
Prof A. Van der Walt

Chairperson: National Minimum Wage Commission.

Dear Prof Van de Walt

Thank you for the invitation to make a written representation to The National Minimum Wage Commission on the Commission's report and recommendations on the annual review of the National Minimum Wage.

In our submission we limit our representations to pages 2-7 related to annual adjustments, inflation, and cost of living where we have competence to provide input.

PMBEJD has tracked the National Minimum Wage in relation to increases in the costs of basic goods and services expected to be paid by low-paid workers from the lens of household affordability and economic justice for several years. We collect monthly data related to the cost of food, electricity, and transport (amongst others) and wage levels and publish it under the PMBEJD Household Affordability Index. We specifically focus on low-paid workers who are remunerated at or below the National Minimum Wage level, and unemployed workers.

We argue in this submission that the National Minimum Wage Commission's 2021 proposal to adjust the NMW by inflation + 1,5% will not ensure that working people do not live in poverty, that the proposed rate is not set above the cost of living of workers, and that the value of the NMW will not be retained. We will show, with evidence, that the adjustment proposal will deepen poverty; is far below the cost of living of workers; and that the NMW value will be eroded – in short that workers will be in a worse position in 2021 than they are currently in, in 2020.

The submission will argue that:

- South Africa's extreme inequality skews the Consumer Price Index's ability to measure inflation experienced by low-paid workers, and for this reason, it cannot be used as a guideline of inflation to determine annual NMW adjustments.
- That choosing to peg the CPI at one moment in time instead of projecting what the inflation level will be for the entire 2021 term undermines the ability of the adjustments to retain the value of the NMW.
- That the proposal to raise the NMW by the rate of inflation + 1,5% is not going to be enough for workers to absorb even the current cost of worker transport, electricity, and food set at zero inflation.
- That the real inflation level experienced by workers earning at the NMW rate in the 2020 period is 7,5%.
- That at the current level of the NMW (average of R3 487,68) workers cannot secure even the three core expenses of transport, electricity, and food (which total R4 388,59), with the deficit in the NMW being 26%.
- That the inflation projections for 2021 on the core goods and services which directly impact the pockets of workers paid at the NMW level, are at much higher levels than the rate of inflation + 1,5% increment proposed by The National Minimum Wage Commission.
- That unless the Rand-value of the baseline wage level of the NMW is substantially increased, that small annual wage increments will not protect workers or retain the value of the wage.
- That our analysis shows that the baseline wage rate would have to increase to at least R30 an hour for workers to be protected in 2021. The daily rate would be R240 and monthly rate R5 040. At this level small annual increments in future years (set at the inflation level experienced by workers) would retain the value of the NMW.

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Contact details for the Pietermaritzburg Economic Justice & Dignity Group [PMBEJD]

Mervyn Abrahams and Julie Smith

Mervyn Abrahams on 079 398 9384 and mervyn@pmbejd.org.za

Julie Smith on 072 324 5043 and julie@pmbejd.org.za

Website: www.pmbejd.org.za

Facebook: www.Facebook.com/pmbejd

1. An argument against using the Consumer Price Index as a guideline for determining annual wage adjustments for low-paid workers remunerated at the NMW rate.

The Commission relies heavily on Statistics South Africa’s Consumer Price Index in determining where the annual wage adjustment should be pegged. However, it notes “that inflation for low-income households is currently significantly higher than for upper-income groups... The fact that the overall inflation rate understates price increases for low-income households means that in order to maintain the value of the national minimum wage in terms of purchasing power, the increment must exceed headline inflation” (page 5). “The Commission proposes that the national minimum wage be increased by the rate of inflation plus 1,5%, ... the actual amount depending on inflation in the month in which the adjustment is effected” (page 3).

We agree with the Commission that the CPI understates the inflation experienced by low-income households, however we question whether the extent of the CPI’s shortcomings is understood. Whilst acknowledging the limitation of the CPI the Commission has still decided to use the headline inflation rate for its annual adjustment even as it ostensibly proposes an additional 1,5% to make up for its weaknesses.

Below we attempt to show why the CPI cannot be used to determine annual increments on wages for South Africa’s lowest paid workers, we will further show below and later in our submission that the addition of a 1,5% is not sufficient to address the CPI’s limitations.

The reason that the CPI cannot be used to determine annual increments on wages for South Africa’s lowest paid workers is because South Africa’s extreme inequality skews the ability of the CPI to measure inflation experienced by low-paid workers.

All South African statistical data is skewed by inequality. The CPI is skewed sharply towards tracking inflation on those who spend the highest amounts on goods and services. Because the gap between the lowest paid workers in South Africa and the highest paid workers in South Africa is so excessive, the low expenditure value of workers in the lowest expenditure deciles are reduced almost to nothing in comparison with the highest expenditure deciles. Low-paid workers are weighted almost completely out of the CPI basket. The weighting levels are too low to provide any meaningful measure of inflation as experienced by low-paid workers.

This is easier to show via way of the CPI graphs and weighting system.

There are 10 expenditure deciles in the CPI. ±6 million workers paid at the National Minimum Wage rate fall into **Expenditure Decile 3** (spending R2 456,33 to R3 548,50 per month). See Table 1.

Table 1: The 10 Expenditure deciles in CPI with monthly expenditures per decile.¹

Expenditure deciles in CPI									
1	2	3	4	5	6	7	8	9	10
Monthly expenditures of decile									
Up to R1476.75	R1 476.83 to R2 456.25	R2 456.33 up to R3 548.50	R3 548.58 up to R4 742.42	R4 742.50 up to R6 151.08	R6 151.17 up to R7 907.00	R7 907.08 up to R10 352.25	R10 352.33 up to R14 418.50	R14 418.58 up to R22 491.83	R22 491.92 and more

¹ STATSSA (2020). Consumer Price Index. October 2020. Statistical Release P0141. **Statistics South Africa**. Pretoria. P10. See link: <http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf> (the figures shown in Table 1 are monthly figures viz. divided by 12).

