

**The Effect of Minimum Wages on the  
Employment and Earnings of South  
Africa's Domestic Services Workers**

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## **Exploring the Impact of Minimum Wage Regulations on Domestic Workers**

In September 2002 the prospect of increased wages and improved working conditions glittered on the horizon for domestic service workers in South Africa, with the introduction of minimum wages and guidelines governing basic conditions of employment.

With domestic workers traditionally having been – and still remaining – the lowest paid broad category of labour in South Africa, the new regulations represented a major step in improving both their financial status and working conditions.

However, having had no formal record of domestic employees, government was left largely reliant on the cooperation of employers for compliance. Now, several years after wage minimas were introduced, it is imperative to question to what extent these regulations have been implemented and what impact they have had on domestic workers in terms of employment and earnings.

Simply put: are workers earning more money, working shorter hours and enjoying better working conditions? In tandem with this; have the numbers of people in domestic employ changed significantly as a result of the regulations and have levels of poverty been reduced?

## **Looking at the History of Minimum Wages and Related Regulations**

Until September 2002 South Africa's domestic workers, numbering 1.2 million at that time and including housekeepers, cooks, nannies and gardeners, had been afforded no governmentally implemented labour market protection. This changed with the introduction of new regulations which included:

- A schedule of minimum wages which included the provision of time-and-a-half for overtime, paid leave and severance pay. (The minima were set above the median hourly wages that prevailed at the time and were increased in November 2003 and again in November 2004.)

- The requirement of a written employment contract and notice prior to dismissal.
- The requirement of registration with the Unemployment Insurance Fund (UIF) and the contributions of related funds as of April 2003.

*This paper attempts to determine what collective effect the above changes and regulations have had on wages, employment levels, hours of work, total earnings, poverty and the conditions of employment of domestic workers.*

## Understanding the Research Methodology

It is vital to keep in mind that a descriptive analysis doesn't necessarily imply a causal relationship. For this reason the findings of this report include both a **descriptive analysis** (describing the changes that have occurred in employment and earnings) and **econometric evidence** (establishing if these were caused by the introduced wage and non-wage regulations).

### A Descriptive Analysis

Drawing on data from the semi-annual **Labour Force Survey (LFS)** from September 2001 through September 2004, this paper presents a descriptive analysis on changes in wages, hours and amount of jobs. Data is designated as follows:

**Year 0** – Pools waves 4 and 5 of the LFS, undertaken in September 2001 and February 2002. This data constitutes a legitimate baseline as employees had not at this point begun acting on proposed regulations to a significant extent.

**Year 1** – Pools waves 7 and 8 of the LFS, undertaken from March to September 2003, as the minimum wage was then effective for all classes of domestic workers. (Wave 6 of the LFS has been omitted as it coincides with the introduction of non-wage obligations but pre-dates the minimum wages.)

**Year 2** – Pools waves 9 and 10 of the LFS, undertaken from March to September 2004. It is important to note that the higher minima were in effect for this period.

Unless otherwise stated a 10 per cent threshold is assumed to qualify as statistically significant.

### A Causal Relationship based on Econometric Evidence

No adjustment is made for other factors that may have affected the market for domestic services, but econometric evidence based on a cross-regional analysis of before/after changes in wages, hours and jobs is incorporated. This provides evidence on whether the observed outcomes are causally related to the new regulations or merely descriptive of the situation. (In-depth information relating to the approach adopted in compiling the econometric evidence and to the subsequent deductions is available on request.)

*It should be remembered that the descriptive results and (to a lesser extent) the econometrics, are highly sensitive to the choice of weights, which have been calibrated as precisely as possible, but do not rule out the possibility that revised weights may produce a better final product that alters the results of this report.*

### The Effect of Poverty

Using the above data, conclusions on the **impact of the minimum wage on poverty** are drawn using a comparison between estimated elasticities based on the **1993 PSLSD data**.

