

New national minimum wage an outlier

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From an economic point of view, labour is a production input which, along with other production inputs, plant and property determine the production costs. Labour is, however, not merely a cost calculation but the beating heart of any business. And at the end of the day, labour is about people with hopes and aspirations and often with families. The national minimum wage must strike a delicate balance between the human factor and economic reality. The cost of living is rapidly increasing and this hits the lowest-income earners the hardest. South Africa also has a legacy of inequality and one of the central pillars of the National Minimum Wage Act is to address inequality by narrowing the wage gap. These noble considerations will only be achieved if we increase employment and for this reason, the wage level must take affordability and potential job losses into consideration. It is a fine line and it will never be possible to satisfy all expectations. Even within this tough ask, one must question whether these interests were evenly balanced with the latest adjustment.

As of 1 March 2023, a new national minimum wage (NMW) of R25,42 per hour came into effect for the 2023/24 financial year. Adjustments are provided for in the Act and we know the routine by now;

- late in the year, the National Minimum Wage Commission publishes a report recommending an ambitious increase (this happened on 15 December 2022);
- The Business representatives on the Commission usually do a minority report arguing for a more conservative increase if they fear the majority view may lead to job losses or business closures;
- Business organisations submit well-researched proposals in support of the minority view, often bringing in the unique pressures faced by their industry. (Agbiz submitted a 17-page document arguing for an inflation-only adjustment);
- In February the following, the minister publishes the final adjustment which is largely in line with the majority view or a slightly tempered adjustment.

This year, however, the announcement of a 9,6% increase still came as a shock as it really was an outlier. Let us explain:

CPI+2?

The National Minimum Wage Commission's majority report recommended an increase of CPI+2%. Putting the legitimate affordability considerations aside, an increase of CPI+2% is largely in line with their previous recommendations. CPI announcements are always retrospective and as such, the NMW Commission's estimate worked on the CPI as it was in October 2022, namely 7.6%. They, therefore, estimated that a CPI+2% increase could be as high as the 9.6% that was

finally announced. The challenge, however, is that CPI peaked in October and then steadily came down in the following months as the Reserve Bank announced a host of increases in the repo rate. The February CPI is not known yet but according to Stats SA, CPI fell to 7.2% in December and further to 6.9% in January 2023. The adjustment was only gazetted late in February, which makes it difficult to understand why the October figure rather than the January CPI was used.

If the minister worked on the best available data when the announcement was made, the adjustment should have been 8.9% and not 9.6%. This also raises a further debate that has been bubbling under the surface for the past few years. Should the NMW applicable for an entire year be fixed according to the latest month's CPI or should it take the average of the preceding year? If the latter argument is followed, which we believe it should, the increase should once again have been 8.9% as Stats SA's figures reveal an average CPI of 6.9% for 2022.

Is the state living in a glass house?

The increase of 9.6% truly is an outlier. To demonstrate this, it is worth considering how the NMW adjustment historically compares to wage increases agreed between labour unions and employers' organisations in statutory bargaining councils. Historically, the increases agreed to in bargaining councils have been higher than the adjustments in the national minimum wage. The best comparison comes from assessing the actual hikes reached at the registered bargaining councils with the same year's NMW adjustments:

Period under review	Adjustments in registered bargaining councils	Proposal from NMW Commission	Actual adjustment
2021/22	Range: 6.9 – 9.6% Median: 7.5%	Cpi + 1.5%	4.5%
2022/23	Range: 2.9% - 13.43% Median: 6%	CPI + 1%	6.9%
2023/24	Range 6 – 8% Median: 6%	CPI + 2%	9.6%

The median is largely in line with increases by agribusinesses who are also heading for a median of 6%. As far as the public sector is concerned, Transnet settled on a 6% increase after strike action and government tabled a mere 4.7% increase at the Public Sector Bargaining Council last month. Interestingly, the adjustments in the previous two years were either closer to the median or below the median. Unfortunately, primary agriculture was not cushioned in the previous years as the wage was equalised with that of the rest of the economy. When the Act came into operation, the agricultural wage started at 80% of the economy's average with increases to catch up. The most significant increase took place last year. Although the national adjustment was 6.9%, agriculture's wage was brought in line with the economic average, thereby equating to a massive in excess of 14% increase.

Agriculture will feel the heat

In the space of two years, the minimum wage in agriculture will have climbed over 25%. Furthermore, adjustments in the national minimum wage affect the primary agricultural sector disproportionately because it is the only major sector without a recognised bargaining council. Whilst many agribusinesses and their operating divisions are subject to collective agreements reached at bargaining councils, both union and employer organisation representation is too low in the primary sector to meet the legal thresholds required to establish a bargaining council. Is there an alternative? ... Perhaps. The sector is unlikely to satisfy the requirements of the Labour Relations Act to establish a bargaining council anytime soon but the Act also makes provision for collective agreements to be reached on a company level. The pros and cons of this approach may be a topic for another day, but it is worth some consideration for those who do not want to be solely at the mercy of an announcement in the *Government Gazette*.