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Submission

to the

National Wage Commission

about

the Commission's Recommendations

on the Annual Review of the National Minimum Wage

Introduction

On 17 December 2021, the National Minimum Wage Commission published its report and recommendations on the Annual Review of the National Minimum Wage for the year 2022. The Commission invited written representations to be lodged by 14 January 2022 in respect of the recommendations.¹

The Free Market Foundation makes the following representations about the Commission's recommendations.

Summary

The National Minimum Wage Act obliges an employer to pay its workers not less than the specified national minimum wage, unless the employer is officially exempted from this duty.

The Act requires the Commission to review the national minimum wage annually, and make recommendations to the Minister on any adjustment.

The Commission must, on the one hand, consider inflation and the need to retain the value of the minimum wage. But, on the other hand, the Commission must consider the ability of employers to carry on business, the operation of small or new enterprises, and the likely impact of the recommended adjustment on employment and employment creation.

The Act, whether expressly or by implication, does not stipulate that such annual review entails increasing the national minimum wage.

A majority of Commissioners recommend that the national minimum wage should be increased by one percent above inflation. The Commission acknowledges that costs for some employers will increase, but (states the Commission) broader benefits to society from more equitable workplaces and remuneration systems may offset this.

The Free Market Foundation points out that the imposition of a minimum wage depresses employment levels below their natural level. A minimum wage, by separating large numbers of workers from employment in the formal economy, serves to increase inequality.

Some special interest groups state that there is no link between wages and employment levels, but this can easily be dismissed with a simple thought experiment: If there is no link between wages and employment, why not set the national minimum wage at R10,000 or even R30,000 a month? It can clearly be seen that when the price of labour goes up to such an extent, the demand for it will go down. The question is not whether wage increases destroy jobs, but how many jobs are destroyed.

Unfortunately, the real minimum wage is always zero, which is the wage that many workers receive due to a government-mandated minimum wage, because they lose their jobs or fail to find jobs.

The government should embrace unregulated pay to alleviate our problem of far more labour than the market can absorb under the current regulatory regime.

¹ Govt Notice 1616 of 17 Dec 2021 (*Gazette* 45649).

It is submitted that there be no increase in the national minimum wage.

National minimum wage

The National Minimum Wage Act, 2018, stipulates that an employer must pay its workers a wage that is not less than the national minimum wage,² and payment of the national minimum wage cannot be waived.³

The national minimum wage is the amount stated in Schedule 1 to the Act, as adjusted annually.⁴

An employer (or a registered employers' organisation acting on a member's behalf) may apply for an exemption from paying the national minimum wage.⁵ An exemption thereby granted must specify the period for which it is granted (which may not be longer than one year), and must specify the wage that the employer is required to pay workers.⁶

Annual review of the national minimum wage

The Act stipulates that the Commission must review the national minimum wage annually, and make recommendations to the Minister on any adjustment of the national minimum wage.⁷

For the purposes of conducting an annual review and recommending adjustments, says the Act, the Commission must (on the one hand) promote the alleviation of poverty and the reduction of wage differentials and inequality, and consider inflation, the cost of living and the need to retain the value of the minimum wage.⁸

But, says the Act, the Commission must (on the other hand) consider the ability of employers to carry on businesses successfully, the operation of small or new enterprises, and the likely impact of the recommended adjustment on employment or employment creation.⁹

The Commission's review report to the Minister must reflect any alternative views, including those of the public, in respect of any recommendations made.¹⁰

² National Minimum Wage Act s 4(5).

³ National Minimum Wage Act s 4(6).

⁴ National Minimum Wage Act s 4(1).

⁵ National Minimum Wage Act s 15(1).

⁶ National Minimum Wage Act s 15(2)(a) and (b).

⁷ Which must commence on a date fixed by the President by proclamation. National Minimum Wage Act s 6(1).

⁸ *Inter alia*. National Minimum Wage Act s 7(a)(ii) and (iii) and (b)(i).

⁹ *Inter alia*. National Minimum Wage Act s 7(b)(v), (vi) and (vii).

¹⁰ National Minimum Wage Act s 6(2).

The Commission must forward the report on its review and its recommendations for the next year to the Minister.¹¹ The Minister must then¹² determine the adjustment to the national minimum wage, and amend the national minimum wage¹³ by notice in the *Gazette*.¹⁴

The Act does not stipulate, expressly or by necessary implication, that any adjustment of the national minimum wage must of necessity entail increasing the national minimum wage.

