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Dear Dr Kudumo

REPRESENTATIONS TO THE WAGES COMMISSION

We thank you for the opportunity to make presentations to the Wages Commission as per the Terms of Reference contained in Government Gazette 7561 of 15 February 2021.

1. GENERAL

EPRA is a voluntary association, founded in 2017 and funded by its members, mostly Namibian businesses. Its main objective is to advocate for pragmatic, sustainable, pro-growth, and investment friendly economic policy. By extension EPRA advocates for pragmatic job creation and reduced poverty and inequality.

EPRA was founded because of growing concern by Namibian businesses that the economic decline, especially as from 2016, is homegrown, and largely due to government's policies which moved away from creating an enabling environment for economic growth. Since 2016, and long before the arrival of Covid-19, Namibia witnessed capital flight, disinvestment, job-losses, and business closures. Unemployment levels increased, and is now estimated at approximately 40%, amongst the highest in the world.

Graduates are increasingly unable to secure jobs. In 2014, 6,9% of graduates were unemployed and by 2018 14,3% of graduates were unemployed. By 2015 unemployment amongst post-graduates was 0.9%, increasing to 9.5% by 2018. Unemployment amongst semi-schooled and unskilled labourers demonstrated similar trends.

We now witness the inevitable result of policies that harm private sector – reduced tax revenue and government's inability to fund public enterprises, development, and catering for a social safety net for the most vulnerable.

Our country's economy is on a precarious knife-edge, grappling with current policy directions which cannot contribute to economic growth, for these policies deviate from the basic best practice principles to create economic growth and socio-economic development. Our current policy direction follows principles which are proven to have destroyed many economies in the world. Any additional policies which may impede on an enabling environment, may have further devastating consequences for our country, and especially the poor.

For purposes of brevity, our presentations herein are principle-based, though country specific tailorable, for we assume that your commission is familiar with and has full access to all relevant best practices, trends, and relevant data. Any of the latter mentioned which may still be required, and not referenced herein, we will be most obliged to provide upon request.

We also do not address all specific sections in the Terms of Reference, and instead provide general input to a possible wage policy.

2. BACKGROUND

EPRA conducted a survey in November 2020 amongst 559 business entities in Namibia. We received an excellent response rate of over 40%. Around 20% of respondents were SMEs. Around 30% of respondents create annual revenue of N$10 million or more.

49.8% of businesses reported that they had to downsize since the beginning of 2020 and of those businesses who had to downsize, 77% reported that they experienced difficulty even before the appearance of Covid.

Questioned on whether Namibia's policy environment, referring to existing and proposed legislation and policies, is conducive for private sector economic growth, 23.8% reported that the policy environment is "somewhat unconducive" and 64.3% reported that the policy environment is "extremely unconducive".

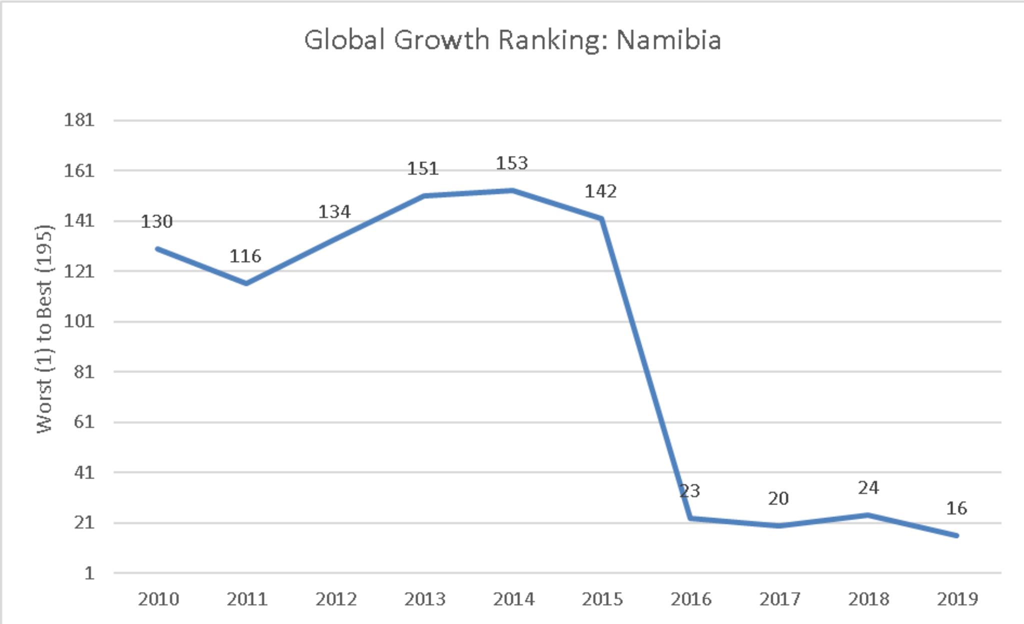
Only 1,9% of business were "extremely positive" that they will survive for another decade. 31.4% stated that they will "probably survive", 32.9% stated that they will "probably not survive", and 30.5% stated that the prospect of their survival for another decade is "extremely negative".