### Defining Domestic Work and Understanding the Variables

This document offers both a **narrow and a broad definition** as a measure of who should be included under the term “domestic worker”.

The **narrow definition** requires that *all* of the following must apply to the worker: he/she must (a) have performed domestic work in the past seven days or report that they have a job from which they are temporarily absent; (b) meet the StatsSA definition of employment, which allows for recent absence from work for some reasons but not others; (c) report working in a private household; (d) be categorised as working in the domestic industry; (e) report an occupation code of either 9131, 6113, 9211, or 5131 (code 5169, security guards); and (f) report a work location that is neither a formal business, shop, market, nor street corner.

The **broad definition** changes the “and” to an “or” in the above list: workers must either (a) report having done domestic work in the past seven days, and not report any non-domestic wage or salary employment; or (b) report working in a private home; or (c) be categorised as working in the domestic industry; or (d) be assigned occupation code 9131.

*While the narrow definition may tend to undercount domestic workers, the broad definition probably tends to over-count, meaning that it's likely the two definitions bracket the true employment trend.*

When analysing the results of the survey one should also keep in mind that no data is available for payments in kind. New regulations place lower limits on wages, and upper limits on the degree to which payments in kind may be substituted for wages, but the reshuffling of compensation packages that is likely to occur is hard to track.

## Revealing the Changes in Employment and Earnings

### Changes in Wages and Earnings

**Across male and female workers, real hourly wages have risen by almost 20 per cent:** from R3.27 in September 2001/February 2002 to R4.45 in mid 2004.

**Women's wages increased by 22 per cent and men's by either 6.6 per cent or 12 per cent.**

**The percentage of workers earning below minimum wage fell:** from 75 per cent to 63 per cent.

**Average monthly earnings increased by about 15 per cent.** This results from a real wage increase of 19 per cent combined with a reduction in hours of about 5 per cent (discussed below). **The total estimated earnings of men and women combined rose by 8 or 9 per cent.**

- **Men enjoyed a 27 per cent increase in total estimated earnings.** This is accounted for by the fact that men benefited from an increase in employment levels.
- **Total earnings for women did not rise significantly, despite a rise in real hourly wages.** Due to the high employment losses among women (discussed below

under “changes in employment levels”) the net increase in total earnings was 3.5 to 5 per cent, which is not significant at the 10 per cent threshold.

**There has been a total increase in real monthly earnings of 8 or 9 per cent for men and women together.** This consisted of a 27 to 29 per cent rise for men and a 3.6 to 5 per cent increase for women.

**All real gains for women came in Year 2**, whereas earnings for men rose steadily over 2 years.

**The minimum wages have a spillover effect on wages above minima**, meaning that the earnings of employees already earning above minimum also increased. This is especially evident in Year 2 where a mandatory increase of 8 per cent per annum was introduced.

**A causal relationship exists wherein minimum wages raised average wages** both from Year 0 to Year 1 and Year 1 to Year 2, according to econometric evidence.

### **Changes in Hours Worked Per Week**

**The average amount of hours worked per week dropped.** There was a 5 per cent reduction in hours worked by women and a decrease of 2 per cent for men, although the latter is not significant at the 10 per cent level.

**The drop in hours seems to be by mutual agreement** as there has been no increase in the amount of domestic workers who would like to work more hours.

**The total amount of hours worked per week dropped overall.** Taking into account the total hours worked, the combined effects of changes in employment and the length of the work week:

- **For men, a growth in employment dominates**, raising hours by 12 to 13 per cent over two years.
- **For women, the drop in employment led to a negative change in total hours** amounting to -14 or -16 per cent.

**Econometric evidence supports the causal relationship** between the introduction of a minimum wage and the reduction of hours worked.

## Changes in Employment Levels

**Employment levels of women fell by either 9.8 per cent or 11.8 per cent** over two years, depending on the sample. This includes full and part-time employment and has an effect on total earnings for the period, as discussed under “change in wages and earnings” above.

