

Minimum Wages & Employment

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Overview

- Minimum wages globally
- Debate & evidence on minimum wage impacts
- Minimum wages in South Africa
 - Structure, coverage, trends
- Evidence on impacts in South Africa

Minimum Wages Globally

- MW systems are common
 - Exist in about 90% of the ILO's 193 member states
- Variety of systems: national, regional/sectoral, hybrid
 - 50% global split between national and more complex
- Usually overseen by Government, tripartite forum, or independent body
- Generally have several stated aims
 - Prevent low pay, reduce inequality/poverty, encourage productivity etc.
- Middle-income countries have increasingly turned to the use of MW as an active policy intervention
 - (Brazil, Russia, China, SA, Kenya, Honduras, Costa Rica...)

Variations in African Minimum Wage Schedules: A Regional Comparison

Region	National (%)	Sectoral or Regional (%)
Africa	30	61
Asia & Pacific	48	48
Europe & CIS	64	33
Americas & Caribbean	59	38
Middle East	40	20

Source: ILO (2013)

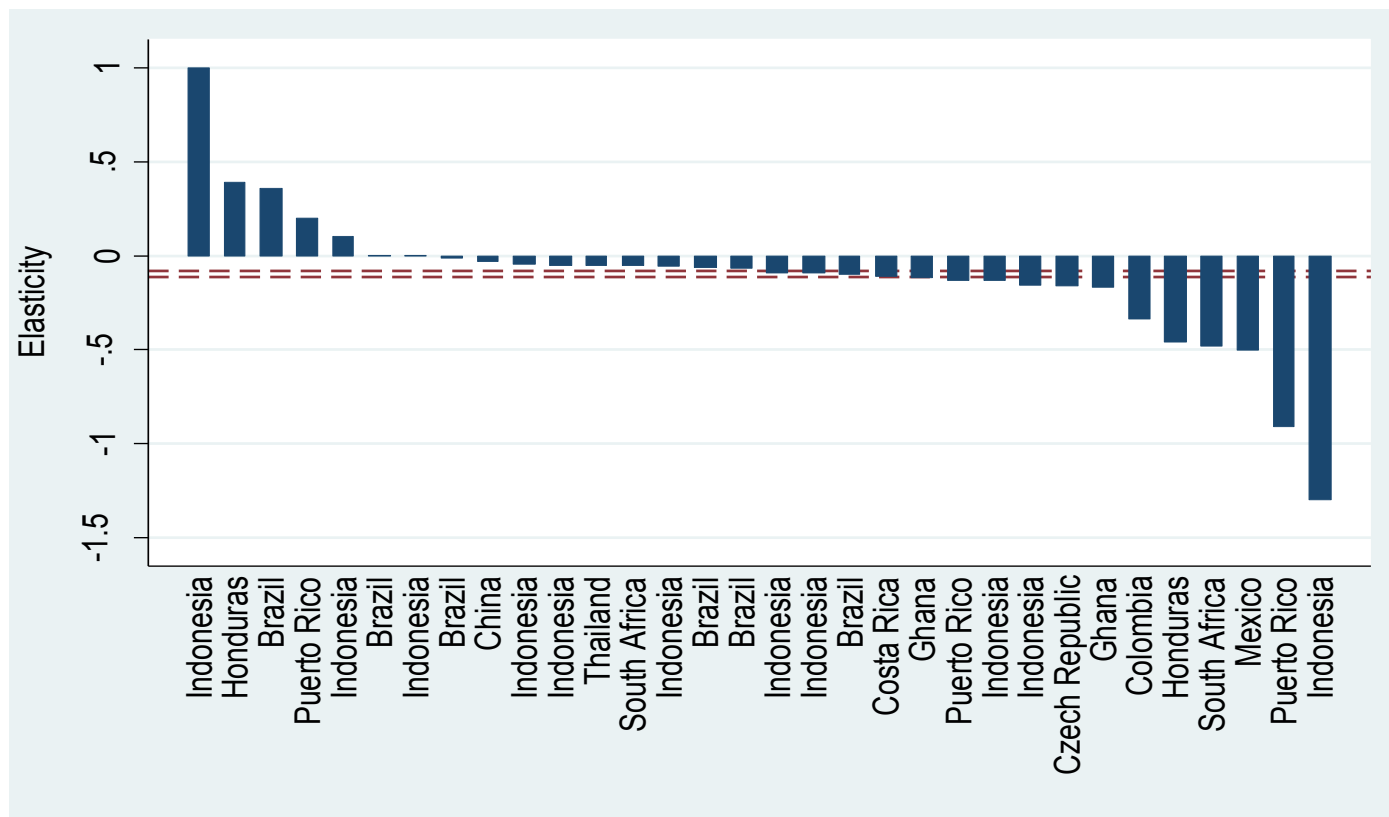
The Employment Impact of Minimum Wages

- *"Just as no physicist would claim that 'water runs uphill', no self-respecting economist would claim that increases in the minimum wage increase employment."*
 - James Buchanan, Nobel Laureate in Economics.
- *"If you raise the minimum wage a little - not a huge amount, but a little - you won't necessarily cause a big employment reduction. In some cases you could get an employment increase."*
 - David Card, UC Berkeley.
- The Empirical Impact Debate
 - Neumark & Wascher | Card & Krueger
 - Now a large body of empirical literature focused on USA and Europe
 - Growing LMI-country literature, often specific to a sector or cohort (data limitations are often prohibitive)
 - Literature on Africa is small: Published empirical work existing only for 4 countries
 - Ghana (Jones, 1997); Kenya (Andalon & Pages, 2008); Malawi (Livingstone, 1995) and South Africa (Hertz, 2005; Dinkelman & Ranchhod, 2013; Bhorat et al., 2013, 2014; Natrass & Seekings, 2014; Garbers, 2015)

The Employment Impact of Minimum Wages

- So what does the (largely high-income) international evidence suggest?
- *“the weight of [...] evidence points to little or no employment response to modest increases in the minimum wage”* - Schmitt (2013)
- *“On balance, the impact of these [minimum wage] regulations tends to be either insignificant or modestly negative [on employment].”* - Betcherman (2014)

