PRETORIA NEWS
THURSDAY FEBRUARY 16 2017

pg 13

Jason Urbach

Minimum wage will hit the poor hardest

AFTER signing an agreement to introduce a national minimum wage (of R20/hour next year, Deputy President Cyril Ramaphosa said: "(The national minimum wage) could have been lifted to any number, but it would have had dire consequences with a huge loss of jobs."

That Ramaphosa is content to see some job losses but not a "huge" amount must be of little consolation for those who will be affected and forced to join the ranks of the 9 million currently unemployed.

In a shockingly ironic twist, the parties at the National Economic Development and Labour Council (Nedlac), have been tasked with, among others, deciding whether government employees employed under the Expanded Public Works Programme should be included in the national minimum wage agreement.

Public Works Deputy Minister Jeremy Cronin states: "Presently they (Expanded Public Works Programme employees) are paid R83 a day. If we (the government) increase that to R20 an hour, 310 000 (people) will be out of work opportunities in a year… If we pay R20 an hour, the government will have to find an extra R10 billion. In the current (economic) situation, that is not going to happen."

What's good for the goose is apparently not good for the gander. The most ardent supporters of minimum wages are those who have jobs, politicians seeking to win votes, and trade unions that stand to gain when their members' wages increase.

Whether or not these groups understand it, the national minimum wage is a massive barrier to entry, protecting those lucky enough to have a job. National minimum wage champions claim it will reduce inequality. It will not. Claiming it will, cruelly mocks the millions – especially the unskilled and inexperienced – who might have had jobs were they not priced out of the labour market.

Forcing up the wages of the working poor will not permanently solve the problem of, for example, our failed education system. There are about 36 million people of working age, but 60% have education levels of less than matric. Higher education levels are associated with improved labour force participation rates and higher labour absorption and consequently lower rates of unemployment.

A costly additional layer of regulation will only serve to worsen unemployment. A legislated national minimum wage will have a disparately negative effect on the job prospects of most new entrants into the labour market and the unemployed – typically young black people.

Last year, Labour Minister Mildred Oliphant expressed concern about the number of retrenchments that might follow the implementation of the national minimum wage. She is right to be concerned. The National Treasury has warned that a minimum wage of over R3 000 a month would result in over 700 000 jobs losses.

Employers respond rationally and predictably to a rise in labour costs – they either mechanise and employ fewer people, reduce the hours of existing employees, or do a combination of both.

Some employers may choose to forgo profits but this will stall investment in their businesses. This will halt expansion – so they won't take on extra workers and existing workers' wages will stagnate.

To cover the increased wage payments, employers will have no choice but to raise the price of their goods and services. But it's not rich people who will suffer, they can afford it. The poor will suffer the most because they are far more sensitive to even minor changes in prices.

We can also expect to see more people forced into the informal and underground sectors of the economy. In turn, this will have the perverse effect of reducing the amount of protection for the poorest and most marginalised members of society.

The most principled case against a national minimum wage is that it is morally wrong. Even one person made unemployable, is enough reason to oppose such a policy. No matter how well-intended, a national minimum wage will harm the very people it pretends to assist and exacerbate poverty and inequality.

At the current projected levels of economic growth (1.3%), incomes will double roughly every 55 years – too long to substantially address South Africa's unacceptably high levels of poverty.

In contrast, at a higher level of economic growth, say 5% – the level targeted in the National Development Plan – incomes will double every 14 years. If the government really cares about the poor, it will adopt policies known to foster economic growth. Forcing up wages by government decree does nothing to boost economic growth or productivity and fails to address why people are poor.

Exempting government from the national minimum wage will bloat the public sector at the expense of the private sector. When these policies take hold, get ready for many more years of economic stagnation and rising poverty.

● *Jasson Urbach is director of the Free Market Foundation*