**THE NATIONAL MINIMUM WAGE: FURTHER COMMENTS**

**A DISCUSSION DOCUMENT FOR THE PORTFOLIO COMMITTEE ON LABOUR**

**21 October 2015**

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1. **THE AGRICULTURAL ECONOMY**

The value of primary agricultural production in South Africa was R218, 0 billion in 2014, while its contribution to the GDP was R62, 8 billion in 2013. Over the years, the other sectors of the South African economy have grown faster than the agriculture, forestry, hunting and fishing sector, resulting in a drop in agriculture’s share of the GDP from more than 6 per cent in the 1970s to 1, 9 per cent in 2013. Despite its relatively small share of the total GDP, primary agriculture is an important sector in the South African economy. Agriculture remains a significant provider of employment, especially in the rural areas, and a major earner of foreign exchange. Agriculture’s prominent, indirect role in the economy is a function of backward and forward linkages to other sectors. Purchases of goods such as fertilisers, chemicals and implements form backward linkages with the manufacturing sector, while forward linkages are established through the supply of raw materials to the manufacturing industry. About 70 per cent of agricultural output is used as intermediate products in the sector. Agriculture is therefore a crucial sector and an important engine of growth for the rest of the economy.

While the primary agricultural sector contributes about 3 per cent to the country's gross domestic product (GDP), it represents about 7 per cent of formal employment. If the entire value chain of agriculture is taken into account, its contribution to GDP reaches about 12 per cent. Agricultural activities range from intensive crop production and mixed farming to cattle-ranching in the bushveld and sheep-farming in the more arid regions. About 12 per cent of South Africa's surface area can be used for crop production. High-potential arable land comprises only 22 per cent of total arable land. Some 1,3 million ha are under irrigation.

The field crop planted over the largest area of farmland is maize, followed by wheat and, to a lesser extent, sugar cane and sunflower seed. The grain industry is one of the largest industries in South Africa and is a very strategic one. Agriculture forms a critical part of South Africa's socio-economic and socio-political stability. Animal production contributes approximately 48 per cent to the country's agricultural output in terms of value. The industry employs about 500 000 people.

Statistics South Africa notes that total income earned by the commercial farming sector was R182 980 million in 2013 compared with R164 363 million in 2012. The total income figures reflect growth of 11, 3 per cent between 2012 and 2013. Gross farming income from all agricultural products for the year ended 31 December 2014 is estimated at R215 135 million, which is 13,2 per cent higher than the previous year.

With regard to overall employment Statistics South Africa notes that the number of employed people increased for five subsequent quarters since Q2: 2014, with the largest gain recorded in Q4: 2014 at 203 000. Employment increased by 198 000 in the second quarter of 2015 after an increase of 140 000 in the first quarter of 2015. Historically employment gains have been observed in the second quarter of every year.

According to the 2011 Census, 759 127 households with an aggregate population of 2 732 605 people (5.28 per cent of South Africa’s population) lived in *Farm areas* of South Africa in 2011, of whom 592 298 households with a population of 2 078 723 people lived on farms. At least 91.2 per cent of the *Farm Area* population was South African citizens, and at least 4.9 per cent was not. Excluding employed people who earn no income (typically business owners and family members working in those businesses) and those who did not specify their incomes, 65.1 per cent of employed Farm dwellers earned R1 600 or less per month, and a further 17.2 per cent earned between R16 001 and R3 200 per month in 2011. However, 2.5 per cent earned more than R25 600 per month.

Employment relations between farm workers and their employers are in the spotlight following violent farm worker protests in the Western Cape in November 2012 and the revision of the Sectoral Determination 13: Farm Worker Sector in March 2013. The literature highlights several impacts that an introduction of a minimum wage might have on a sector. The South African agricultural sector highlights that this impact is dynamic and can change over time.

Some of the impact of a minimum wage on a sector can include:

* Reduction in hours worked
* Reduction in non-wage benefits
* Reduction in training
* Changes in employment composition – skills profile of staff – from unskilled to skilled
* Higher prices for consumers
* Improvement in management efficiency
* Efficiency responses from workers
* Wage compression – reduction in salary of higher paid workers
* Reduction in profit
* Increases in demand
* Reduced turnover

Other studies reinforce the point: a 2003-survey of 77 wine and fruit farms in six Western Cape districts found that 58.7 per cent of farms (and 70 per cent of deciduous fruit farms) had reduced their permanent labour force in the period just after deregulation while almost half of respondents (47 per cent) planned to decrease labour in the future.[[1]](#footnote-1) A 2004-study of 18 apple producers in Grabouw and Ceres found that most producers were downsizing their permanent workforce, either by retrenching workers or through a process of attrition.[[2]](#footnote-2) The fact that permanent workers in the total table grape industry fell from 28 per cent in 2007 to 20 per cent in 2010/11, testifies to the fact that the process of labour reduction cannot easily be tied to one specific event, but is rather an on-going process.