The 10 expenditure deciles are weighted differently in the CPI basket. **Decile 3 is weighted at 1,89% in the CPI basket (that is, 1,89% out of 100%).** In comparison, the highest Expenditure **Decile 10** (spending R22 491,92 per month and more), is weighted at **48,57%** in the CPI basket. See Table 2.

Table 2: Weighting of each of the 10 expenditure deciles in CPI.²

Expenditure deciles in CPI										
1	2	3	4	5	6	7	8	9	10	
Monthly expenditures of decile										
Up to R1476.75	R1 476.83 to R2 456.25	R2 456.33 up to R3 548.50	R3 548.58 up to R4 742.42	R4 742.50 up to R6 151.08	R6 151.17 up to R7 907.00	R7 907.08 up to R10 352.25	R10 352.33 up to R14 418.50	R14 418.58 up to R22 491.83	R22 491.92 and more	
Weighting in CPI basket										Total CPI Basket
0,50%	1,13%	1,89%	2,81%	3,93%	5,61%	7,91%	11,30%	16,35%	48,57%	100,00%

The CPI basket includes 393 products which are divided into 12 groups and each group is weighted relative to consumption expenditure of households. The weighting of each of the 12 groups is shown below and totals 100%. See Table 3.

Table 3: The 12 goods & services groups in CPI basket and weightings of each group.³

Groups in CPI basket	CPI for all urban areas: actual group weighting
Food and Non-alcoholic beverages	17,24%
Alcoholic beverages and tobacco	5,82%
Clothing and footwear	3,83%
Housing and utilities	24,62%
Household contents, equipment and maintenance	4,35%
Health	1,40%
Transport	14,28%
Communication	2,63%
Recreation and culture	5,16%
Education	2,53%
Restuarants and hotels	3,09%
Miscellaneous goods and services	15,05%
Total	100,00%

Workers paid low wages prioritise fewer expenditures and spend proportionally more of their wage on these fewer goods and services groups in the CPI basket, whilst spending on fewer items per group. The highest proportion of spending is allocated to transport, electricity, and food. Additional expenses include education, housing, communication, clothing, cultural obligations, and burial insurance.

² STATSSA (2020). Consumer Price Index. October 2020. Statistical Release P0141. **Statistics South Africa**. Pretoria. P4. See link: <http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf>

³ STATSSA (2020). Consumer Price Index. October 2020. Statistical Release P0141. **Statistics South Africa**. Pretoria. P7-8. See link: <http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf>

The proportion expenditure on the 12 goods & services groups by each of the 10 expenditure deciles differs. This is logical: the lower the income, the higher proportional spend viz. with R3000, food expenditure of R2000 will take up 66% of expenditure; whilst with R30 000, food expenditure of R5000 will take up 17% of expenditure. Using the CPI proportions and taking Food & NAB as an example, Decile 3's proportional spend is allocated as 38,67%; whilst Decile 10's spend is 10,74%. See Table 4.

Table 4: The proportional expenditure on each of the 12 goods & services groups in the CPI basket by each of the 10 expenditure deciles.⁴

Expenditure deciles in CPI	1	2	3	4	5	6	7	8	9	10
Monthly expenditures of decile	Up to R1476.75	R1 476.83 to R2 456.25	R2 456.33 up to R3 548.50	R3 548.58 up to R4 742.42	R4 742.50 up to R6 151.08	R6 151.17 up to R7 907.00	R7 907.08 up to R10 352.25	R10 352.33 up to R14 418.50	R14 418.58 up to R22 491.83	R22 491.92 and more
Groups in CPI basket										
Food and Non-alcoholic beverages	48,13%	46,98%	38,67%	31,70%	29,60%	25,55%	23,91%	21,61%	16,92%	10,74%
Alcoholic beverages and tobacco	3,86%	2,96%	4,16%	5,76%	5,05%	5,94%	6,09%	6,29%	6,89%	5,58%
Clothing and footwear	8,82%	8,75%	7,73%	5,65%	6,25%	5,17%	4,97%	4,81%	4,00%	2,68%
Housing and utilities	17,25%	15,33%	25,27%	35,24%	36,36%	39,20%	37,64%	32,83%	27,69%	16,40%
Household contents, equipment and maintenance	2,64%	3,03%	2,79%	2,54%	2,59%	2,41%	2,41%	2,86%	3,78%	5,73%
Health	0,66%	0,73%	0,59%	0,50%	0,52%	0,50%	0,47%	0,67%	0,76%	1,83%
Transport	1,18%	1,95%	2,50%	3,43%	3,63%	5,77%	7,40%	8,92%	11,65%	21,11%
Communication	6,95%	5,70%	4,67%	3,41%	3,09%	2,72%	2,54%	2,60%	2,65%	2,38%
Recreation and culture	1,88%	2,31%	2,57%	3,07%	3,06%	3,46%	3,54%	4,32%	4,53%	6,34%
Education	0,34%	0,42%	0,60%	0,59%	0,83%	0,86%	1,28%	1,88%	2,88%	3,38%
Restaurants and hotels	3,80%	5,11%	3,96%	3,25%	3,12%	2,70%	2,59%	2,70%	2,30%	3,53%
Miscellaneous goods and services	4,49%	6,73%	6,49%	4,86%	5,90%	5,72%	7,16%	10,51%	15,95%	20,30%
	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%

