PIETERMARITZBURG ECONOMIC JUSTICE & DIGNITY

Economic justice through the lens of human dignity

MEDIA STATEMENT

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To all media for immediate release

National Minimum Wage annual increase

Commission's recommendation for a 5% increase in the National Minimum Wage will deepen the economic crisis and worker poverty.

The National Minimum Wage [NMW] was introduced in January 2019 to improve the wages of millions of the lowest paid workers and protect workers from unreasonably low wages. The NMW was set at R20 an hour (an amount agreed upon by Labour at NEDLAC two years earlier). Regulations to the Act soon introduced differentiated wage categories: General Workers would receive the R20 an hour but Farm Workers would only receive R18 an hour, and Domestic Workers a lower R15 an hour. Also 10% exemptions were introduced and where granted, the R20 an hour for General Workers was reduced to R18 an hour, for Farm Workers to R16,20 an hour and Domestic Workers to R13,50 an hour. The National Minimum Wage Commission, in its annual review, has recommended a 5% increase on the NMW.

For a General Worker currently on an R20 hourly rate, 5% increases the hourly rate by R1 to R21 an hour. This is an R8 increase per day. On a work-day month of 22 days, as in January 2020, the 5% increase will move the monthly wage to R3 696 (an increase of R176 per month). R1 an hour, R8 a day and R176 a month.

The proposed 5% increase on the NMW must be understood in the context where the current NMW level when dispersed in families is already set below the upper bound poverty line.

In most South African households, only one family member works. This one wage must support, a reductive average of 3,6 persons in January 2020. At a maximum monthly wage of R3 520 in January 2020 for a General Worker on the National Minimum Wage of R20 an hour, this wage dispersed through a family of four persons is R880 per capita per month. The upper bound poverty line is R1 227 per capita per month (under this level individuals cannot secure enough food and non-food items). The National Minimum Wage for general workers when dispersed through families is a poverty wage. A 5% increase off such a low base means that the NMW will continue to be set below the upper bound poverty line.

The proposed 5% increase on the NMW should also be understood in the context where in January 2020, General Workers, earning the maximum NMW of R20/hour experienced a **21,6% deficit in their wages** just on the 3 core expenses critical for worker productivity: earning R3 520,00 vs. the R4 488,18 required to secure transport, electricity and food. This is a massive deficit and these calculations only include transport, electricity and food. Families face a myriad of other critical expenses that must be paid each month.

- In January 2020 a General Worker earning the National Minimum Wage of R20 an hour and working for a full 22 days earned R3 520 per month.
- In January 2020 transport for a worker to get to and from work cost R1 232,00 (35% of the wage) and electricity for a small household cost R598,52 (17% of the wage). Together transport and electricity charges took up 52% (R1 830,52) of the National Minimum Wage, leaving R1 689,48 for all other expenses (including food). In January 2020 the cost of a basic nutritional basket of food for a family of four was R2 657,66.

On a National Minimum Wage of R20 an hour, workers supporting a family of four persons, do not earn enough even to secure the three core expenses of transport, electricity and food. Workers prioritise transport. If they cannot get to work; they do not get paid. After transport, workers prioritise electricity. Maize meal (our core staple food) must be cooked, as do all South Africa's core staple foods. There is not enough money for food. Families cut back on food and go into deeper levels of debt to cover wage shortfalls.

Over the past 12 months, inflation on the 3 core expenses critical for worker productivity (transport, electricity and food) increased by **6%** from R4 233,79 in January 2019 to R4 488,18 in January 2020. Workers are worse off this year than they were the year before.

- Transport increased by 7,7% year-on-year.
- Electricity increased by 13,1% year-on-year.
- The cost of a Nutritional Basket of Food for four persons increased by 3,8% year-on-year.

For information and media enquiries, contact: Mervyn Abrahams on 079 398 9384 and mervyn@pmbejd.org.za; and Julie Smith on 072 324 5043 and julie@pmbejd.org.za. Website: www.pmbejd.org.za. Facebook: www.Facebook.com/pmbejd

Because South Africa's historical baseline wages are so low; and because the level at which the NMW was set and introduced in January 2019 was far below any actual cost of worker expenses, we cannot just increase the wage in line with the projected inflation levels faced by workers in 2020. If we do this, workers will be in a worse position than they were the year before. With a current deficit of 21,6%, it will mean that workers still will not be able to secure all their transport, electricity and food needs. The National Minimum Wage will continue to be a National Poverty Wage.