Wage-Employment Results for LMI Countries

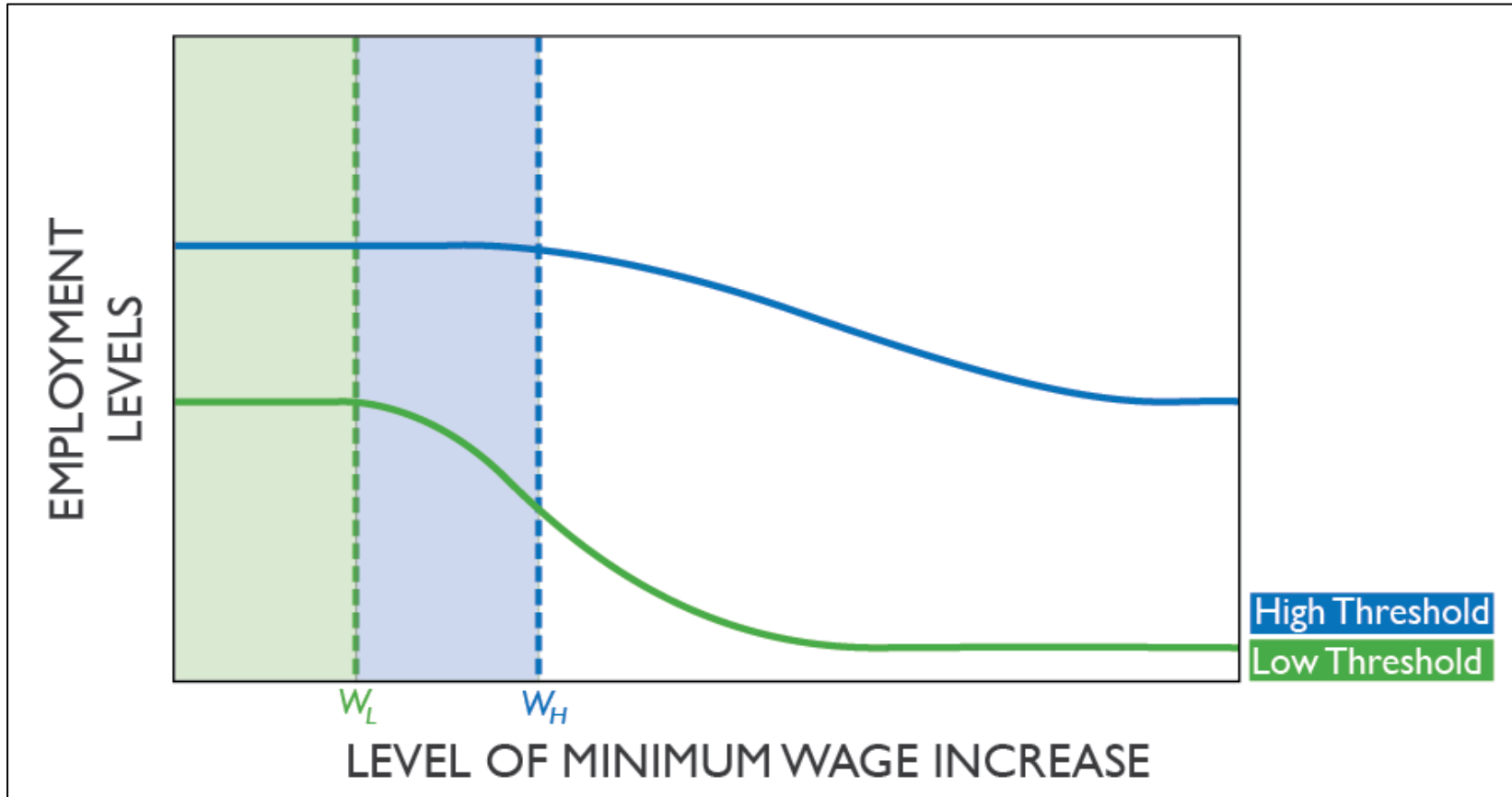


- The median elasticity is -0.225 (upper dotted line)
- The mean elasticity is -0.37 (lower dotted line)

Source: Neumark & Wascher (2008) and added studies

Minimum Wages and Employment

A Basic Theoretical Construct



Minimum Wages in South Africa

- Sectoral/Occupational/Geographic system
 - Collective Bargaining (Labour Relations Act of 1995)
 - 47 Bargaining Councils in South Africa