Looking at the proportional allocations of each of the 10 Expenditure Deciles as shown in Table 4, we would argue, that even here, the CPI underestimates this spend. Transport is a good example here, where the CPI allocates Decile 3's proportional spend as just 2,5%. At the upper expenditure level in Decile 3 of R3 548,50, **2,5%** works out at **R88,71** a month. In comparison, PMBEJD's data puts the monthly transport figure for a worker at **36,1%** or **R1 260** per month. Food & NAB is another good example. Again, at the upper expenditure level in Decile 3 of R3 548,50, **38,67%** works out at **R1 372,20** per month. In comparison, PMBEJD's data puts the food expenditure cost for a family of 4 persons at **78,9%** or **R2 799,60** per month.⁵

This underestimation of food expenditure is not only limited to the lower expenditure deciles: even if we take the highest Expenditure Decile 10, their allocation is 10,74%. At the lower expenditure level in Decile 10 of R22 491,92, this proportional allocation of **10,74%** works out at **R2 415,63** per month. This level of spend on Food & NAB is barely above the Food Poverty Line of R585 per capita for a family of 4 persons (**R2 340**). **It is highly unlikely that a worker with a monthly spend of R22 491,92 will spend so little on food.**

Nevertheless, whilst these underestimations are extremely serious what happens next when weighting comes into play undermines the proportional spend of low-paid workers almost to oblivion. For the purposes of our argument, it is better to start from the position that the proportional spend allocated to each Expenditure Decile is accurate.

The Table below shows what happens when the weighting given to each of the 10 expenditure deciles comes into play. See Table 5.

⁴ STATSSA (2017). Consumer Price Index. 2016 Weights. Statistical Release. P0141.5. 27 January 2017. *Statistics South Africa*. Pretoria. P11. See link: <http://www.statssa.gov.za/publications/P01415/P014152016.pdf>

⁵ PMBEJD (2020). November 2020 Household Affordability Index. 25 November 2020. *Pietermaritzburg Economic Justice & Dignity Group*. Pietermaritzburg. P14. See link: https://pmbejd.org.za/wp-content/uploads/2020/11/November-2020-Household-Affordability-Index-PMBEJD_25112020.pdf

Table 5: The proportional expenditure on each of the 12 goods & services groups in the CPI basket by each of the 10 expenditure deciles by weight of decile in the basket.⁶

Groups in CPI basket	Expenditure deciles in CPI										Actual weighting of group in CPI basket
	1	2	3	4	5	6	7	8	9	10	
	0,50%	1,13%	1,89%	2,81%	3,93%	5,61%	7,91%	11,30%	16,35%	40,57%	
Food and Non-alcoholic beverages	0,24%	0,53%	0,73%	0,89%	1,16%	1,43%	1,89%	2,44%	2,77%	5,22%	17,24%
Alcoholic beverages and tobacco	0,02%	0,03%	0,08%	0,16%	0,20%	0,33%	0,48%	0,71%	1,13%	2,71%	5,82%
Clothing and footwear	0,04%	0,10%	0,15%	0,16%	0,25%	0,28%	0,39%	0,54%	0,65%	1,30%	3,83%
Housing and utilities	0,08%	0,17%	0,48%	0,99%	1,43%	2,20%	2,98%	3,71%	4,53%	7,97%	24,62%
Household contents, equipment and maintenance	0,01%	0,03%	0,05%	0,07%	0,10%	0,14%	0,19%	0,32%	0,62%	2,78%	4,35%
Health	0,00%	0,01%	0,01%	0,01%	0,02%	0,03%	0,04%	0,08%	0,12%	0,89%	1,40%
Transport	0,01%	0,02%	0,05%	0,10%	0,14%	0,32%	0,55%	1,01%	1,60%	10,25%	14,28%
Communication	0,03%	0,08%	0,08%	0,10%	0,12%	0,15%	0,20%	0,29%	0,43%	1,18%	2,83%
Recreation and culture	0,01%	0,03%	0,05%	0,09%	0,12%	0,19%	0,28%	0,48%	0,74%	3,08%	5,16%
Education	0,00%	0,00%	0,01%	0,02%	0,03%	0,05%	0,10%	0,21%	0,47%	1,64%	2,53%
Restaurants and hotels	0,02%	0,08%	0,07%	0,09%	0,12%	0,15%	0,20%	0,31%	0,38%	1,71%	3,09%
Miscellaneous goods and services	0,02%	0,08%	0,12%	0,14%	0,23%	0,32%	0,57%	1,19%	2,61%	9,88%	15,05%
											100,00%

Table 4 showed that Decile 3's spend on Food & NAB is **38,67%**. But, as shown in Table 5, when taken through Decile 3's weighting of **1,89%** in the basket, the Food & NAB expenditure of Decile 3 is reduced to **0,73%**. The total weighting of the Food & NAB group in the CPI basket = 17,24%. The Food & NAB expenditure of workers in Decile 3 contributes just 0,73% of the total Food & NAB weighting of 17,24%.

The calculations are made as follows: the proportional expenditure per each of the 12 groups is multiplied by the percentage weighting of each of the 10 Expenditure Deciles viz. Decile 3 for Food & NAB is calculated as $38,67\% \times 1,89\% = 0,73\%$.

This is important because it shows that whilst low-paid workers spend 38,67% on Food & NAB, the actual weighting of the Food & NAB group in the CPI basket is weighted at a much lower 17,24%. But even this lower proportional spend is reduced further because Decile 3's weighting in the Food & NAB group is just 0,73% of the total 17,24%. It means that the Food & NAB expenditure of Decile 3 is barely reflected by the CPI at all.

This is where the real problem of measuring inflation comes into play. If, for example, using what we consider a more realistic food price inflation of 6,9% as indicated by our data, this 6,9% increase is levied on a spend of 78,9% or (R2 799,60). The CPI however has the Food & NAB spend of NMW workers at 0,73% (100% less than what it is). Food price inflation of 6,9% on 0,73% is so marginal that it would barely register a blip on the CPI Food & NAB inflation, and less than nothing on Headline CPI. While expenditure on food by low-paid workers represents their highest monthly expense, and inflation on food has an extraordinary impact on low-paid workers; the CPI does not capture food price inflation for South Africa's lowest paid workers.