1. **EMPLOYMENT STATISTICS IN THE AGRICILTURE SECTOR**

South Africa has the third highest unemployment rate in the world for people between the ages of 15 to 24 and estimates that more than 50 per cent of young South Africans between 15 and 24 are unemployed.

Recent statistics released by Stats SA (2015) show that joblessness in South Africa has reached its highest level since 2008, and is currently at a rate of 24.3 per cent. The number of unemployed persons increased to 4.9 million. Taking into account the expanded definition, which includes people who have given up looking for jobs, unemployment has risen to 7.3million (36 per cent).

In the agricultural sector between April-June 2014 to April-June 2015 employment increased by 29,8 per cent and with 200 000 jobs having being created for that year. The largest growth in jobs was seen in KZN (75,5 per cent), followed by Limpopo (53,2 per cent) and the Western Cape with 51,2 per cent. Job losses was seen in Gauteng (-42,4 per cent) and the Northern Cape at -15,8 per cent.

Research by Bhorat, Kanbur and Stanwick noted that there was significant employment reduction in agriculture from the minimum wage and in particular a noticeable move away from employment of part-time workers, an increase in wages on average, and a rise in non-wage compliance. The analysis also indicates that average hours of work adjusted in two ways: firstly, the overall average of hours worked fell in the post-law period, suggesting that employers adjusted to some extent on the intensive margin, and secondly, it appears that hours of work increased by more in areas where wages were lower in the pre-law period driven largely by the fall in part-time employment.

Some of the reasons for recent employment losses in the agriculture sector include:

* There was excess employment prior to the implementation of the sectoral determination and the higher wage bill encouraged farmers to shed the excess unskilled labour and replace them with more skilled workers.
* Farmers anticipated the legislation and increased capital investment (tractors, machinery and implements) by 83 per cent thus displacing labour on the farms.
* The Extension of Security of Tenure Act of 1997 (ESTA) and the minimum wage promulgation in 2003 were underpinned by strong political economy views amongst farmers about further state interventions (as in the case of Zimbabwe).
* Workplace consolidation took place with the proportion of part-time workers falling through increased use of more skilled, permanent workers.

The Labour Research Services findings on employment in the agriculture sector over time indicates that the largest drop in employment took place in 2001 (just over 500 000), two years prior to the implementation of the 2003 sectoral determination. However, employment increased again between 2005 and 2006 by 181 000 jobs and dropped steadily until a low of 627 000 in 2011 then started to increase again to 891 000 in the first quarter of 2015. This represents an increase of 20 per cent or an additional 182 000 jobs in the first quarter, year-on-year in 2015. Employment levels thus returned to the level of 2003 when the sectoral determination was first implemented.

The drop in employment of 55 000 workers by 2014 is thus a very small one given the magnitude of the increase in the minimum wage and looking at employment levels over the long-term. What the employment figures show is that most farmers had absorbed a massive increase in the new minimum wage of R105 a day, a 50 per cent increase (on the prior R69 a day) in 2013. Workers also gained tremendously with an increase in the wage bill of R1, 5 billion in 2013 and a further R1, 6 billion in 2014. However the wage determination has modestly increased real average wages and the overall wage bill was only 10.6 per cent of total farming costs in 2013.

According to the Department of Agriculture, the sector registered strongest growth of 5.6 per cent in 2014, up from 1.5 per cent in 2013. The sector’s growth was because of the R25, 1 billion (13.2 per cent) increase in gross income from agricultural products in 2014 compared to 2013. Furthermore, income increased by 8.6 per cent in 2013 from 2012 due to increases in production and higher commodity prices. Thus profit levels in the agriculture sector increased despite the introduction of the sectoral determination for farm workers in 2003 and the increase of 50 per cent in farm worker wages in 2013.

The study by the Institute on Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape sums up the experience of the agricultural sector in relation to minimum wages by stating that employment figures in the agricultural sector indicate a trend toward stabilisation of employment along with a large shift from casual and seasonal to permanent employment – i.e. both these factors are reversals of previous trends.