 - Covering approx. 20 % of 'vulnerable' workers
 - Sectoral Determinations (Basic Conditions of Employment Act of 1997)
 - 11 Sectoral Determinations in South Africa
 - Covering approx. 45 % of 'vulnerable' workers
- Approximately 20% of 'vulnerable' workers not covered

Sectoral Determinations in South Africa

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

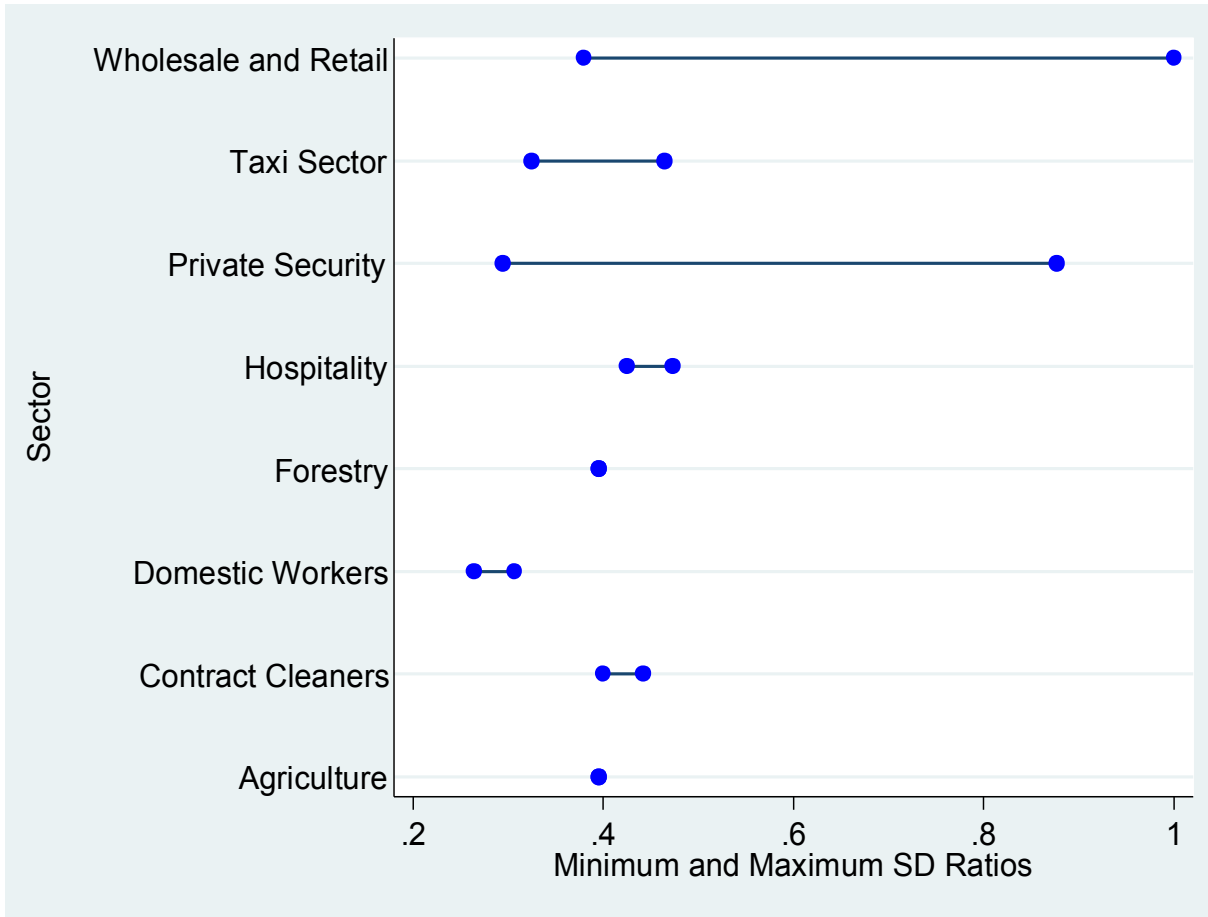
Source: Information collected from ECC reports, and Sectoral Determinations available at: www.labour.gov.za