In our examples above, we have focused on the Food & NAB group. To conclude how the CPI works, we have pulled out all the 12 goods and services groups in the CPI Basket under Decile 3. Table 6 shows how the monthly proportional expenditure of South Africa's lowest paid workers, paid at the level of the NMW (Decile 3), when taken through the CPI weighting system is reduced to close to zero, and essentially weighted out of the CPI basket. See Table 6.

⁶ Data sourced from STATSSA (2017). Consumer Price Index. 2016 Weights. Statistical Release. 27 January 2017. P0141.5. **Statistics South Africa**. Pretoria. P11. See link: <http://www.statssa.gov.za/publications/P01415/P014152016.pdf> and from the monthly CPI releases – for the decile weightings, see for example STATSSA (2020). Consumer Price Index. October 2020. Statistical Release P0141. **Statistics South Africa**. Pretoria. P4. See link: <http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf>

Table 6: Comparing the proportional expenditure of Decile 3, with its actual weighting in the CPI.

Groups in CPI basket	Decile 3: monthly proportional expenditure	Decile 3: actual weighting in CPI	CPI for urban areas: actual weighting in CPI
Food and Non-alcoholic beverages	38,67%	0,73%	17,24%
Alcoholic beverages and tobacco	4,16%	0,08%	5,82%
Clothing and footwear	7,73%	0,15%	3,83%
Housing and utilities	25,27%	0,48%	24,62%
Household contents, equipment and maintenance	2,79%	0,05%	4,35%
Health	0,59%	0,01%	1,40%
Transport	2,50%	0,05%	14,28%
Communication	4,67%	0,09%	2,63%
Recreation and culture	2,57%	0,05%	5,16%
Education	0,60%	0,01%	2,53%
Restuarants and hotels	3,96%	0,07%	3,09%
Miscellaneous goods and services	6,49%	0,12%	15,05%
Total	100,00%	1,89%	100,00%

Expenditure Decile 3 is where the ± 6 million low-paid workers earning at the NMW level are allocated. Decile 3 includes expenditure levels from R2 456.33 to R3 548.50. Decile 3 is weighted at 1.89% of the total CPI basket. **Table 6 shows the difference between how households in this decile spend their monies (even if underestimated) and how the CPI weights these expenditures.** The second column shows how Decile 3's spend hardly influences the CPI – the weighting per group and the total weighting of 1.89% in the CPI basket means that this large category of South African working class households barely features in the CPI.

This means that the CPI is not able to accurately reflect or track the spending patterns or proportional spend on the 12 goods and services groups of low-paid workers. Low-paid workers spend proportionally more of their wage on fewer goods and services groups in the CPI basket, specifically food, transport, electricity, education, housing, communication, clothing, cultural obligations and burial insurance; and buy fewer items in these groups.

We have argued that the CPI underestimates the actual proportional spend on goods and services by low-paid workers, this even before the weighting system acts to obliterate expenditure even further.

The CPI does not reflect how low-paid workers spend; how much they spend on groups of goods and services; and the total Rand-value spent. It is not able to reflect the changes in the costs of goods and services consumed. The CPI is structurally unable to measure inflation, predict what inflation will be in the future, or show what the impact of inflation will be for workers paid at the National Minimum Wage.

The CPI cannot be used as an instrument to guide annual wage adjustments on the National Minimum Wage.

Our strong recommendation here is that CPI Headline Inflation cannot be an appropriate guideline for determining annual increments on the National Minimum Wage because South Africa's extreme inequality skews the CPI's ability to measure inflation on the cost of goods and services bought by workers paid at the National Minimum Wage rate.

It might be possible for STATSSA to disaggregate data related to Expenditure Decile 3, or there may be other STATSSA data sets that would better capture the inflation levels for low-paid workers. It may even be useful to ask STATSSA to design a data set which specifically captures the inflation levels for workers paid at the National Minimum Wage rate. Beyond STATSSA there may be Research Institutions (inside and outside the academy) that may track such data which could be useful to inform annual adjustments.

2. The proposal to increase the NMW by inflation plus 1,5% is unlikely to be enough to address the limitations in the CPI or the real cost of living of workers.

It is not clear on what evidence the 1,5% figure was arrived at.

It is stated that “[CPI] inflation for low-income households is significantly higher than for upper-income groups ...that in September 2020 the inflation rate for the poorest decile was 3,3%, while it was 2,7% for the richest decile. The main reason is the relatively sharp increase in food prices, since food constitutes a higher share of consumption for lower income households...The fact that the overall inflation rate understates price increases for low-income households means that in order to maintain the value of the national minimum wage in terms of purchasing power, the increment must exceed headline inflation” (page 5). On page 8, there is also reference that the NMW remains below the poverty line, and hence provides further justification for an increase (above inflation).

There is a recognition that the NMW increment would have to exceed the inflation rate, but there does not appear to be any evidence for how the 1,5% was determined. Notwithstanding our critique that the CPI is not an appropriate guideline for determining the annual increment on the NMW and therefore an inflation plus an additional amount (based on the CPI), would still be inappropriate: it is hard to discern on what basis the 1,5% was arrived at. Why 1,5% and not 5% for example? With no evidence provided, the 1,5% might simply have been an arbitrary number, we simply do not know. What we are certain of, based on our data, which we will show below, is that the addition of a 1,5% on top of Headline Inflation will not be enough to ensure that workers receive an adjustment above the increase in the cost of living for 2021.

We recommend that the additional +1,5% increment be scrutinised (with evidence) to determine whether indeed it will be enough to ensure that workers receive increases above the cost of living for the 2021 term.