PLAAS indicates that the reasons for the stabilisation are:

* Labour-substituting mechanisation has been largely achieved
* More marginal farm enterprises have already retrenched, or gone bankrupt
* Farms need to retain a certain number of the labour-force to retain production levels
* Farmers have been able to adjust production systems to make the new wages affordable
* Rising cost of intermediate goods (fuel, seeds, fertilisers, fencing, crop protections etc.) rather than labour, land or capital are the main explanatory factors in the cost-price squeeze in agriculture.

Further research by Theron also suggests that “it is impossible to disentangle the impact of the minimum wage on employment from other factors that might have had an equal, if not worse impact on employment levels. Such factors include trade liberalisation, exchange rates movements and adverse weather conditions”.[[3]](#footnote-3) To illustrate their argument, they note that from 1993 to 2001 – prior to the introduction of the minimum wage, but in the period in which trade liberalisation took effect - employment in agriculture fell by 32 per cent.

What the experience in agriculture (an export sector) and minimum wage determinations indicates is that there is no mechanical relationship between wages and employment where increases in wages automatically lead to unemployment. The simplistic argument that increased wages leads to unemployment is not supported by evidence and instead what we observe is increased employment and increased profitability. Thus, besides financial gains farm workers have also scored a change from casual to permanent employment, including a reduction of workers’ weekly hours from 47 (2008) to 46 hours (2014).

1. **LIVING AND WORKING CONDITIONS ON SOUTH AFRICAN FARMS**

A report commissioned by the International Labour Organisation (February 2015) entitled: Farm Workers Living Conditions in South Africa: Key Trends, emergent issues, and underlying and structural problems noted the following:

* **Work status:** 51.1 percent had employment of a permanent nature, 25.2 per cent had employment of limited duration, and 23.6 per cent had employment of unspecified duration. Women were less likely than men to have employment of a permanent nature.
* **Employment contracts:** Over 92 per cent of workers with employment of a permanent nature and 80.8 per cent of workers with employment of a limited duration have written employment contracts. However, a mere 40 per cent of workers with employment on unspecified duration have written employment contracts.
* **Work hours:** The modal range of hours usually worked per week was 41 to 45 hours per week (41% for men and 47% for women), followed by 36 to 40 hours per week (25% and 23%, respectively), and 46 to 50 hours per week (14% and 13%, respectively). On average, women usually work fewer hours than men, with 22 per cent of women and 30 per cent of men usually working more than 45 hours per week.
* **Paid vacation leave:** Only 46.4 per cent were entitled to paid vacation leave, however, the incidence ranged from 75.2 per cent for workers with employment of a permanent nature to approximately 15 per cent for workers with employment of a limited or unspecified duration.
* **Paid Sick Leave**: Only 35 per cent were entitled to paid sick leave, however, the incidence ranged from 58.7 per cent for workers with employment of a permanent nature to approximately 10 per cent for workers with employment of a limited or unspecified duration.
* **Maternity/Paternity leave:** Few farmhands and labourers were entitled to maternity (5.6%) or paternity leave (1.5%).
* **Contribution to pension or retirement fund**: Only 20.6 per cent of farmhands and labourers received a contribution to pension or a retirement fund, however, the incidence ranged from 38.6 per cent for workers with employment of a permanent nature to less than 3 per cent for workers with employment of a limited or unspecified duration.
* **Medical aid or health insurance contribution:** Only 1.5 per cent received contributions to medical or health insurance.
* **UIF Deductions:** Approximately two-thirds (67.1%) had deductions for UIF. The proportion was higher for workers with employment of a permanent nature (90.3%) vs. those with employment of a limited or unspecified duration (45.2% and 40.4%, respectively).
* **Mode of salary negotiation:** The most frequent mode of salary negotiation reported by farmhands and labourers is direct negotiation with their employers (81.4%). Negotiation between labour unions and employers is notably higher for permanent employees (9.0%) than for workers with employment of limited (0.7%) or unspecified duration (1.1%). Relatively fewer permanent workers reported having no regular salary increase (3.8%) relative to workers with employment of limited (14.7%) or unspecified (14.8%) duration. A higher proportion of women than men reported having no regular salary increase (11.3% of women vs. 7.9% of men).
1. **CONCLUSION**

The agricultural sector faces many challenges that range from unique sectoral conditions, industrial strategy, trade dynamics as well as broader economic conditions (including domestic consumer demand), all these have a critical role in determining how a sector performs. Hence, when designing a wage policy, broader macro-economic and sectoral challenges have to be considered to ensure a balanced policy outcome.

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1. Du Toit A & Ally F (2003). [↑](#footnote-ref-1)
2. Kritzinger A & Barrientos S (2004). [↑](#footnote-ref-2)
3. Theron, et al (2007) [↑](#footnote-ref-3)