Number Minimum Wage Schedules, by Country

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

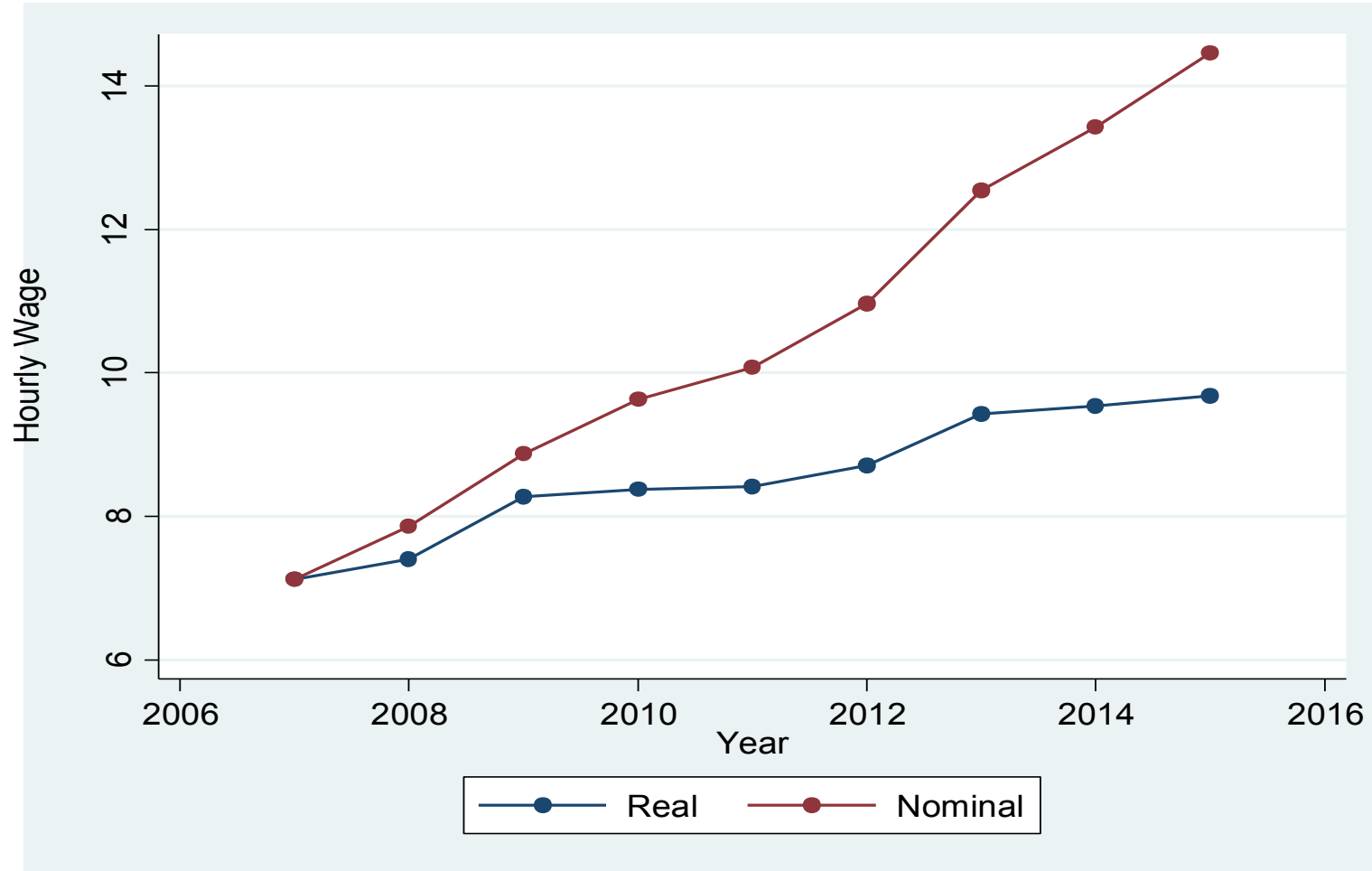
Source: ILO Databases (2012 and 2013), DoL (2015)

