

EQUALITY, COFFEE AND THE MINIMUM WAGE

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Abstract

“Much of the debate about the national minimum wage has been characterised by what can be called the ‘half a loaf is better than none’ – approach. It is seductive to think that perhaps it is better to have a bad paying job than no job at all. This view has been especially widespread in the corporate sector and amongst business leaders. It is a slippage that we all tempted to make, because we value work and the dignity that goes with it. Yet, if one earns less than R 20-00 an hour (or even at R 20-00 per hour) there is virtually no prospect of moving out of poverty in this generation, and in all likelihood the next generation will find themselves poor and continuing to live below the poverty line.

That is one of the reasons why a National Minimum Wage is such a critical piece of legislation, because it asks us to consider not just what we know, but also the nature of our reality. It asks us to consider what concessions workers need to make in order to set a basic floor for wages that can be extended to all workers. It asks us to confront, that as a society neither the market nor government provides anything resembling a ‘social compact’ for the millions of unemployed. In confronting this reality, it appears that the challenge is quite large. One way to think about the issues that confront us is to distinguish between strategies of pre-distribution and redistribution.”

Over a chat at my local coffee shop, I spoke with the barista's about the national minimum wage I bought a cappuccino which cost R 23-00 (let's just call it R 20-00 -around US \$1,5). Remember, this is Mzansi (a colloquial name for South Africa), the most unequal country on earth – where some spend R 20-00 on a coffee, whilst others work for an hour to earn R 20-00 (or less). Many do not work at all.

My coffee shop has 3 baristas at work on any given day. Working on the assumption that they earn the proposed minimum wage of R20 per hour (it could be less - I didn't have the gall to ask them).

Presuming they earn the minimum wage of R20 per hour, that would yield around R 3 200-00 per month per person (around US\$ 230-00 per barista) calculated at R 20-00 per hour, five days a week, for 4 weeks per month). This a wage bill of R 9600-00. The three baristas will no doubt plan their expenditure better, were an increase in wage to be provided.

I was comfortable to ask what they would do with the additional income, were a wage increase to be given. The responses were interesting and ranged from:

- have more money for taxi fare to get kids transported to a better school
- enroll for a distance learning course in order to get a better job
- send money home to help out some more (popularly known as the Black Tax)
- Get an investment policy, or a better funeral plan

Apart from the uses to which an increased wage might be used, there was an additional consensus from the Barista's - more a worry - that any increase in their wage, might 'need more customers' for the business to afford the increased wage, or alternatively increase the price per cup.

A bit more arithmetic to consider – a wage bill of R 9 600-00 requires selling 480 cups of coffee at R 20-00 each. If labour costs are half of all the businesses costs, the breakeven point would be to sell 960 cups of coffee, or 32 cups a day. From the perspective of the owner she is only making a profit after selling 961 cups of coffee.

Is this doable? 960 cups of coffee, is an awful lot of coffee to sell. The response at the firm level will be interesting to observe once the minimum wage is introduced.

Some options for the owner:

- By reducing one job, the owners profits would soar, or perhaps just keep the business afloat. The cutting of a job may be made on the basis of reducing the wage burden brought about by the minimum wage, or alternatively, because of a lack of demand for coffee.
- Increasing the number of baristas – which is probably unlikely, not because wages are too high, but possibly because demand is unlikely to increase significantly enough. South Africa has very low economic growth projections, and thus a lack of demand for coffee which, may be driven by factors such as lack of disposable income and consequently dampened consumption expenditure

- Increasing the price of coffee, which provides a sweet spot of no retrenchments and of running a profitable business. An outcome that is a plausible, given the importance of ethical concerns for many coffee drinkers.
- Perhaps, these trade-offs do not occur. A potential scenario – and one advanced by supporters of the minimum wage – is that domestic demand will grow. I doubt the increased demand will be for premium coffee, but potentially for other locally paid goods. However, the owner may decide to offer a less expensive cup of coffee at a rate affordable to workers whose wages have been moved to the minimum wage.