3. Determining the rate of inflation at a moment in time vs. a proper analysis of inflation for the entire 2021 term.

The Commission states that “The inflation rate (measured by CPI) as of September 2020 was 3%, so the adjustment should be in the order of 4,5%. **The actual amount, however, will depend on inflation in the month in which the adjustment is effected**” (page 7, our emphasis).

We find this way of settling on inflation for the 2021 term problematic. It is strange that the Commissioners would choose the inflation rate at one moment in time (using just one month) as the inflation rate for the entire year. It is further problematic because this selected month is in the past.

We would strongly recommend that instead of using past inflation as at one month, to peg what the inflation rate will be for the entire 2021 term; that a thorough analysis of inflation for the full 2021 term be made. Current forecasts range between 3,9% and 4,4% (but this is Headline Inflation and not disaggregated at the low-paid worker-level). This is likely to provide a more reliable inflation range, at which to peg the baseline inflation rate.

Here projected inflation on the three core worker expenses would also have to be part of this analysis. Specifically, electricity tariff increases which come into effect in June or July of each year, taxi fare increases which come into effect in July or August of each year, and projected food prices which are unpredictable and prone to spikes. [See later in section 6 for our projections].

4. What is a more realistic inflation level experienced by workers earning at the NMW level?

Previously we have argued that the CPI is not structured to measure inflation experienced by low-paid workers. What then is a more realistic level of inflation on the goods and services prioritised by workers paid at the NMW level?

For several years PMBEJD has been tracking the maximum monthly NMW against three core worker expenses, which take up the highest proportional expenditure per month. These expenses are transport, electricity, and food.

Statistics South Africa's Quarterly Labour Force Survey, for Quarter 3, 2020 finds that for Black South Africans, the wage of one worker supports a reductive average of 4,4 persons.⁷ Our household affordability data in relation to the NMW is calculated on the dispersal of the wage in a family size of 4 persons.

PMBEJD data averaged from March 2019 to November 2019 and compared to March 2020 to November 2020 shows that these three core expenses have increased by **7,5% or R306,63** year-on-year. Of even greater significance, our data shows that the deficit in the NMW to secure just the three core expenses has grown over the past two years – **from a 21% deficit in the 2019 term to a 26% deficit in the 2020 term**. This shows that workers earning at the maximum level of the NMW cannot secure just the three core expenses of transport, electricity, and food⁸, and that every year the struggle deepens. See Table 7.

Table 7: Inflation on 3 core worker expenses between 2019 and 2020, compared to NMW adjustments.⁹

	Mar 2019 to Nov 2019	Mar 2020 to Nov 2020	Change in Rands	Change in %
National Minimum Wage (max)	R3 360,00	R3 487,68	R127,68	3,8%
<i>Household Expenses</i>				
Transport to work & return	R1 129,78	R1 213,33	R83,55	7,4%
Prepaid electricity (350kWh)	R567,77	R625,73	R57,96	10,2%
Basic Nutritional Food Basket (4 persons)	R2 384,41	R2 549,53	R165,12	6,9%
Total for 3 Household Expenses	R4 081,96	R4 388,59	R306,63	7,5%
Deficit on NMW (Rands)	-R721,96	-R900,91		
Deficit on NMW (%)	-21%	-26%		

The 3,8% annual increment in March 2020 was far lower than the inflation experienced by workers. The inflation level measured by PMBEJD on the 3 core expenses of transport, prepaid electricity, and food increased by 7,5%. The 3,8% annual increment did not preserve the value of the NMW. Instead workers in 2020 are worse off: inflation on the cost of goods and services having exceeded the annual increment on the NMW.

Our data shows that for the three core expenses of transport, electricity and food to be secured, that the NMW level per hour in the 2019 term would have had to be R24,30 an hour (an increase of R4,30 per hour or 21%). For the 2020 term, the NMW hourly rate would have had to be R26,12 an hour (an increase of R5,36 or 26%). See Table 8.

Table 8: What the NMW rate should have been for workers to cover at least the core 3 expenses (2019 & 2020).¹⁰

	Mar 2019 to Nov 2019	Mar 2020 to Nov 2020
What the NMW rate was	R20,00	R20,76
What the NMW rate should have been to cover 3 Household Expenses	R24,30	R26,12
How much the NMW rate should have been increased by (Rands)	R4,30	R5,36
How much the NMW rate should have been increased by (%)	21%	26%

⁷ STATSSA (2020). Quarterly Labour Force Survey, Quarter 3, 2020. Statistical release P0211. **Statistics South Africa**. Pretoria. P28-29, 46-47. See Link: <http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2020.pdf>

⁸ Note that the food figure we use in our NMW calculations comes from PMBEJD's Basic Nutritional Food Index. This basket differs from the Household Food Basket in that it is designed by a Registered Dietician and costs a basic basket of food for proper nutrition, health and well-being, and worker productivity. The Basic Nutritional Food Basket is further designed to measure food costs for various family sizes – because we use the family size of 4 persons for our NMW calculations, we use the Basic Nutritional Food Index figures and not the Household Food Basket.

⁹ PMBEJD (2019 & 2020). Household Affordability Index (March 2019 – November 2019) and (March 2020 to November 2020).

Pietermaritzburg Economic Justice & Dignity Group. Pietermaritzburg. See link: <https://pmbejd.org.za/> (data consolidated from each of the individual monthly indices).

¹⁰ PMBEJD (2019 & 2020). Household Affordability Index (March 2019 – November 2019) and (March 2020 to November 2020).

Pietermaritzburg Economic Justice & Dignity Group. Pietermaritzburg. See link: <https://pmbejd.org.za/> (data consolidated from each of the individual monthly indices).

5. An analysis of the proposal of a 4,5% annual increment on the NMW to cover real inflation on the goods and services of workers.