Ratio of lowest and highest SD (relative to highest SD)



- Highest SD is R6506/m (190% of the median wage)
- Lowest SD is R1813/m (50% of the median wage)

SD Minimum Wages in South Africa



Source: Department of Labour, Legislated Sectoral Determinations, own calculations.

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

South African MW Impact Work: Data

- The data used by most researchers is a pooled dataset of the South African Labour Force Survey (LFS), which ran twice a year from 2000 to 2007.
- The LFS is a national household survey conducted by Statistics South Africa, with a sample of around 30 000 households.
- It has relatively detailed labour market information.
- The separate waves of the LFS are pooled and treated as repeated cross sections across time – covers the period in which many of the SDs were introduced.

Methods (I)

- Method I - Difference-in-differences using a constructed comparison group:

$$Y_{ijkt} = \beta_0 + \beta_1 POST_t + \beta_2 Treatment_k + \beta_3 POST_t * Treatment_k + \phi_j + \varepsilon_{ijkt} \quad (1)$$

- where Y_{ijkt} is the outcome variable of interest (employment, wages, hours of work) for individual i in group k in period t .
- $POST_t$ refers to the time dummy, capturing the period before (0) and after (1) the minimum wage is introduced.
- $Treatment_k$ captures whether the individual is in the treatment or comparison group
- $POST_t * Treatment_k$ is the difference-in-difference term, which captures the impact of the minimum wage as a consequence of being in the treatment group, during the treatment period.
- ϕ_j are district council effects.

Methods (II)

- Method II - Difference-in-differences exploiting geographical variation in wage levels in the pre-law period

$$Y_{ijkt} = \alpha_0 + \alpha_1 Post_t + \alpha_2 Gap_{jk} + \alpha_3 Post_t * Gap_{jk} + \chi_{ijkt} + \gamma_{ijkt} \quad (II)$$

- Where Gap_{jk} is a constructed variable measuring the proportional increase in the pre-law wage $w_{jk}^{(t-1)}$ necessary to meet the initial introduced minimum $w_{mjk}^{(t)}$

$$Gap_{jk} = [w_{mjk}^{(t)} - w_{jk}^{(t-1)}] / w_{jk}^{(t-1)} \quad \text{where} \quad Gap_{jk} \geq 0 \quad (III)$$

- χ_{ijkt} controls for various worker characteristics.

Impact of Minimum Wages: South African Evidence

Domestic Workers	Retail, Private Security, Forestry and Taxi	Agriculture	Clothing and Textile
<ul style="list-style-type: none"> Hertz (2005) finds disemployment effects after the introduction of the SD between 2001/04 Dinkelman & Ranchhod (2012) and Borat et. al (2012) find no disemployment effects 	<ul style="list-style-type: none"> Bhorat et. al. (2012) find no disemployment effects – hours of work reduced 	<ul style="list-style-type: none"> Bhorat et. al. (2014), Garbers (2015), find –ve employment effects after MW intro., and Levine (2014) finds evidence (qualitative) of gendered disemployment after SD increases 	<ul style="list-style-type: none"> Nattrass & Seekings (2014) estimate that 20,000 jobs were threatened due to increased enforcement measures in the sector

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