines.¹⁴⁵ In these countries, a large proportion of workers receive wages but are still considered poor (the so-called ‘working poor’). In South Africa, it is well established that the lack of a decent wage income drives poverty:¹⁴⁶ approximately 54% of South African workers are considered to be working poor. This suggests that the SANMW may have a direct impact on these workers if they fall below the national South African minimum wage level.¹⁴⁷

Two significant occurrences may also decrease unemployment. First, SANMW will ensure that the employees have more money, which means that employees could possibly spend more, therefore stimulating domestic demand. Employers would have to react to the increased demand by increasing output, which may be achieved by employing more workers. Secondly, the introduction of the SANMW (representing an increased wage) may attract more workers to the labour market, which may decrease unemployment. These workers may, prior to the introduction of a NMW, be hesitant to enter the labour market because of the low wages.

In this context, it is evident that the SANMW has the potential to deal with the excessive inequality in South Africa. Similar measures could have the same effect in the international sphere. It is important in the South African context, and specifically with the current debate surrounding the SANMW, to reflect on the effects of sectoral determinations and the role it can assume in the South African labour market.

Considering the Effect of Sectoral Determinations

This section looks at the effect of sectoral determinations on employment and the usual number of hours worked.

The literature suggests that the effects of sectoral determinations were different across the various instances where they apply.¹⁴⁸ For instance, the retail, wholesale and private security sectors experienced an increase in employment after the introduction of a minimum wage.¹⁴⁹ The forestry sector showed a decline in employment after the introduction of a minimum wage, but to such a limited extent that it might be considered insignificant.¹⁵⁰ The taxi sector experienced a decline in employment;¹⁵¹ however, the

¹⁴⁴ Foguel, Ramos and Cameiro (n 123) 16 and 31.

¹⁴⁵ Isaacs (n 46) 32.

¹⁴⁶ DPRU (n 30) 29.

¹⁴⁷ Isaacs (n 46) 33.

¹⁴⁸ Bhorat and Mayet 2013 <<http://www.econ3x3.org/article/impact-sectoral-minimum-wage-laws-south-africa> 1>.

¹⁴⁹ *ibid.*

¹⁵⁰ Bhorat and Mayet (n 148).

¹⁵¹ *ibid.*

decline was occurring before the introduction of minimum wage, which makes it difficult to determine whether the introduction of a minimum wage contributed to employment decline in this sector.¹⁵² For this reason, the taxi sector is excluded from this analyses.

The wages in the agricultural and domestic sectors are relatively low when compared to other sectoral wages, with 80% of workers in both these sectors earning less than the NMW.¹⁵³ Domestic workers experienced ‘an insignificant initial decline, after which it increased to new highs’.¹⁵⁴ But the agricultural sector experienced a significant decline in employment because of the introduction of a minimum wage: it is estimated that the probability of employment in the agricultural sector fell by as much as 9% after the introduction of minimum wage.¹⁵⁵

Bhorat, Kanbur and Stanwix¹⁵⁶ highlight various factors that may also have contributed to employment loss in the agricultural sector. Wages represent a large part of the expenditure experienced in the agricultural sector because employers generally employ large numbers of workers.¹⁵⁷ Any increases in wages would, therefore, have a substantial influence on the financial status of employers in this sector. If one compares the domestic sector, it is evident that wages represent a substantially lower expenditure to the employer,¹⁵⁸ so that employers might, to some extent, accommodate increases in wages in the domestic sector.

Furthermore, in addition to challenging environmental factors (such as drought), the agriculture sector is currently confronted with a variety of challenges, such as over-employment, a lack of productivity,¹⁵⁹ being faced with political pressures and uncertainty,¹⁶⁰ and the modernisation of the agriculture sector globally.¹⁶¹ These challenges may have contributed to the employment loss experienced in the agriculture sector and therefore to blame employment loss solely on the minimum wage would be unwarranted. Other sectors, such as the domestic sector, may not have been over-

¹⁵² *ibid.*

¹⁵³ See Huysamen (n 7) 287 and 288.

¹⁵⁴ *ibid.* Also see Huysamen (n 7) 281 and 282.

¹⁵⁵ H Bhorat, R Kanbur and B Stanwix (2012) *Estimating the Impact of Minimum Wages on Employment, Wages and Non-wage Benefits: The Case of Agriculture in South Africa* <<http://dpru.uct.ac.za/wp-12149-estimating-impact-minimum-wages-employment-wages-and-non-wage-benefits-case-agriculture>> (accessed 25 July 2017). See also Huysamen (n 7) 287 and 288.

¹⁵⁶ Bhorat, Kanbur and Stanwix (n 155).

