This policy brief addresses the questions of minimum wage setting and adjusting. It describes various internationally-used mechanisms such as indexing to labour market indicators, benchmarking to the cost of living indice, or phasing-in options; outlines their main pros and cons of each type; and offers some policy recommendations with respect to a potential South African minimum wage.

Summary of Findings:

1. The level of the national minimum wage should constitute a “decent wage floor” for a family with dependants.
2. Two crucial benchmarks should be used when setting the initial level of the national minimum wage: workers needs and the average wage.
3. For middle-income countries the ratio of minimum wages to average wages is, on average, 48%. In South Africa this equates to R4 355 in February 2016 rands. In the case of South Africa the average wage is a more appropriate benchmark than the median wage given high levels of inequality and the desire for the national minimum wage to address these.
4. Workers’ basic needs can be approximated by poverty lines. In South Africa in February 2016, a family of four required R5 544 to survive. Of this, R4 317 must come from wages; this is the ‘working-poor line’.
5. The desired minimum wage can be implemented immediately or reached after a gradual phase-in period. The latter may be more appropriate to South Africa so that the economy is able to gradually adjust.
6. The level can be increased automatically – via a formula or by targeting a certain percentage of the average wage – or increased by deliberation between the social partners. It is important to stipulate the criteria by which increases are calculated, and their relative weight. Inflation should not be the sole indicator and where it is used it should relate specifically to inflation as faced by the working poor.
7. The level should be adjusted annually so as to ensure its real value is maintained.

The National Minimum Wage Research Initiative is an independent academic research initiative run by CSID in the School of Economic and Business Sciences (SEBS) at the University of the Witwatersrand. It is undertaken in the context of a national dialogue on wage inequality and the potential institution of a national minimum wage (NMW) in South Africa.

The views presented are the views of the National Minimum Wage Research Initiative.

Thanks to the following individuals for assistance with and/or comments on earlier drafts:

- Jesse Harber – Independent Consultant
- Gilad Isaacs – University of the Witwatersrand

INTRODUCTION

Two of the thorniest issues in designing minimum wage policies are setting the initial level of the minimum wage and agreeing on a formula or process for increasing the minimum wage over time. In this policy brief we consider what criteria could be used to set and adjust the national minimum wage. The brief begins with an overview of the minimum wage setting and adjusting criteria offered by the International Labour Organization (ILO), followed by a discussion of the current South African wage-setting mechanisms. The subsequent sections detail approaches used internationally to set and adjust minimum wages.
THE INTERNATIONAL LABOUR ORGANIZATION (ILO) APPROACH

The International Labour Organization – in the ILO Minimum Wage Fixing Convention No. 131, 1970 and the ILO Minimum Wage Fixing Recommendation No. 135, 1970 – establish the needs of workers and their families, and relevant economic conditions as crucial considerations when setting or increasing minimum wages. The needs of workers and their families are sometimes captured through various cost-of-living indicators and/or indicators of general wages paid in the economy (ILO 2014). The ILO is less specific regarding the economic factors that need to be considered and these are not necessarily easily quantifiable. ILO Convention No. 131 lists: levels of productivity, economic development, and desirability of attaining and maintaining high employment levels as economic factors that might be considered prior to making a decision on minimum wage levels (ILO 2014).

However, the ILO concedes that it is a challenging task to evaluate each indicator every time a country adjusts the minimum wage. The needs of workers, employers’ capacity to pay, and relative living standards of wage earners (the latter measured by mean and median wages) (ILO 2014).

SOUTH AFRICAN MINIMUM WAGE-SETTING PROCEDURES

As discussed in Policy Brief 1 (Castel-Branco 2015), minimum wages in South Africa are currently determined sectorally through collective bargaining agreements or via sectoral determinations set by the Minister of Labour on the recommendation of the Employment Conditions Commission (ECC). The Basic Conditions of Employment Act of 1997 (BCEA) instructs the ECC to consider the following when setting or increasing minimum wages:

1. A report based on the public hearings and public comments with regards to the new wage determination;
2. Ability of employers to continue their businesses;
3. The operation of small, medium, or micro-enterprises, and new enterprises;
4. The cost of living;
5. The alleviation of poverty;
6. Conditions of employment;
7. Wage differentials and inequality;
8. The likely impact on employment;
9. The possible impact on health, safety, and welfare; and
10. Any other relevant information.