If we take the proposal of a 4,5% increment and superimpose it onto our current March 2020 to November 2020 data and zero inflation on transport, electricity and food: the data shows that the 4,5% increase will still not be enough for workers to secure transport, electricity and food. The wage deficit would still be 20%. If in 2021 workers experience an inflation rate of 5% or 7% or 10% on transport, electricity, and food; the wage deficit will deepen dramatically, and the value of the NMW will be almost obliterated. See Table 9.

Table 9: Projecting the proposed 4,5% wage adjustment on 2020 expenses at zero inflation.

	Current	at 4,5% & No increases on goods & services	Change in Rands	Change in %
	Mar 2020 to Nov 2020	Mar 2021 to Nov 2021		
National Minimum Wage (max)	R3 487,68	R3 644,63	R156,95	4,5%
<i>Household Expenses</i>				
Transport to work & return	R1 213,33	R1 213,33	R0,00	0,0%
Prepaid electricity (350kWh)	R625,73	R625,73	R0,00	0,0%
Basic Nutritional Food Basket (4 persons)	R2 549,53	R2 549,53	R0,00	0,0%
Total for 3 Household Expenses	R4 388,59	R4 388,59	R0,00	0,0%
Deficit on NMW (Rands)	-R900,91	-R743,96		
Deficit on NMW (%)	-26%	-20%		

A 4,5% increment would increase the hourly rate by 93 cents. On an 8-hour day the increase amounts to R7,47. For a month (average working days 21) the increment on the NMW would be R156,95. The hourly rate will be R21,69, the daily rate will be R173,55 and the monthly rate will be **R3 644,63**. To close the current gap, again zeroing inflation on transport, electricity and food: the annual increment would have to increase not by 4,5% or 93 cents but by R5,36 or 26% an hour. But this is the current gap for the 2020 term sans inflation on goods and services. It means that the increment would have to be much greater than 26% or R5,36 if workers are to secure just their 3 core expenses. And higher still because workers have other critical expenses beyond just these 3 core expenses viz. domestic and personal hygiene products, communication expenses, education expenses, debt servicing fees and burial or funeral insurance costs. See Table 10.

Table 10: What the NMW rate would have to be for workers to cover at least the core 3 expenses in 2021, at zero inflation.

	Mar 2020 to Nov 2020	Mar 2021 to Nov 2021
What the NMW rate was	R20,76	R21,69
What the NMW rate should have been to cover 3 Household Expenses	R26,12	R26,12
How much the NMW rate should have been increased by (Rands)	R5,36	R4,43
How much the NMW rate should have been increased by (%)	26%	20%

Our data, albeit hypothetical, shows that the proposal to raise the NMW by 4,5% is not going to be enough even at the current cost of goods and services set at zero inflation.

The Commission agreed that the annual adjustment should be set at an increment above the increase in the cost of living. Our data shows that a 4,5% increase will be below the cost of living for workers earning the NMW.

6. Inflation projections for the 2021 term

Although the world has become increasingly unpredictable and uncertain, it is possible to try and make some predictions of what the inflation outlook for 2021 may look like. Some of these predictions are easier than others, these being annual institutional decisions e.g. electricity and taxi fares, fuel levies and VAT. Food price inflation is much harder to predict. Below we attempt to forecast what the inflation outlook for 2021 might be for the core goods and services which impact most heavily on the pockets of low-paid workers.

Electricity tariffs were set to increase by **5,22%** however an additional **10%** on top of this could be on the cards taking the 2021/22 tariff beyond **15%** due to the ongoing Eskom/Nersa dispute.¹¹ It is not yet clear what the final determination will be. It is also important to note that local municipalities add their own mark-up to the final Nersa determination. *Because electricity expenses take up such a large proportion of worker spend (18,6% on our figures): it is critical to ascertain what the 2021/22 electricity tariff will be.*

Taxi fares usually increase by **7%** a year – this has been the case for the past three years in KwaZulu-Natal. It is possible that in 2021 the fare increases may follow this pattern. Our recent data collection on fares from Joburg and Cape Town and Durban, show similar increases, however Joburg fares increased at a higher rate. An additional factor to consider is that there is talk of an intervention by the Transport Department to subsidise fares – it is not yet known if this may come to pass and if so, how much the subsidies might be and when subsidies will be implemented. *Because transport expenses take up such a large proportion of worker spend (36,1% on our figures): it is critical to ascertain what the 2021/22 taxi fare increases will be.*

Value-added tax currently at **15%** and levied on all municipal services, food and other essential goods and services. Currently VAT on PMBEJD's Household Food Basket of R4 018,22 amounts to R248,02 in November 2020, with 6,2% of the basket made up of VAT.¹² Any further increase on the VAT-rate will reduce the money to be spent on basic goods and services by low-paid workers. It is not yet clear if the VAT-rate will be increased in 2021. *Because VAT is a regressive tax, and its impact on workers earning low incomes is so harsh, it is important that if there is going to be an increase, that this is accounted for in the new NMW rate.*

Food costs are more difficult to predict. Based on what has happened over the past year, our PMBEJD data shows that the cost of the Pietermaritzburg Household Food Basket increased by **R448,22 or 14,4%** year-on-year (November 2019 to November 2020) and **R333,64 or 10,4%** between March 2020 and November 2020. The total cost of the Household Food Basket in Pietermaritzburg stands at **R3 554,64** in November 2020.¹³ Food price inflation in Pietermaritzburg runs much lower than that of other areas. From September 2020 PMBEJD started tracking a Household Food Basket in Johannesburg, Cape Town, and Durban. In November 2020 the average cost of this basket is **R4 018,22**. Over the past 3 months (from September to November) this basket increased by **4,2% or R161,89**.¹⁴ The PMBEJD data tracks 44 basic foods which low-paid workers tell us they try and buy each month; our data focusses specifically on low-paid workers. We track the foods workers buy and the volumes they buy them in, and the retailers they buy the food from. Food prices are collected by women directly off the shelves of retailers which target the low-income market in Soweto, Alexandra, in Khayelitsha and Gugulethu, in KwaMashu and Umlazi, amongst others.

