

Minimum Wage Starts Soon: Make Sure You Are Ready



The new minimum wage provisions, originally due to start on 1 May but now reportedly facing delay due to the high number of submissions received from the public, will affect us all significantly.

Assuming that the National Minimum Wage Bill's provisions are enacted in substantially their current format, from implementation just under half of the current labour force will see their wages increasing. This will add approximately R70 billion per annum into the economy.

How will this affect you?

It will be compulsory for all employers to pay workers R20 per hour or R3,500 for a normal working month (that's for 40 working hours a week – at 45 hours a week it comes to R3,900).

Businesses that cannot afford to pay the minimum wage may apply for an exemption but this cannot be for more than twelve months. There is scope in the legislation to “make regulations” as to how the exemption process will work. Possibly, government is waiting to see how the process unfolds and may then introduce specific exemptions.

Why have a minimum wage?

South Africa has two large structural problems – unemployment and

inequality of incomes. The minimum wage is intended to strike a balance between those two in which inequality will decrease but unemployment will presumably be unaffected.

There is however no hard evidence as to whether a minimum wage will improve social justice and grow the economy in a developing economy. South American countries have in the last decade instituted minimum wages with mixed results. Brazil, for example, initially saw an upswing to its economy but within a few years slipped into a deep recession.

One size fits all

In South Africa, there is one minimum wage and it is possible that some sectors will react differently. Clothing workers for instance currently earn half of the new minimum wage and have already suffered substantial job losses in the past twenty years. Although concessions have been made for farm workers and domestic workers (they will earn 90% and 75% of the R20 per hour respectively), a more nuanced approach could have reduced potential job losses. Some economists predict that unemployment will rise from 9.2 million currently to more than 10 million workers out of jobs.

Overall, it is possible this will help the economy at a macro-level. Those in favour of a minimum wage cite the grant system which gives a basic income to more than 11 million people. It was one of the contributors to the boom of 2003 to 2008. Critics contend this is a different funding model – grants were funded by government whilst the minimum wage will be paid by employers.

It seems that it will soon be a reality though, so we all need to be ready for it and let's hope it has a positive impact on the economy. There will be substantial benefits for the country if it is accompanied by a productivity surge.