While the BCEA criteria are quite comprehensive, there is little guidance on their relative weight, or how they should be assessed or applied. For instance, there is no direction on what cost-of-living or poverty indicator should be used or how progress is to be measured. The lack of clear-cut criteria fails to provide sufficient guidance to the ECC and makes it harder for others to hold the ECC accountable.

Most of the current sectoral determinations begin at levels well below the poverty needs of workers and their households. Both the average and median level of the sectoral determinations (using the lowest minima in each determination) was close to R2 700 in 2015.

In 2015 the poverty line for a family of four was R5 276 and the ‘working-poor line’, which gives the lowest wage that an average earner with an average number of dependents must earn to bring themselves and their dependents out of poverty was R4 125 in April 2015 prices (see Finn 2015). As such current minimum wages often fail to cover workers’ basic needs and ensure workers and their dependents do not live in poverty.

SETTING AN INITIAL MINIMUM WAGE LEVEL

PHASING IN

The desired minimum wage level can be instituted immediately upon implementation of the national minimum wage, or alternatively phased in over time. The latter means that a medium-term target would be set as well as the number of years over which this should be reached. The benefits of such a gradual approach are as follows:

1. Phasing-in will reduce the pressure on the economy to adjust at once.
2. It will assist with transparency and will allow businesses time to prepare for successive wage increases.
3. South Africa has over 2.1 million ultra-low-wage-sector employees (about 13% of the labour market according to the QLFS 2015) that is comprised of agriculture workers, domestic workers, and expanded public works programme workers. Given that a national minimum wage aims to limit poverty and inequality and set a ‘decent wage floor’, excluding these low-wage workers can be set as a percentage of a general minimum wage and gradually phased-in to the general level over time.
4. By gradually phasing-in the wage of the very low-wage employees and by increasing the general minimum wage to around 50% of the mean over time, it is possible to transform the South African wage structure and ensure more equality.

BENCHMARKING TO THE COST OF LIVING

A cost-of-living criterion, sometimes referred to as the ‘needs of workers’ criterion, is one of the most commonly used indicators to determine and update a minimum wage level. However, internationally there is no consensus on how this should be measured.
How to measure workers’ needs

One possible approach, proposed by the ILO, is to consider national poverty thresholds (also called poverty lines or subsistence levels). There is little homogeneity among the ways different countries calculate their poverty lines or subsistence levels: some use only a food poverty line, some use a poverty line that includes non-food expenditures, and some use the concept of wages that are adequate to sustain a family in “material, cultural, and moral terms” (ILO 2014). Croatia and Lithuania look at the poverty risk threshold, an indicator similar to the poverty line and measured by their respective national statistical offices. The Czech Republic, Latvia, and Belarus look to the minimum subsistence level, and Kyrgyzstan and Ukraine legislatively cannot set their minimum wages lower than a subsistence level in their countries (ILO 2014).

Most Latin American countries have opted for a broader definition of ‘workers’ needs’ and most commonly specify the particular expenditure items that the minimum wage has to cover. Costa Rica, Guatemala and Mexico state that a minimum wage should be enough “in material, cultural, and moral terms” to sustain a family (ILO 2014). Brazil goes further and specifies exactly what the national minimum wage is expected to cover: housing, food, education, sanitation, leisure, clothing, health, transport, and social security (ILO 2014). Turkey, India, Venezuela, Armenia, Niger, and Nicaragua use similar metrics.

Many countries specify that workers’ needs or the cost of living must be taken into account but it is unclear how this is measured. This is the case in Burkina Faso, Korea, Japan, Portugal, Serbia, Gambia, and Senegal (ILO 2014).

The ILO explicitly states that in a developing country context, cost of living should be measured not for an individual but for a family with dependents (Eyraud and Saget 2005, Herr and Kazandziska 2011).