The National Agricultural Marketing Council [NAMC], uses Statistics SA's Food & NAB data, and is better able to reflect the real food price inflation for low-paid workers, focusing on a smaller disaggregated sample of foods within the CPI Food & NAB basket. Their basket also has limitations being that they track a smaller quantity of foods: 28 and in small volumes, however these foods are at least the foods which most South African low-paid workers buy each month. The NAMC has their September inflation rate on this basket year-on-year at **10%**.¹⁵

¹¹ Business Insider SA (2020). Electricity prices are going up by 15% next year. 3 August 2020. **Business Insider SA**. See link: <https://www.businessinsider.co.za/electricity-prices-are-going-up-by-15-next-year-heres-how-it-affects-you-2020-7>

¹² PMBEJD (2020). November 2020 Household Affordability Index. 25 November 2020. **Pietermaritzburg Economic Justice & Dignity Group**. Pietermaritzburg. P4. See link: https://pmbejd.org.za/wp-content/uploads/2020/11/November-2020-Household-Affordability-Index-PMBEJD_25112020.pdf

¹³ PMBEJD (2020). November 2020 Pietermaritzburg Household Affordability Index. 25 November 2020. **Pietermaritzburg Economic Justice & Dignity Group**. Pietermaritzburg. P2-3. See link: https://pmbejd.org.za/wp-content/uploads/2020/11/November-2020-PMB-Household-Affordability-Index_25112020.pdf

¹⁴ PMBEJD (2020). November 2020 Household Affordability Index. 25 November 2020. **Pietermaritzburg Economic Justice & Dignity Group**. Pietermaritzburg. P2. See link: https://pmbejd.org.za/wp-content/uploads/2020/11/November-2020-Household-Affordability-Index-PMBEJD_25112020.pdf

¹⁵ NAMC (2020). Food Basket Price Monthly – October 2020. Issue 59 – October 2020. 30 October 2020. **National Agricultural Marketing Council**. P5. See link: <http://www.namc.co.za/wp-content/uploads/2020/10/Food-Basket-October-2020-final.pdf>

Statistics South Africa's Food & NAB data (in the CPI) has their October inflation rate year-on-year at **5,4%**.¹⁶ This is a steep increase compared to previous months.

Statistics South Africa's data, NAMC data and PMBEJD data are all showing rising food prices. The rand-value increases on the cost of the basket are especially worrying, taking the average cost of the Household Food Basket in November 2020 (**R4 018,22**) above the monthly National Minimum Wage (**R3 487,68**). Even if a worker took her entire wage and spent it on food, she will still come up short (this even before deducting the non-negotiable expenses of transport fare to work and back and electricity, amongst a myriad of other critical expenses).

We do not know with certainty what the food price inflation outlook will be in the 2021 term. In our experience however, once food prices have gone up; they do not come down by much and they are already at a level that far exceeds the affordability thresholds of low-paid workers. Even if inflation on food is very low for the 2021 term, workers will still struggle to afford the food they and their families require for proper health and nutrition, well-being, and productivity. Here there is an enormous risk to employers because if workers are not able to eat a proper nutritious diet than productivity in the workplace will decline; workers will get sick, for longer, and illnesses will be more severe (more work days will be lost); and workers are likely to develop chronic diseases. Workers who are not sure whether they can secure food for their children and themselves will be extremely stressed and anxious: their focus on the work at hand will be affected. Workplaces will likely become very unstable.

Because food is core to our very survival, our health and well-being, our productivity, it would be prudent to shy on the side of caution and at least not underestimate future food price inflation.

In summary of the inflation projections for the identified goods and services which directly impact the pockets of workers earning at the National Minimum Wage level, none of the projections are subdued. All the data points to inflation at much higher levels than The National Minimum Wage Commission's proposed 4,5%.

We would recommend the Commission having a conversation with the National Agricultural Marketing Council and Statistics South Africa to assist in an analysis of what the 2021 food price inflation might be. Part of this might also be to ask Statistics South Africa with the National Agricultural Marketing Council to track a new basket of foods which low-paid workers try and buy, and in the volumes they buy them in (that is to disaggregate the Food & NAB data, from the 100s of foods most of which workers do not buy and focus on the foods which workers do buy and in the volumes they buy them in). This disaggregation is likely to provide a much better evidence-based data set which the National Minimum Wage Commission could access to inform annual price adjustments on the National Minimum Wage.

We would recommend that a conversation be had with Nersa and Eskom on what the 2021/22 electricity tariffs might be. Like the recommendation above with Statistics South Africa, for Nersa and Eskom to provide specific data on annual electricity tariff increases to the National Minimum Wage Commission.

We recommend that consultations with the large taxi federations and the Department of Transport and Department of Energy be held to better discern what the 2021 taxi fare increases and possible subsidies might be (and when these might be introduced), and fuel price projections for the 2021 term.

National Treasury would also have to be consulted regarding what the 2021 fuel levy increases are likely to be, and further if VAT is to remain at 15% or increased.

¹⁶ STATSSA (2020). Consumer Price Index. October 2020. Statistical Release P0141. **Statistics South Africa**. Pretoria. P7. See link: <http://www.statssa.gov.za/publications/P0141/P0141October2020.pdf>

7. *Why small annual increments on the NMW are insufficient: The Rand-value of the baseline wage level must be raised.*

The NMW is only useful depending on the level set. Set too low and it is a poverty wage. Because the Rand-value of the baseline wage is so low, annual CPI-linked wage increments (noting the CPIs limitations) do not allow workers to maintain their level of living standards from one year to the next. This is especially problematic as workers paid at the NMW level still live in poverty. Unless the baseline wage is raised substantially, CPI-linked wage adjustments (even if raised by double figures) is unlikely to protect the value of the wage, cover the increases in inflation as experienced by workers, nor what was once an important objective: to improve the lives of workers by enabling workers to live at a decent standard whilst transforming the low-wage regime.