(Besides reviewing the national minimum wage and recommending adjustments, the functions of the Commission include investigating and reporting annually to the Minister on the impact of the national minimum wage on the economy.¹⁵)

Commission's proposed adjustment to national minimum wage

A majority of Commissioners have recommended that the national minimum wage should be increased by 1,0% above inflation as measured by the consumer price index (CPI). On the other hand, a minority of Commissioners have recommended that the national minimum wage should be increased by 1,5% above inflation.¹⁶

The Commission acknowledges that the operation of the Act implies that costs for some employers will increase, although (states the Commission) broader benefits to society from more equitable workplaces and remuneration systems may offset this.¹⁷

Foundation's representations

The Free Market Foundation reiterates prior observations to the Commission, that studies by researchers on the effects of minimum wage policies invariably conclude, even when those researchers are personally and institutionally sympathetic to such policies, that the imposition of an effective minimum wage depresses employment levels below their natural level.

A compulsory minimum wage pushes many workers into the informal sector, and renders less competitive those marginal workers who retain their jobs.

Given the general agreement among researchers that minimum wage restrictions depress employment and add to involuntary unemployment, the only remaining quibble is over the magnitude and distribution of this policy-inflicted burden. To impose or increase a minimum wage rate, it is necessary for policymakers to convince themselves that there is some generalised net benefit, despite the negative impact on employment levels. It is argued that income inequality is socially undesirable and that an active policy is needed to reduce, if not eliminate it. But a minimum wage, by separating large numbers of workers from employment in the formal economy, serves to increase inequality in both incomes and living standards.¹⁸

¹¹ On a date fixed by the President by proclamation in the *Gazette*. National Minimum Wage Act s 6(3).

¹² By a date fixed by the President by proclamation in the *Gazette*.

¹³ Contained in Schedule 1 to the Act.

¹⁴ National Minimum Wage Act s 6(5).

¹⁵ National Minimum Wage Act s 11(a) and (b).

¹⁶ Commission report p 4.

¹⁷ Commission report p 4.

¹⁸ Submission on the National Minimum Wage, 30 Sep 2021, Free Market Foundation (per Richard Grant).

The national minimum wage artificially raises the price of an employee’s labour. Introducing and increasing a national minimum wage deters businesses from employing more people.¹⁹

Champions of the national minimum wage talk exclusively about the benefits that will accrue to those who have jobs. They rarely, if ever, talk about the real and sometimes devastating costs of a national minimum wage. Some special interest groups go so far as to state that there is no link between wages and employment levels, but this is disingenuous and can easily be dismissed with a simple thought experiment: If there is no link between wages and employment, why not set the national minimum wage at R10,000 or even R30,000 a month? It can clearly be seen that when the price of labour goes up to such an extent, the demand for it will go down — just like the demand for any other good goes down when the price goes above what consumers will pay, no matter what economic system is in place. The University of Cape Town’s Jeremy Seekings states: “Every study in SA finds that real wage increases reduce the demand for labour. The question is not whether wage increases destroy jobs, but how many jobs are destroyed.”²⁰

As economist Thomas Sowell explained, “Unfortunately, the real minimum wage is always zero, regardless of the laws, and that is the wage that many workers receive in the wake of the creation or escalation of a government-mandated minimum wage, because they lose their jobs or fail to find jobs when they enter the labour force.”²¹

The government, instead of embracing low-skilled jobs and the attendant pay to alleviate our current problem of far more labour than the market can absorb under the current regulatory regime, chooses instead to punish the people who would accept these jobs.²²



The Free Market Foundation

The Free Market Foundation (Southern Africa) is an independent public benefit organisation founded in 1975 to promote and foster an open society, the rule of law, personal liberty, and economic and press freedom as fundamental components of its advocacy of human rights and democracy based on classical liberal principles. It is financed by membership subscriptions, donations and sponsorships.

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¹⁹ “Workers’ day means nothing to many people – a consequence of SA’s laws”, C Hattingh, *City Press*, 2 May 2019.

²⁰ “Plan to Increase Wages Will Hurt the Poor”, Jasson Urbach *Business Day*, 4 May 2016.

²¹ “Minimum wage laws: compassion or disguised cruelty?” Eustace Davie (Free Market Foundation), 2 Oct 2014.

²² “We can no longer ignore the effects of the minimum wage and other bad laws”, Mpiyakhe Dhlamini, *City Press*, 24 Nov 2020.