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## National minimum wage in South Africa: A Computable General Equilibrium Model Analysis

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The introduction of a national minimum wage is an important current national policy issue in South Africa. The national minimum wage is aimed at providing a national wage floor, beyond which no employee can fall. There are two key points of dispute: the level of the national minimum wage and whether there should be a single minimum wage or a differentiated system. Our paper focuses on the second point. Gains made by the labour organisations on these issues are perpetually under conflict and face setbacks (Coleman, 2014), however it is yet to be established what the impact would be on the macro-economy, industries, tax and social security. A topic with such cross – cutting impacts is ideal for a collaborative examination such as the practicum advises.

Proponents of the national minimum wage such as Isaacs and Fine (2015) argue that setting a minimum wage should not occur in isolation, and other policy procedures to create jobs and stimulate high wages must be instigated in sequence. Recently the introduction of a basic wage was discussed in the National Economic Development and Labour Council (Nedlac). The Congress of South African Trade Unions (COSATU) is demanding a R7,000 monthly minimum wage, while all farm and domestic workers are demanding a national minimum wage of between R5,000 and R5,500. It is not a surprise then, when the mineworkers demand unfluctuating wages of between R7,500 and R12,500 (Cosatu, Nactu & Fedusa, 2014: 5; Coleman, 2013: 34). This proposed target range for a national minimum wage must be highlighted by further cautious analysis. Investigation is required into the hypothetical employment impact of distinct levels of minimum wages in different economic states of affairs, of which the actual perspective is but one. As argued by Isaacs and Fine (2015), thus far this has neither been investigated by Coleman (2014), nor by Seekings and Nattrass (2015) and other advocates of low minimum wages. They further recommended that such an investigation must comprise of at least an assessment of the actual wage system and the challenges encountering its reform, lessons from other developing countries, policy design, and modelling the impact of a national minimum wage on poverty, inequality and employment (given a variety of economic and policy scenarios).

In this paper we attempted to analyse the impact of the national minimum wage on the South African economy using a Computable General Equilibrium (CGE) model. The parameters of the CGE equations were calibrated to observed data from a social accounting matrix (SAM) for 2010. One policy option with three scenarios was considered. The results from the policy scenario highlight that an increase in the national minimum wage has a negative and distortive impact on the reported macro-economic variables. This is particularly seen by a decline in GDP, employment and

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welfare. For instance, in the first scenario the real GDP decreased by 1.8506% when the national minimum wage was set to R3000 across all sectors. Behind their policy implications, our findings highlight the negative effects of national minimum wage, as well as the need to consider both labour and production market conditions when designing policies to address South Africa's national minimum wage challenge.

**References:**

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