Taking account of families

The ILO explicitly states that in a developing country context, cost of living should be measured not for an individual but for a family with dependents (Eyraud and Saget 2005, Herr and Kazandziska 2011). Various formulae have been proposed in order to try and capture this. In 1997 A.K. Ghose suggested setting a daily national minimum wage in India (Castillo 2011) on the basis of the poverty line multiplied by the number of non-working dependents plus one, divided by the number of working days, or:

\[
\text{Minimum Wage} = \frac{(\text{poverty line} \times (1 + \text{number of non-working dependents}) \times \text{number of working days}}
\]

An alternative formula for India was proposed by Anker (2006): the poverty line multiplied by the average household size divided by the number of full-time working household members:

\[
\text{Minimum wage} = \frac{(\text{poverty line} \times \text{average size of a household})}{\text{number of full-time working household members}}
\]

What are basic needs in South Africa?

A number of different measures – poverty lines, minimum living levels, and decent living levels – exist in the South African literature in an attempt to quantify workers’ needs (see Ngidi forthcoming for a review). While the more expansive criteria better capture what it means to live a decent or good life, the more limited measure of poverty lines has been used as a minimum floor. This is discussed in A National Minimum Wage in the Context of the South African Labour Market (Finn, 2015) and A National Minimum Wage for South Africa (Isaacs 2016).

The most accurate cost-of-needs poverty line is the one recently developed by the Southern African Labour and Development Research Unit (SALDRU) at the University of Cape Town by Budlender et al. (2015) and sits at R1 368 in February 2016 rands.

A family of four therefore needs R5 544 (in February 2016 rands) to meet their most basic needs. The ‘working-poor line’ – the wage that the average worker with the average number of dependents needs to earn in order to ensure that they and their dependents live above the poverty line, taking into account other sources of income – was R4 317 in February 2016.

Table 1: Poverty measures in South Africa

<table>
<thead>
<tr>
<th>Index</th>
<th>April 2016</th>
<th>February 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty line</td>
<td>1 319</td>
<td>1 386</td>
</tr>
<tr>
<td>Household Poverty line</td>
<td>5 276</td>
<td>5 544</td>
</tr>
<tr>
<td>Working Poor line</td>
<td>4 125</td>
<td>4 317</td>
</tr>
</tbody>
</table>

Source: Updated from Finn (2015) using NIDS Wave 3 and LMDSA datasets

INDEXING TO LABOUR MARKET INDICATORS

Another approach is to benchmark the national minimum wage to a particular percentage of either the mean (average) wage or the median wage (the latter being the wage at which 50% of workers earn above and 50% below). There is some debate over which indicator – the mean wage or median wage – is better for this purpose. The ILO has no clear position on this matter and states that the choice of which indicator to use is country-specific (Eyraud and Saget 2005, ILO 2014).

In a number of instances, countries have specifically indexed their minimum wages to mean wages (ILO 2014):

- Israel commits to setting a minimum wage at a level of no less than 47.5% of the mean wage and was aiming for the minimum wage to reach 52% in 2016;
- Montenegro commits that an adjusted minimum wage cannot be lower than 30% of the previous six months’ mean wage;
- Belarus states that an adjusted minimum wage cannot be less than one third of the mean wage;
- Macedonia indexes its minimum wage to the 39.6% of the previous year’s mean wage;
- Estonia indexes its minimum wage to 41.5% of the mean wage;
- The minimum wage cannot be below 55% of the mean wage in Bosnia and Herzegovina;

Significantly fewer countries set a minimum wage based on the median wage – the only known example is Cyprus, which committed to a level of 50% of the median by 2008 (Eyraud and Saget 2005, ILO 2014).

International comparisons show that, for different country groups, the average ratios of minimum-to-mean wages sit between 45% and 50% with the middle-income country average of 48% being most instructive for South Africa (Isaacs 2016). South Africa falls well below this, with a minimum-to-mean ratio of 36% (Rani et al. 2013).
The average minimum-to-median wage ratios are between 65% and 80% for all country groups with the average for middle-income countries sitting at 80% (Isaacs 2016). South Africa sits below this at 74% (Rani et al. 2013) (see Isaacs 2016 A National Minimum Wage for South Africa summary report for more information).