**Male employment rose by 14 to 15 per cent.**

**In women elasticities show a drop in employment levels in relation to wage increase.** Using a crude elasticity derived by dividing the log changes in total employment by the log changes in the average real wage, the report shows that elasticities are generally positive for men, but vary between -1.55 and -0.28 for women, depending in the sample and the time period.

**The negative impact on employment of women is apparent in Year 2,** with almost no effect visible in Year 1.

**Employment rose gradually over both years for men,** yet there is also a detectable negative effect of the minimum wage which is likewise stronger in year 2.

**The number of unemployed male domestic workers has risen** even though there has been a growth in employment levels of male domestic workers. This is possibly because of a higher labour force participation rate brought about by increased wages. (When we speak about “unemployed domestic workers” we mean those who report their employment to be as a domestic worker.)

**There has been a total 9.1 per cent rise in unemployed men and women** from Year 0 to Year 2. It is important to note that despite this, there has been no decline in the number of months since last worked.

**A fall in employment levels in response to the rise in wages is also causally supported** by the econometric evidence.

## Changes Pertaining to Related Regulations

**UIF registration rose** from 0 per cent in Year 0 to 21-22 per cent in Year 2.

**Despite the rise, less than 30 per cent of domestic workers were making UIF contributions** by Year 2.

**The amount of workers with a written contract has risen** from about 8 per cent to between 25 and 30 per cent.

**The incidence of paid leave increased** by about 17-18 per cent in Year 0 to 21-22 per cent in Year 2.

**Pension benefits have increased** even though mandatory pension benefits were not introduced.

**Health insurance benefits remain 0.**

**There was a proportionately large rise in union membership;** from 1.0 per cent in Year 0 to 2.6 per cent in Year 2.

**Greater use is being made of labour brokers and third-party mediation** by domestic workers to settle grievances. Records of the Commission for Conciliation, Mediation and Arbitration (CCMA) indicate a 50 per cent increase in cases dealing with unfair dismissal from September 2003 to February 2005. This probably reflects both a genuine increase in dismissals as well as an increase in awareness of their rights as domestic workers.

**Non-wage regulations are positive instruments of change** and (with the exception of introducing paid leave for men) don't seem to be disempowering.

### **Changes in Poverty**

**Poverty should have been reduced somewhat**, especially for the households of male domestic workers. This conclusion is suggested by the cumulative two-year changes, but is however necessarily tentative.

### **Concluding on whether earnings and employment have improved**

It is encouraging to note that, despite substantial apparent non-compliance with the new wage and non-wage provisions, domestic workers in South Africa have enjoyed a rise in: average hourly wages; average monthly earnings; total monthly earnings; UIF compliance, and to a lesser extent in written contracts and paid leave. At the same time there has been a decline in the amount of hours worked, seemingly by mutual consent between employers and employees.

Unfortunately there are still too many people earning below minimum wage. Although the percentage of workers below the minimum wage fell, around 58 per cent of employed domestic workers still earn less than legally required.

In addition, not all the effects of new regulations have been positive – there is evidence of the micro-economically anticipatable loss in employment for both men and women.

This said, it must be remembered that it took 2 years and further increases in the minimum wage before significant real earning gains were seen for the average domestic worker. Taking a range of factors into account it therefore seems likely that despite the loss of employment experienced, the new regulations have had a positive effect on alleviating both poverty and ultra-poverty.

When analysing the descriptive results in relation to the econometric evidence, it is apparent that the introduction of minimum wages has to a large extent achieved the desired effect of improving wages and working conditions, levels of non-compliance notwithstanding.

If you would like more information on the contents of this document, specifically the statistical data, or if you have any queries or questions, please feel free to contact the DPRU for the full version of the paper or you may download it from our website: <http://www.commerce.uct.ac.za/dpru/WorkingPapers/wpapers.asp>