Authors: Ihsaan Bassier, Vimal Ranchhod

Title: When the minimum wage increases by a lot: Evidence from South Africa’s agricultural sector

In this study, we investigate the effects of a 52% increase in the minimum wage in the agricultural sector in South Africa in 2013. We estimate the short run effects of this policy change on the employment and income of farmworkers, using both repeated cross-sectional data as well as individual level longitudinal data from the Quarterly Labour Force Surveys (QLFS).

The descriptive evidence from the cross-sections indicates an increase in average monthly earnings of 28.5% for farmworkers about two years after the law came into effect. Over the same time period, we observe a decrease in adult employment in this industry of about 5.2%, and a net increase of 24.5% in aggregate farmworker earnings.

Our difference-in-differences estimates indicate substantial increases in wages in this industry after the law, but this increase is not systematically related to an individual’s wage rate prior to the law. There is only limited evidence that employment losses were statistically significant after the law. In addition, we do not find a systematic relationship between lower pre-existing wages and subsequent job loss. In fact, the wage gains following the law are observed to be more likely amongst workers who were earning relatively higher wages to begin with. Thus, endogenous compliance may make conventional estimators using a wage gap variable statistically invalid.

Our overall interpretation of the results is that the law did cause significant increases in income for farmworkers, but did not cause substantial employment losses, although the lack of negative Our paper speaks to an important labour issue that will probably become increasingly relevant in many African countries with the passage of time. In South Africa, agriculture has historically accounted for a substantial amount of employment of relatively low skilled workers. But recently agriculture has become increasingly commercialized and mechanized, while agricultural output is increasingly being sold in highly competitive global markets. These factors may explain why the long run trend in agricultural employment has been negative. Our paper is concerned with whether it is possible to maintain both wages and employment in agriculture, as the sector evolves in response to global pressures.