Bedding down the minimum wage would require configuring the implementation of the policy in ways that make it easy for firms to not only be compliant with the National Minimum Wage policy, but to also be profitable, and job creating, rather than job reducing.

Consequently, as implementation arrangements are designed, a consideration of incentives and possibly even a reduction of corporate tax, ought to remain on the agenda, in order to achieve the triple goals of growth, stimulating consumption demand, better wages and firm growth. This will require some tough and imaginative concessions on both sides to make this work ensuring that wages rise and firms remain profitable.

The policy goal could be summarised as buying a coffee that is – single origin, fairtrade compliant, locally/African sourced, made by a barista earning more than a minimum wage in a firm that is growing employment and is supported by a clientele who have larger amounts of disposable income.

This is a demanding list, but a necessary one if economic reforms are to be growth inducing and inequality reducing.

8 FEBRUARY 2018 – INSTRUMENTAL SUPPORT

Isn't it striking, that when asked what additional income will be used for, one of the barista's and workers remarked: "have more money for taxi fare to get kids transported to a better school"

But as a friend remarked on social media says, :“No child should have their education limited by being unable to afford a taxi”.

What the social media comment points to, is to ask us to consider whether “the minimum wage” inadvertently links basic human rights guaranteed in our Constitution, to earnings, or not? This is a lingering question.

On the one hand, an increase in wages provides a very modest increase in household income, which may support household asset accumulation strategies that might improve social mobility. On the other hand, these rights are surely not contingent on having a salary, in order to be able to afford them. These are after all, not luxuries, but basic rights.

Much of the debate about the national minimum wage has been characterised by what I call the 'half a loaf is better than none' – approach. It is seductive to think that perhaps it is better to have a bad paying job than no job at all. This view has been especially widespread in the corporate sector and amongst business leaders. It is a slippage that we all tempted to

make, because we value work and the dignity that goes with it. Yet, if one earns less than R 20-00 an hour (or even at R 20-00 per hour) there is virtually no prospect of moving out of poverty in this generation, and in all likelihood the next generation will find themselves poor and continuing to live below the poverty line.

It is also worth remembering whether half a loaf or not, that most loaves of bread are bought from cartel like firms in concentrated markets. In such markets, the wage gap is extraordinarily wide, with the salary of the CEO of a very large baking company (usually an integrated food services company) compared to the wage of the worker on the farm, is astronomical. Bloomberg data calculates the wage gap between CEO and worker to be at a ratio of 541 to 1 which means that a CEO earns 541 times more than the worker on the farm.

29 MARCH 2018 – GOOD MORNING, NATIONAL MINIMUM WAGE

On 29 March 2019, the Parliament of the Republic of South Africa passed the Legislation that introduces a Minimum Wage. What impact would this have on most ordinary South Africans?

Let's look at three of these South Africans, briefly.

The Aunty selling avocado's and cakes does a brisk trade on the side of the road. But her markup is small and her costs, high. She sells avocado and cakes daily, besides a Friday afternoon when she sells "Potchefstroom" which to her customer's means fancy cakes. Though pricier than her usual fare, her mark-up on the fancier cakes is still small, and she has to share the weekend fancy cake market with the equally fancy, but snootier 'home industry' across the road from where she sells her cakes.

Down the road from the Aunty selling Avocados and cake is the recycler rolling on a trolley on his way to sift through middle class trash, rich in strewn plastic bottles, paper, cardboard and other vestiges of recycled dreams. An unwritten rule of the South African Road is that recyclers running trolleys on the side of the road have "right of way", which is a rule even the notoriously risky taxi drivers respect.

Everywhere one looks, in South Africa one finds this kind of entrepreneurial zeal. "Entrepreneurship" is infectious, but illusionary.

The lady selling cakes, the waste picker recycling waste and even the taxi driver, can all be described as self-employed. These hard-working folk are normally up before dawn, wait in ques to get transport, travel long distances and work a full eight hour day (if not longer). These entrepreneurs are resourceful and filled with zeal and hope. But, will they earn R 20-00 an hour being self-employed? Would it not be better for them to Is it not better just being employed?