An inflationary-linked increase in the National Minimum Wage would also be inconsistent with the National Minimum Wage Act (2018) *viz*. The National Minimum Wage Act (2018) has as its purpose to: *"advance economic development and social justice by—*
(a) improving the wages of lowest paid workers;
(b) protecting workers from unreasonably low wages;
(c) preserving the value of the national minimum wage;
(d) promoting collective bargaining; and
(e) supporting economic policy."

In our understanding of the National Minimum Wage Act, it means that NMW increases cannot simply be linked to the inflation level (even erroneously to Headline inflation instead of the inflation levels experienced by workers), be it just for 1-year or 3 years (back to 2017). The Act calls for *improvements* in the wages of the lowest paid workers. Workers will have to better off next year than they are now and the historical low-baseline wage regime will have to be dismantled. Increasing the NMW at the inflation level is not an improvement in wages: it will just mean that workers will be able to buy this year what they bought last year (albeit probably less). Nor would it satisfy the second purpose of protecting workers from unreasonably low wages. At a proposed 5% increase, neither is it likely to preserve even the value of the NMW even at a poverty-level.

The NMW would have to increase to close the wage deficit + projected inflation for low-paid workers in 2020.

Our Pietermaritzburg data shows that for January 2020 the NMW rate would have to increase by **27,5%** (from R20 to R25,50 an hour) just to allow a worker to cover his/her January expenses of transport to get to work and back, electricity and food. Workers have other expenses to pay which compete with the food budget and which are not included in our deficit calculations. The increase would have to be higher than 27,5% to account for a more realistic basic household expenditure.

Projected inflation is hard to predict. The three critical expenses of transport (oil prices, geopolitics), electricity (Eskom) and food (weather, climate) [and VAT] are subject to extraordinary shocks and pressures (local and global). The **past 12 months showed a 6% increase** in transport, electricity and food. The most dramatic one to watch out for is if Eskom gets its tariff hike request as electricity costs really eat at a worker's wage; further we would look to see if VAT is increased further and what the fuel levy increases will be.[1] It is possible that 2020 will see inflation as experienced by households living on low incomes increase higher than last year's 6%.

Based on our data then, taking the lowest increase of a 27,5% to close the deficit and adding on 6% for inflation, the National Minimum Wage at the current maximum level of R20 for a General Worker would have to increase to **R27,03 an hour. This is an increase of 35,15%.** Even at this level the NMW will still be below the upper bound poverty line of R1 227 per capita of 2019. For a worker supporting a family of four, it would have to be above R4 908 **(R27,89 per hour). This is an increase of 39,45%.**

A year ago, we cautioned that if the National Minimum Wage was set too low it would constrain any substantial transformation in our economy and labour market; institutionalise South Africa's historical apartheid low-wage regime; and lock a large proportion of the South African workforce into poverty for generations to come. We argued that the NMW is only useful depending on the level set. Set too low and it becomes a poverty wage and this is what the NMW has become. Unless the NMW is substantially increased it will continue to undermine worker and household nutrition, reduce productivity in the workplace; and reinforce the cycle of low wages, low economic productivity and low economic growth; whilst creating heightened labour tension, and large-scale social unrest.

In moving forward, we will do better to consider more broadly what is the purpose and value of the wage in South Africa's contemporary economy and social context. We must recognise that our low-wage regime is part of the reason for our economic crisis. Wages stimulate the economy and buffer the economy in tough times. The proposal by the National Minimum Wage Commission to increase the NMW by only 5% will not only continue to warehouse millions of workers in poverty but will act to deepen our economic crisis as demand will continue to decline. One of the chief reasons to introduce a National Minimum Wage was to deal with our historical low baseline wages. If the Minister of Labour accepts the 5% recommendation then we must accept that a decision has been taken to keep the low baseline wage in place.

[1] The timing of the annual review is out-of-sync with the major financial decisions that affect the cost of basic goods and services and which eat away at workers pockets *viz*. the annual budget (February) and Eskom/NERSA negotiations & municipal budgets on service tariffs (February- June).