![Image](https://via.placeholder.com/150)

Table 2: Wage ratios, various country groups

<table>
<thead>
<tr>
<th>Country Group</th>
<th>Minimum-to-mean</th>
<th>Minimum-to-median</th>
</tr>
</thead>
<tbody>
<tr>
<td>All available countries</td>
<td>46%</td>
<td>66%</td>
</tr>
<tr>
<td>Developing countries</td>
<td>47%</td>
<td>78%</td>
</tr>
<tr>
<td>Middle-income countries</td>
<td>48%</td>
<td>80%</td>
</tr>
</tbody>
</table>

**SOURCE:** ILO (2016), GLOBAL WAGE DATABASE

Some publications (ILO 2008, OECD 2010) note that minimum wages are “commonly set at 40-50% of average [mean] and 60% of the median” wages. The explanation for the combination of these two levels is that in low-inequality countries, the mean wage is normally about 10-15% higher than the median; both ratios therefore yield a similar minimum wage level. In South Africa, however, given that the mean and median wages are far apart (reflecting high levels of inequality) this is not the case. Using the most recent (2014) LMDSA dataset, the mean wage for full-time employees was R9 072, while the median was R3 809, 2.4 times less than the mean (given in February 2016 prices) (Finn 2015). Benchmarking to one or the other in South Africa would therefore offer very different levels.

Applying the international averages to South Africa would result in a national minimum wage of at least R4 355 if benchmarked as 48% of the mean, and of at least R3 428 if benchmarked to 80% of the median.

Table 3: Percentage of mean and median wages for South Africa (Feb 2016)

<table>
<thead>
<tr>
<th>Employment Type</th>
<th>Percentage of Mean</th>
<th>Percentage of Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>All full-time employees</td>
<td>48%</td>
<td>80%</td>
</tr>
<tr>
<td>Formal ex. agriculture ex. domestic work</td>
<td>5 161</td>
<td>3 918</td>
</tr>
</tbody>
</table>

**SOURCE:** LMDSA 2014 DATASET, OWN CALCULATIONS AND FINN (2015)

In South Africa there are a number of reasons to consider benchmarking the national minimum wage to the mean, rather than the median, wage:

1. The ILO reminds us that, regardless of the benchmark, the national minimum wage must provide a decent wage that will allow workers to cover their needs and the needs of their families (Convention No. 131). Even 80% of the median wage is well below the minimum poverty needs of workers and their families.

2. A national minimum wage is being considered in South Africa as a means by which to reduce inequality and transform the inherited apartheid wage structure. If the national minimum wage is going to be linked to either the mean or median wage on an ongoing basis, then we must consider which method would be best suited for reducing inequality. As discussed in Mudronova (2016), inequality is only reduced if the national minimum wage helps to raise wages for lower-income earners faster than wages rise for middle- or upper-income earners. In South Africa mean-wage growth has historically outstripped median-wage growth and lower-income wage growth. That means that the wages at the top are growing faster than the wages at the bottom. To reduce inequality the national minimum wage must rise, at least, at the same rate as mean wages. Benchmarking to the median wage on an ongoing basis will therefore not effectively reduce inequality.

3. Given the national minimum wage’s potential to raise low-income wages, it is possible that the median wage will rise sharply in the first few years after the institution of a national minimum wage. If the national minimum wage were to be indexed to the median wage on an ongoing basis this could create large increases in the value of the national minimum wage in the first few years. This may not be desirable. The effect of the national minimum wage on the mean wage is likely to be much less dramatic so steep increases in the initial years are less likely.

**Considerations for a national minimum wage in South Africa**

A new national minimum wage in South Africa should balance between creating a decent wage floor and inclusion of very low-paid workers. The proposed phased-in targeted approach can create a balanced minimum wage that has the potential to change the current South African wage structure.

For the purposes of minimum wage compliance, transparency, and ultimately efficiency it is advisable in the South African context, to benchmark a new minimum wage to a labour market indicator such as mean wage. It is also necessary to ensure that the minimum wage covers the needs of the workers and their dependents.

