Published on *Adam Smith Institute* (http://www.adamsmith.org)

South African unemployment and the minimum wage [1]

Written by **Sam Bowman** [2] | Friday 8 October 2010

South Africa has a long-running unemployment crisis, which is hitting the country's poor hard. The New York Times reports [3] that during the 1990s, the country?s trade unions negotiated minimum wage laws that were restrictive and artificially high. This has meant that, since the start of the global downturn, foreign businesses investing in South Africa cannot afford to pay wages there and remain profitable, and have had to shut down as a result. South Africa?s unemployment rate has been one of the highest in the world for over a decade. South Africa is a sad example of the fact that minimum wage laws end up hurting, rather than helping, the poor and unskilled.

The economics are simple, but ignored by many: if the cost of a person?s labour is higher than the productive value of that labour, the firm will be making a net loss and fire that person. Ordinarily that person would reduce his wage asking price, but minimum wage laws prevent that and make unemployment the only option. This doesn?t affect skilled and valuable workers whose productivity and wage rates are much higher than the minimum wage level, but it can have a brutal impact on those who are unskilled and unproductive, for whatever reason ? a lack of education, a language barrier, a disability, or something else. These are the weakest in society and minimum wage laws create a price floor that excludes them from the workforce.

The South African experience gives an example of this principle. The ?Rainbow Nation? has the highest immigration rate of any country in Africa, with migrants from Lusophone and Francophone Africa moving there for better work opportunities but often have little grasp of the country?s spoken languages. It also has a significant population of AIDS sufferers, a syndrome that severely inhibits its carriers? ability to work. These people have enough obstacles to work and may be quite unproductive workers as it is. The last thing they need is a government price floor to their wages that bans employers from hiring them. South Africa is an unhappy example of the universal consequences of minimum wage, which governments ignore at their weakest citizens? peril.

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/international/south-african-unemployment-and-the-minimum-wage

Links:
[1] http://www.adamsmith.org/blog/international/south-african-unemployment-and-the-minimum-wage
[2] http://www.adamsmith.org/taxonomy/term/5809
[3] http://www.nytimes.com/2010/09/27/world/africa/27safrica.html
[4] http://disqus.com/?ref_noscript
[5] http://disqus.com