Increasing the NMW by small percentage increments annually (which we have shown are below the level of inflation as experienced by workers) do not seem to us to be an appropriate method to raise the level of the NMW. Unless we raise the Rand-value of the baseline wage to a level at which workers are able to cover their basic expenses, small annual percentage increments are not going to improve the lives of workers and are unlikely to raise workers out of poverty. Instead, every year the value of the NMW will erode and workers will move deeper into poverty and debt and ill health.

The average monthly NMW in 2020 came in at R3 487,68. On our data the cost of just three core worker expenses over this same 2020 period averaged R4 388,59. Setting the NMW level below this figure before new inflation data in 2021 acts to increase these expenses, is unlikely to improve the situation of millions of workers. On the past inflation data, expenses rose by 7,5% or R306,63. Because the rand-value of expenses has increased, even low-levels of inflation will hurt workers. We do not think however that inflation in the 2021 period will be subdued.

On our analysis the baseline wage rate would have to increase to at least R30 an hour for workers to be protected in 2021. The daily rate would be R240 and monthly rate R5 040. At this level small annual increments in future years (set at the inflation level experienced by workers) would retain the value of the NMW.

8. *The consequences of a poverty-level National Minimum Wage for workers and South Africa.*

If the 2021 adjustment on the NMW falls below the cost of living for workers, then workers with no savings to draw on to absorb price increases will continue absorbing inflation by cutting back on essential expenses and taking on higher levels of debt. Because most workers already cut back expenses to levels that are deeply damaging to household functioning and well-being and household debt levels have escalated in the face of Covid-19 and the lockdown earlier in the year, and with job losses impacting on workers having to support more people on less money; the ability of low-paid workers to absorb shocks has been dramatically reduced.

Workers paid at the level of the NMW are struggling and extremely vulnerable to economic shocks. It is almost inconceivable to imagine that the NMW is not set at even the most basic level which would allow workers to at least cover their transport, electricity, and food costs. At the very least, surely, as all South Africans, we have a joint responsibility (which may entail certain sacrifices) to ensure that the most vulnerable workers, who also do the work of greatest benefit to society, are able to feed their children properly, keep their lights on, and get safely to work and back?

Maintaining the NMW at a poverty-level does nobody any good. It acts to destabilise our labour force and undermine South Africa's prospects for a strong economy and robust economic growth. Not being paid a decent wage is not good for workers, it is not good for employers, it is not good for the economy, it is not good for the public sector (health and education in particular). A poverty-level National Minimum Wage only reproduces poverty. It serves only to lock workers into poverty for generations to come. This is not the vision that so many South Africans had for the National Minimum Wage when it was conceived. It was an error to set the initial baseline wage at so low a level. It was an error to offer the NMW per hour and not per month. It was an error to agree to small annual CPI-linked increments. We made mistakes, we can learn from them and do better: we do not have to keep trudging down this ever more treacherous path of destruction and ultimately death.

The NMW is an economic asset, wages are an investment not only in work, and our social fabric but in driving a strong economy. ±6 million workers earn the NMW, if we increase the baseline wage, we will reap this expenditure in every sector of society. Workers with money in their pockets can drive demand, and this demand will drive supply, which will drive employment, which will drive demand. The wage of the lowest paid workers is crucial to drive economic growth.

9. *The importance of the National Minimum Wage Commission*

Workers covered under the National Minimum Wage Act are not unionised. NMW workers are not organised, they cannot negotiate for higher wages, they cannot strike. Workers numbering ± 6 million people, earning at the NMW rate are the most vulnerable workers in South Africa. In the absence of any formal organising body, the National Minimum Wage Commission has a responsibility to properly represent these workers. A core part of this representation is to base decisions on rigorous and credible data sets, and forecasts; to garner expert input, and to make a proper analysis of this evidence in the context of the wage as an instrument for social and economic progress, and a political vision for a South Africa that both continues to deal with past injustices whilst transforming society for a prosperous, peaceful and productive future for all.

The collective bargaining outcomes for the period 2019 to 2020 (page 6 -7) indicated that where workers are represented by unions and are involved in negotiations, that the wage increases are much higher than those decided for workers earning at the NMW level. Who speaks for whom and who decides for whom is a key part of wage negotiations. In the absence of worker's involvement in the NMW negotiations, the role of the National Minimum Wage Commission becomes extremely important.

We are not convinced that The Commission has applied their minds sufficiently in determining the annual adjustment on the NMW for the 2021 term. A core part of this is that we do not see the evidence which informed the decision to propose a CPI + 1,5% adjustment, particularly in light of the limitations on using the CPI as an instrument to determine wage increases. There is no evidence that an analysis was made into what the projected inflation levels in 2021 might be for workers paid at the NMW level. In fact, there appears to be very little data at all which informed the proposed adjustment.

We think it would be an extremely hard sell to stand in front of the lowest paid workers in South Africa and tell them that The National Minimum Wage Commission has decided on their behalf that the hourly rate for the NMW will be raised by 93 cents (not even a Rand extra), that workers will earn an extra R7,47 per day (not even enough to buy a loaf of bread), that per month, if workers work the entire working-day month, the increase is R156,95 (which will be swallowed up by the inevitable inflationary increases on electricity, transport and food). It would be hard for anybody to do this with their staff and not feel a deep sense of shame. As far as we are aware The National Minimum Wage Commission does not have to account to the lowest paid workers, to meet with them, to hear them, to make decisions with them; even just to address them. At least then, if the National Minimum Wage Commission can apply their minds to their best possible ability and be the courageous champion that South Africa's most vulnerable and lowest paid workers need the Commission to be.