The minimum wage levels listed above are reported as per internationally-recognised benchmarks and do not necessarily represent recommendations of the National Minimum Wage Research Initiative.

**INCREASING THE NATIONAL MINIMUM WAGE**

The ILO Convention No. 131 and Recommendation No. 135 do not differentiate between criteria for minimum wage setting and criteria for subsequent minimum wage adjustments. Hence, when increasing a national minimum wage the relevant body must also consider the needs of workers and general economic conditions (ILO 2014).

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1 The ILO (2008) notes that “the levels of minimum wages relative to average wages vary widely across countries, but that there is a relatively high frequency at around 40 per cent of average wages. This may serve as a useful reference point when considering the ideal level for a minimum wage.”
There are two common methods used to adjust minimum wages: minimum wages can be either indexed, i.e. automatically adjusted upon a change in a specified indicator, or can be negotiated or set by relevant parties based on a set of indicators specified by that country (Schulten 2014).

The decisions around increasing the national minimum wage are also influenced by whether or not a medium-term target has been set. If such a target exists then it is important that the procedure for increasing the minimum wage level is able to accommodate the realisation of this medium-term target.

Indexing to economic indicators
Some countries have opted for increasing minimum wages automatically based on single or multiple indicators. Initially, inflation (normally measured through headline CPI) was most commonly used but in some instances this led to a decrease in the purchasing power of workers (if inflation for workers rose faster than headline CPI) or to widening inequality (if average or higher wages rose faster than inflation) (Gilbert and Parent 2004). Nowadays, countries tend to use inflation rates, GDP growth rates (either forecasted or the previous year’s), productivity changes, and changes in the average earnings of workers.

One of the first countries to index its minimum wage was France. When the national minimum wage was introduced in the 1950s it was immediately indexed to changes in the consumer price index (CPI). However, this did not prevent the gap between the minimum and the average wage from continuing to grow, thereby failing to reduce inequality and raise the relative living conditions of vulnerable workers (Gilbert and Parent 2004).

As a result, from the 1970s until 2013 indexing was based on changes in the CPI – increasing automatically whenever CPI exceeded 2% – together with a stipulation that the national minimum wage must rise by no less than 50% of the increase in real wages of salaried employees (Gilbert and Parent 2004, ILO 2014). In addition, the French government had the right to intervene if it determined that the national minimum wage was set too low. In 2013, France made another change to the adjustment mechanism: instead of using headline CPI it now uses changes in the cost of living of the poorest 20% of the workers (ILO 2014) in addition to increases of no less than 50% of the increase to salaried workers’ wages. The new method has been praised by the ILO as it more directly targets the cost of living for the working poor (ILO 2014).

In Luxembourg since 1975, minimum wages are automatically updated if the inflation rate of the preceding six months rises above 2.5% (Eurofound 2015). Additionally, every two years a review is conducted by a specialised body and further increases can be implemented (ILO Travail Database 2011).

Brazil, Costa Rica, Nicaragua, and Indonesia index their minimum wages to GDP growth rates and inflation simultaneously. Minimum wages in Brazil are adjusted by the sum of the previous year’s inflation rate and the GDP growth rate over the previous two years (ILO 2014). Real minimum wages grew by 130% between 2000 and 2012 and led to a large fall in inequality and increased living standards for workers (Maurizio 2016).

Costa Rica initially indexed its minimum wage to inflation only, but this led to the real minimum wage of workers remaining unchanged for almost ten years (Luebker 2012). Thus it has revised its formula to take into account the (moving) average of the GDP growth rate over the last five years and adds an additional 0.2 to 0.4 points above the inflation rate to ensure that the real minimum wage and purchasing power of workers is increasing.

Nicaragua uses a similar formula to Brazil, where the national minimum wage should be adjusted by inflation plus the growth rate in the economy. However, this formula is not binding and the government has the right to unilaterally set a minimum wage lower than the formula suggests if it feels that current economic conditions do not allow for such an increase (CentralAmericaData 2015). This indexation approach allowed the purchasing power of workers’ wages in Nicaragua to grow by an aggregate 297% from 2005 to 2015 (CentralAmericaData 2015).