In relation to the "half a loaf is better than none" argument, the economic Commentariat echo the argument that South Africa has high unemployment and that raising wages will lead to even less employment. This is usually repeated with condescension. It doesn't occur to

them that the three entrepreneurs we spoke about here, are engaged in survivalist activity making a profit that is probably less than R 20-00 per hour.

The entrepreneurs we described will all not benefit from the national minimum wage, because they are all self-employed. A euphemism for 'survivalist workers'. The Minimum wage will also not benefit the 6 million unemployed South Africans.

A crucial gap.

Late in the evening of the 29 March 2018, President Cyril Ramaphosa makes a distinction between the minimum wage and the living wage. He concludes that the minimum wage is not the living wage. This sounded like a bit of pointless nit picking. Doubtless, the work of NEDLAC in negotiating the National Minimum Wage was impressive. Almost 6.4 million workers will benefit from the National Minimum Wage. But, governments response to this is concerning, which seeks the Minimum Wage as an incremental step towards a living wage, and suggests that once the minimum wage is introduced, the economy will adjust.

4 JULY 2018 – POLICY CHOICES

So what now? The reason for sketching snippets of ordinary everyday activity is to demonstrate that policy is founded on what we know of everyday life. We know that many in our society earn well below the poverty line and will in all likelihood remain there. We also know that that unemployment is shockingly high.

But, we also know that we need to do something to increase economic growth. Much of our public policy is based on this.

That is one of the reasons why a National Minimum Wage is such a critical piece of legislation, because it asks us to consider not just what we know, but also the nature of our reality. It asks us to consider what concessions workers need to make in order to set a basic floor for wages that can be extended to all workers. It asks us to confront, that as a society neither the market nor government provides anything resembling a 'social compact' for the millions of unemployed.

In confronting this reality, it appears that the challenge is quite large. One way to think about the issues that confront us is to distinguish between strategies of pre-distribution and redistribution.

Pre-distribution is the idea that the state should try to prevent inequalities occurring in the first place through providing interventions that correct both, unavoidable market induced inequalities as well as historically inherited inequalities (in the case of South Africa this inequality is racialised).

A pre-distributionary policy agenda would require high levels of State capacity and effectiveness and appropriate policy that:

- Links government policy to supporting markets that widen ownership and generate employment.
- Significant improvements in the implementation of existing pre-

distributionary policies in health, education, land reform, housing, economic empowerment and affirmative action, and

- Limiting of special interest, clientelist and patronage claims on state largesse, especially through public procurement.

Redistribution which is concerned with lessening inequalities through a system of taxes, subsidies and benefits.

What are the optimal interactions between these two, and what are the interactions that are feasible?

Would a Basic Income Grant (BIG) paired with a minimum wage be optimal?

Even if not optimal, at least this combination would provide a good foundation for the alleviation of absolute poverty and the reduction of inequality. Even in this scenario, many will remain vulnerable due to short term economic shocks such as unemployment, or longer-term impacts such as the death of a breadwinner. Consequently, something bigger is required, one that builds assets. Asset acquisition and asset building

This requires asking demanding questions about what role the market plays in supporting employment growth with fair compensation, and taking a harder look at how the national budget is prioritised and re-prioritised. The National Minimum Wage is but a start in that direction. As a starting point this requires carefully monitoring the ability of firms and households to adjust to the introduction of the minimum wage, while remaining resolute to implementation. Over a longer term, our society may consider a strategy for asset building, that could take a range of forms, including a job guarantee scheme. Another alternative is the introduction of a “stakeholder grant” that provides all citizens a substantial one-time lump-sum transfer from the state, sufficiently meaningful for young adults to have a set of realisable choices in the market. Whatever the configuration of egalitarian social policy, it will have to find an optimal combination of redistribution and pre-distribution. The national minimum wage is merely a start to finding a solution to a deep and entrenched levels of inequality.

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