¹⁵⁷ *ibid.*

¹⁵⁸ *ibid.*

¹⁵⁹ *ibid.*

¹⁶⁰ *ibid.*

¹⁶¹ *ibid.*

employed and unproductive to the same extent as that of the agriculture sector.¹⁶² Overall, the minimum wage compelled employers to ‘employ fewer skilled workers’.¹⁶³

With the exception of agriculture, the introduction of the minimum wage generally had no negative effect on employment across all five of the sectors examined for the purposes of this article.¹⁶⁴ Bhorat, Kanbur and Stanwix emphasise that

[d]ue to the specific characteristics of the South African agricultural sector, the results found here may not apply to other sectors, time periods or countries.¹⁶⁵

The agriculture and the domestic worker sectors are considered especially vulnerable to the influence of the SANMW because a large proportion of workers in these sectors earn less than R20 per hour. As a result, provision has been made for the partial payment of the NMW in the agriculture sector (90% of the NMW) and the domestic worker sector (75% of the NMW):

It is proposed that these sectors will be brought up to 100% of the national minimum wage level within two years pending research by the national minimum wage commission on this timeframe.¹⁶⁶

Employers may also apply for exemption from the SANMW for a period not exceeding one year.¹⁶⁷ These provisions are important as it allows a degree of flexibility in the SANMW framework that afford additional time to adjust to the NMW.

It should be noted that the effects of the minimum wage were limited because non-compliance was high: ‘This could have diluted any negative reaction of employers to the minimum wage.’¹⁶⁸

Conclusion

This article began by considering the level of the SANMW where it becomes apparent that it is positioned more towards the lower spectrum of minimum wage levels globally, which should serve to allay fears of an excessively high SANMW in comparison to global standards. Overall, the literature regarding the employment effects of sectoral determinations seems to correspond to that in the international literature in that, if

¹⁶² *ibid.*

¹⁶³ *ibid.*

¹⁶⁴ Bhorat and Mayet (n 148). Also see Huysamen (n 7) 279.

¹⁶⁵ Bhorat, Kanbur and Stanwix (n 155).

¹⁶⁶ Agreement on the introduction of a national minimum wage 7 February 2017, sub-point 10.

¹⁶⁷ Section 15(2) of the National Minimum Wage Act 9 of 2018. Also see s 6, National Minimum Wage Regulations, 2018.

¹⁶⁸ Bhorat and Mayet (n 148).

negative employment effects are presented, they will be limited to certain sectors or groups of workers. It is argued that the South African labour market will stand to gain more from the introduction of the NMW than what it risks losing. This is not to say that there will be absolutely no employment loss, but in instances where there may be, it will be limited to certain sectors or groups. South Africa's adequate legal provisions for social security will then possibly cover these limited instances to mitigate negative consequences.

The introduction of an NMW should not be associated with an inevitable employment loss because employers may employ a variety of measures in dealing with its introduction. The literature is reassuring regarding the informality and overall employment loss from an international perspective. Inflation associated with an NMW may be of concern because of the potential it has to neutralise the purchasing power of workers; however, the international evidence is reassuring, indicating stable inflation rates. Sectoral determinations have resulted in employers decreasing the working hours of employees, which has limited the positive effects of sectoral determinations; but the benefits obtained were sufficient enough to justify sectoral determinations. That said, though, the legislative prohibition of unilateral variations of employment contracts should provide some security to employees regarding the reduction of working hours. However, these concerns should be monitored throughout the implementation process in order to identify risks and enable the relevant authorities to act accordingly.

An NMW will improve the current coverage of wage workers, which means that more workers may gain from the benefits associated with a minimum wage. The NMW could also result in consumption-fuelled growth that may contribute positively to economic growth. Such consumption on a national scale is likely to be significant because it will support the national economy in times of financial hardship and worldwide depression. This would enable the national economy to protect itself to a greater extent, which would render it able to recover faster from such hardships. This is a particularly important aspect because, at the time this article was written, the South African economy was in a recession and facing the Covid-19 pandemic. An NMW (which represents an increased wage) may result in employment being increased because individuals may be more inclined to join the labour market at the increased (minimum) wage. Enforcement and compliance may also be improved because the SANMW will make the current wage structure less complicated and easier to enforce and obey.

International evidence suggests that wages are a major source of income in developing countries. For this reason, the SANMW holds definite potential to deal with income inequality by raising the legal minimum wage floor of workers.

There is ample evidence of the positive effect of the introduction of an NMW on inequality, especially gender equality, and the associated socio-economic problems in

the South African context. What is encouraging, in addition, is that because inequality, poverty and unemployment are interconnected, any reduction in inequality might lead to workers moving further towards a decent or living wage, which could in turn lead to poverty being reduced at the lower end of the labour market – the minimum wage being a higher wage for many. This is a significant aspect not only for the wage-earner but also for their dependants.

As is evident from this article, South Africa faces elevated inequality, poverty and unemployment, and it may be argued that the socio-economic measures implemented in the past two decades have not been successful, because these problems continue to be faced at alarming levels. In the light of current events, there is a drastic need to resolve the problems that affect every South African either directly or indirectly. An SANMW may be one such drastic measure. Concerns regarding a drastic measure such as an NMW are to be expected, and all concerns should be actively monitored and, if necessary, action taken to avoid their negative implications. The South African government and the relevant councils and panels have a fundamental role to play in evaluating and monitoring the introduction of the SANMW and, if necessary, to act swiftly and appropriately to ensure its effective implementation.

The SANMW has the potential to support efforts to deal with the challenges facing South Africa. This article therefore concludes by supporting its introduction. International evidence and sectoral determinations indicate that the common concerns regarding an NMW are often inflated or unwarranted. This is not to say that these concerns should be disregarded; indeed, the consequences of the SANMW should be carefully monitored throughout the implementation process. But based on the evidence available to this author, South Africa stands to gain more from the introduction of a minimum wage than it stands to lose.

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