Indonesia’s minimum wages have historically been determined regionally by the government. Starting in 2016, minimum wages will be automatically adjusted by the previous year’s inflation rate plus the GDP growth rate (The Jakarta Post 2015). This adjustment method is binding for each of the provinces except those whose minimum wages were below the minimum subsistence level; for them the minimum wage should be adjusted annually by a higher amount in order to raise them to at least this level. In addition, the government will review all minimum wages every five years to adjust them to changes in the minimum living levels.

Malaysia’s indexation formula combines a number of relevant indicators including the poverty line, changes to the median wage, productivity growth, inflation rates, and changes in the employment rate, but is non-binding in nature (Shanmugam 2016). It is given by:

\[
\text{Minimum Wage} = \text{Average (} \frac{\text{Poverty line income}}{\text{Avg. workers per household}} + \text{Median Wage}) \times (1+ \text{productivity growth % + CPI change % - real unemployment rate %})
\]

This formula was used to determine the initial minimum wage level and serves as a useful starting point for minimum wage increase negotiations.

Peru also has a non-binding minimum wage formula, with adjustments equal to the sum of the inflation rate and the productivity growth rate from the previous year (ILO 2014). However, the government may intervene if it feels that the new minimum wage might worsen employment trends and may freeze minimum wage increases due to economic conditions.

Indexation in Poland and the Netherlands both refer to wage statistics. In Poland the minimum wage automatically increases by two thirds of the forecasted GDP growth rate if the minimum wage-to-average wage ratio falls below 50% (ILO 2014). The Netherlands increases its minimum wage by the average increase in the bargaining council negotiated rates (Eyraud and Saget 2005). However, like in Peru, the government has the power to suspend automatic indexing if it feels that such an action will be detrimental to the economy or employment.
Indexing to labour market indicators
An alternate approach is to index the national minimum wage to a gradually increasing percentage of the average wage. For instance, the national minimum wage could begin at 40% of the mean wage and aim to reach 45% five years later. This approach would help close the gap between the minimum wage and the mean wage, thus ensuring that the national minimum wage helps to reduce inequality. It also allows the desired level of the minimum wage to be reached gradually so that the economy has time to adjust.

Non-automatic minimum wage increases
Rather than applying automated indexing of minimum wages, some countries either negotiate minimum wage increases periodically, or have a relevant body to determine increases based on available information (for a discussion of the nature of those bodies see Policy Brief 6 by Castel-Branco 2016).

Common criteria used by such bodies when deliberating on the increase include:

- **Changing cost-of-living or poverty thresholds** as discussed above.
- **Inflation from a previous period.** Algeria, Bosnia and Herzegovina, Luxembourg, Spain, Morocco, New Zealand, Austria, Malta, Thailand, and the Philippines monitor the CPI trends over the year prior to adjustment of the minimum wage (ILO 2014). Inflation rates are taken into account while fixing the minimum wage in Azerbaijan, Lebanon, and the United Kingdom. Some other countries, like Hungary and Uruguay, look at forecasted inflation rates for future years rather than inflation over a previous period (ILO 2014).
- **Changing wages within the economy.** Azerbaijan, for example, states that when adjusting minimum wages the government has to keep in mind the country’s goal of having a minimum wage level of 60% of the mean wage by 2020 (ILO 2014). Similarly, Serbia in practice tries to ensure that minimum wages are around 40% of the mean wage (ILO 2014). The UK Low Pay Commission states that it attempts to maximise the ratio of minimum wage to the mean wage without adversely affecting employment (ILO 2014). Other countries such as Moldova, Slovakia, Ukraine, Hungary, and New Zealand have also stated that they take account of average wages in the economy (ILO 2014); it is however not clear how much weight this indicator has when a new minimum wage amount is decided. A few countries specifically refer to inequality. For instance Ecuador, in addition to considering inflation and the cost-of-living, deliberately aims to narrow the gap between the highest- and lowest-paid in the economy through the minimum wage (ILO 2014).
- **General economic factors.** Algeria, Bosnia and Herzegovina, Burkina Faso, Latvia, Lithuania, Madagascar, Nepal, Slovakia, and Uruguay have legislated the need to consider economic factors prior to making a decision on the national minimum wage (ILO 2014). The legislation in these countries, however, does not specify which particular economic trends need to be considered. Factors related to economic development are sometimes, but rarely, specified in legislation. Usually such criteria refer to goals laid out in national development policies and plans (as in Albania, for instance). Portugal emphasises "requirements of financial and economic stability", and levels of capital accumulation needed for development (ILO 2014).
- **GDP growth rate.** Polish and British legislation stipulates that they must take into account GDP growth rates (ILO 2014). Belarus, Benin, Central African Republic, Czech Republic, Korea, Romania, Russia, and Venezuela all state in their reports that they consider the economic situation and monitor GDP growth rates in practice but this is not a legal requirement (ILO 2014).
- **Employment.** Among various labour market indicators the most commonly referenced ones are employment and unemployment levels and changes thereof. Castillo (2011) offers the following indicators for consideration: employment-to-population ratio, employment by economic activity, employment by occupation and sex, and unemployment rate by sex and age. Croatia, Hungary, Albania, Slovenia, Ukraine, and Nicaragua look at unemployment trends prior to adjusting the minimum wage (ILO 2014). The Philippines’ legislation specifically refers to estimating the impact of new wages on job creation (ILO 2014), while the Netherlands takes the threat of increased unemployment even further and has the right to disregard all other indicators if it fears that a new minimum wage might affect employment levels. In particular, the Netherlands monitors the ‘inactivity rate’, that is the ratio between the number of people on social benefits and the number of employed people. According to the legislation, this ratio should not exceed 82.6% (ILO 2014).
- **Productivity.** Productivity is another vague indicator which is sometimes considered when adjusting minimum wages. Some countries focus only on labour productivity, and some use GDP growth or GDP per capita growth as a proxy for productivity growth. In the legislation, productivity is cited as one of the indicators in Colombia, Spain, Thailand, Czech Republic, Peru, and Gambia (ILO 2014).
- **Competitiveness.** At least two countries legislate economic competitiveness as one of the national minimum wage adjustment criteria: Thailand and Latvia (ILO 2014). Neither specifies what they mean by competitiveness or how they calculate it.
- **Ability to pay.** Some countries reference the ability of employers to pay minimum wages. Such a criterion can be found in the labour law of Colombia, Japan, Nepal, the Philippines, Hungary, Morocco, and Vietnam (ILO 2014). A few countries look into the ability of governments to pay minimum wages. These countries are Albania, Azerbaijan, Bulgaria, and Moldova (ILO 2014).

The benefits of not adjusting the minimum wage level automatically is the flexibility of the system to accommodate all manner of changes in the economy and the labour market. Another benefit is the on-going dialogue between social partners (see Castel Branco 2016).

However, the process of adjusting the minimum wage level can be difficult and contentious if adjustment criteria are not clearly specified in the legislation. Schulten (2014) also argues that negotiations among relevant parties often lead to deadlocks and the government may have to intervene and provide a ‘fall-back solution’.
Considerations for a national minimum wage in South Africa

Automatic indexation to particular indicators as a means of increasing the national minimum wage may be rigid (Marinakis n.d., Dickens 2015) but also allows for a clear process to balance competing interests. Such an approach also prevents increases from being stymied due to political processes, and establishes a stable system the outcome of which both business and labour can predict in advance. If the increase is not automatic then a clear set of criteria for consideration, with appropriate weighting, is necessary.

The ILO warns against indexing the minimum wage to inflation only as this will result in no significant improvement to the real value of the minimum wage over time and may lead to an erosion of its purchasing power, and increasing inequality (Luebker 2012). Combining several indicators in an indexing formula has proven to be more effective and responsive to developments within the economy and labour market. The measure of inflation used should be that which represents the cost of living for low-wage workers. Alternatively, South Africa could index the national minimum wage to a gradually increasing percentage of the average wage.

