BIZCOMMUNITY

The national minimum wage and South African agriculture

By Thabi Nkosi

18 Jan 2016

The implementation of a national minimum wage has been an important point of discussion in recent times. Few can argue against the need for decent wages, particularly given the reality of the working poor in South Africa. At the same time, however, rising input costs have seldom been accompanied by increases in productivity thus contributing to the diminishing competitiveness of South African industries.

Thabi Nkosi

Lower ROI and higher labour costs

The Bureau for Food and Agricultural Policy (BFAP) investigated the likely impacts of the proposed national minimum wage on several key agricultural industries. The proposed national minimum wage of R4,500 per month represents a 72.6% increase above agriculture's current sectoral minimum wage.

BFAP estimates that in the labour intensive apple and pear industries, the proposed wage, in its first year of introduction, would result in an annual return on investment that is 40% lower. The analysis further shows that on a typical farm in the North West that produces maize and sunflowers, the proposed wage would raise labour costs from R681,178 in 2016 to R1,175,712 in 2017.

In sugarcane production, a typical farm in KwaZulu-Natal would see labour costs increase by 97% between 2015/16 and 2018/19. The researchers also estimate that in the wine industry, an important earner of foreign exchange, labour's share in total production costs would increase from 33.8% in 2014/15 to 47.8 % in 2016/17 as a result of the new wage.

A delicate balance needed

The issue of farm wages has been a contentious one, particularly since the 2013 farmworker strike. Margins in primary agriculture are however notoriously thin and real farm wages in South Africa have increased rapidly since the 90s (admittedly from a very low base). While farmers expect wages to increase and have grown adept at managing the impact of these wages, there are limits to their ability to adapt, especially in the short term.

©Laura Wrede via 123RF

The research conducted shows that, given that the majority commercial farmers have an estimated annual turnover of less that R2 million, the introduction of the proposed national minimum wage is likely to adversely affect the continuity of commercial farming operations (particularly those with limited mechanisation opportunities) and their ability to rise to the challenge of job creation. It is, therefore, clear that in the introduction of a national minimum wage, a delicate balance must be struck between social imperatives and the need for business continuity.

ABOUT THE AUTHOR

Thabi Nkosi, Senior Economist at Agri SA