Frequency of Adjustment

Under the ILO Convention No. 131, minimum wage adjustments are obligatory and should take place “from time to time” and be “sufficiently regular”. However, the review time period is not stipulated. In practice, the frequency of minimum wage adjustment is a major problem. Only 23% of countries have legislated that their minimum wages have to be reconsidered annually, and a further 15% of the countries legislated that wages have to be adjusted every two or more years (Castillo 2011). Yet the majority of countries, 61%, have not specified any adjustment period (although this does not necessarily mean that they don’t update minimum wages regularly).

The most frequent legislated revision period is in Montenegro, Nicaragua, and the Netherlands which have to review (but not necessarily increase) minimum wage levels every six months (ILO 2014). Australia, Ukraine, Bosnia and Herzegovina, Brazil, Colombia, Croatia, Ecuador, Macedonia, France, Guatemala, Hungary, Korea, Latvia, Malta, Mexico, Portugal, Slovakia, Slovenia, Spain, and Venezuela have stipulated annual national minimum wage adjustments in their labour laws (ILO 2014). Philippine legislation specifies that adjustments should not take place less than one year after the previous adjustment unless special economic circumstances exist (specified examples include exceptional increases in prices of food, the basket of goods, and oil) and in Serbia adjustments cannot happen sooner than 6 months from the last review (ILO 2014).

Costa Rica is obliged to have annual adjustments according to the legislation, but in practice it adjusts the wages every six months (ILO 2014). Uruguay has no reference review period in its legislation, but attempts to review wages annually or every six months (ILO 2014). Bolivia, Albania, Belarus, Chile, Vietnam, and Turkey review minimum wages annually in practice, yet there is no specific adjustment period in their respective legislations with the exception of Turkey that ensures wages adjustments take place every two years (ILO 2014).

According to Polish legislation, the national minimum wage is reviewed annually if the inflation index is less than 105, and every six months if it exceeds that number (ILO 2014).

Similar systems exist in Bosnia and Herzegovina: once the cost-of-living index increases by more than 5% for three consecutive months the minimum wage has to be reviewed and adjusted. If this does not occur the government must review minimum wages annually (ILO 2014).

Considerations for a national minimum wage in South Africa

It is preferable to specify the adjustment period upfront, in legislation. Annual adjustment offers a frequency that will ensure the real value of the minimum wage is maintained but is not too onerous. It is worth considering a provision that more regular adjustments must be made if inflation exceeds a stipulated level.

Currently in South Africa the frequency of minimum wage adjustments is up to the discretion of the Ministry of Labour or designated bargaining councils.

CONCLUSION AND POLICY RECOMMENDATIONS

It is up to a country to decide the preferable method of adjusting and setting a national minimum wage. There are, however, several best-practice international examples. These include a legislated commitment from government to either index a minimum wage to a particular wage statistics indicator, or to create a formula for the wage adjustment that will incorporate changes in the wage statistics, GDP growth, CPI/inflation index and other factors. This method protects both labour and business and ensures predictability in the market, which assists with the minimum wage compliance, enforcement, and ultimately success of the minimum wage policy (Herr and Kazandziska 2011, Rani et al. 2013).

An alternative option is to legislatively specify the minimum wage adjustment indicators, assign weights to them, and legislate the frequency of adjustment.

Based on the available research, the policy recommendations are the following:

1. In the South African context the two most relevant benchmarks that should be used when setting the initial level of the national minimum wage are workers needs and the average wage. A gradual phase-in towards the desired level of the national minimum wage is recommended in South Africa so that the economy is able to gradually adjust.

2. The level can be increased automatically – via a formula or by targeting a certain percentage of the average wage – or increased by deliberation between the social partners. Either way, it is essential to stipulate the criteria by which increases are calculated, and their relative weight. Inflation should not be the sole indicator and where it is used it should relate specifically to inflation as faced by the working poor. It is also recommended to stipulate benchmarks below which the minimum wage cannot fall.

3. The level should be adjusted annually so as to ensure its real value is maintained.

4. The level of the national minimum wage should constitute a “decent wage floor” for a family with dependants.
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