Asked about expected unemployment rates in Namibia over the next five years, 63% stated that unemployment will "increase substantially", and 28.4% stated "unemployment will increase somewhat".

64.8% regarded government interference in the free market economy as "high", and 19.5% regard government's interference in the free market economy as "extremely high".

From the above results the private sector is severely strained and sentiments on possible future growth are extremely negative.

Graph 1: Global Growth Rankings (Source: IMF)



Graph 1 above shows just how sluggish Namibia's economy has become since 2015. In 2015 Namibia's economic growth was ranked 142nd out of 195 countries. In 2019 (before Covid-19) Namibia became the 16th slowest growing economy amongst these countries. We reiterate, our problems are homegrown, as other countries, facing the same challenges as we do, and in many instances far worse challenges, far exceed us and is expected to increase if all current variables remain constant.

It is now well documented that Namibia's unemployment rate is amongst the worst in the world, and that our public service wage bill (relative to GDP) is amongst the most expensive in the world. On top of that, Namibia is amongst the highest taxed countries in the world (again relative to GDP). We have no sustainable choice other than creating an enabling environment to spur economic growth. Sadly, this is not the case now.

The policy proposals the Wage Commission is now tasked to make may very well, as an unintended consequence, hurt our economy. In particular, such proposals may cause further job-losses and further deteriorate disposable household income, hurting the poor the most and causing them to lose hope for a better future. It may spur inflation, which will not only harm our economy, but may adversely and substantially affect the poor, as their struggle to afford basic goods is made worse.

3. UNINTENDED CONSEQUENCES

A 2014 submission by the British Institute of Economic Affairs provides excellent research, context, and theory on the question of minimum wages.[1] They warn of numerous unintended consequences of increasing a minimum wage. We recommend that we should understand these risks before we proceed with policy changes which can further harm our already ailing economy.

The ultimate purpose of a minimum wage should be to curtail the exploitation of desperate workers. A further stated goal as per the said Terms of Reference is the achieving of a "decent standard of living for all" (1(d)). The UK uses the concept of a "living wage".

The concept of a "decent standard of living" is not defined in the said Terms of Reference. The 1993 UN Human Development Report defined it as "*the capability of living a healthy life, guaranteeing*

[1] Bourne, R., Shackleton, J.R. 2014. *The minimum wage: Silver bullet or poisoned chalice?* Briefing 14:01. United Kingdom.

physical and social mobility, communicating and participating in the life of the community (including consumption)". Other definitions specifically include access to fresh water, food, shelter and healthcare. Factors that can reduce the general standard of living are poor access to, and standards of education, corruption, and an ailing economy in which the supply of labour far exceeds the demand for labour. Unfortunately, for most of these factors, it is government policy that is hampering a "decent standard of living for all".

It will be disastrous to proceed with the concept of a minimum wage on the assumption that a minimum wage will result in a "decent living standard for all". If the concept of a minimum wage is not approached in a systemic and holistic manner, the resulting policy may very well see the current standard of living of especially the lowest-paid workers / poor, being reduced even further. Put differently, a policy that will result in even less demand for labour will increase unemployment, poverty and inequality. A minimum wage should preferably correlate with an increase in labour productivity, an across the board increase in profit after tax and an increase in GDP.

It is important that government ensures that labour is protected against exploitation. The desire and opportunity to exploit labour increases when there is a material surplus supply of labour, and severally restricted demand for labour, especially unskilled labour, as is the case in Namibia. As the economy fails to grow sufficiently, demand for labour is further reduced, and the surplus supply of labour grows, increasing the risk of exploitation. Unfortunately, by its very nature, a minimum wage cannot cater for the unemployed. Namibia is facing a severe risk of social unrest if the unemployed is not catered for as a matter of urgency.

3.1. THE RISK OF INCREASING UNEMPLOYMENT AND REDUCING LIVING STANDARDS

Private sector employment is not created through an instruction from government, no matter the ideological believes of a government. Jobs are only created when a business can operate in a sustainable, profitable manner, too such an extent that the owners have the incentives and appetite to grow their business.

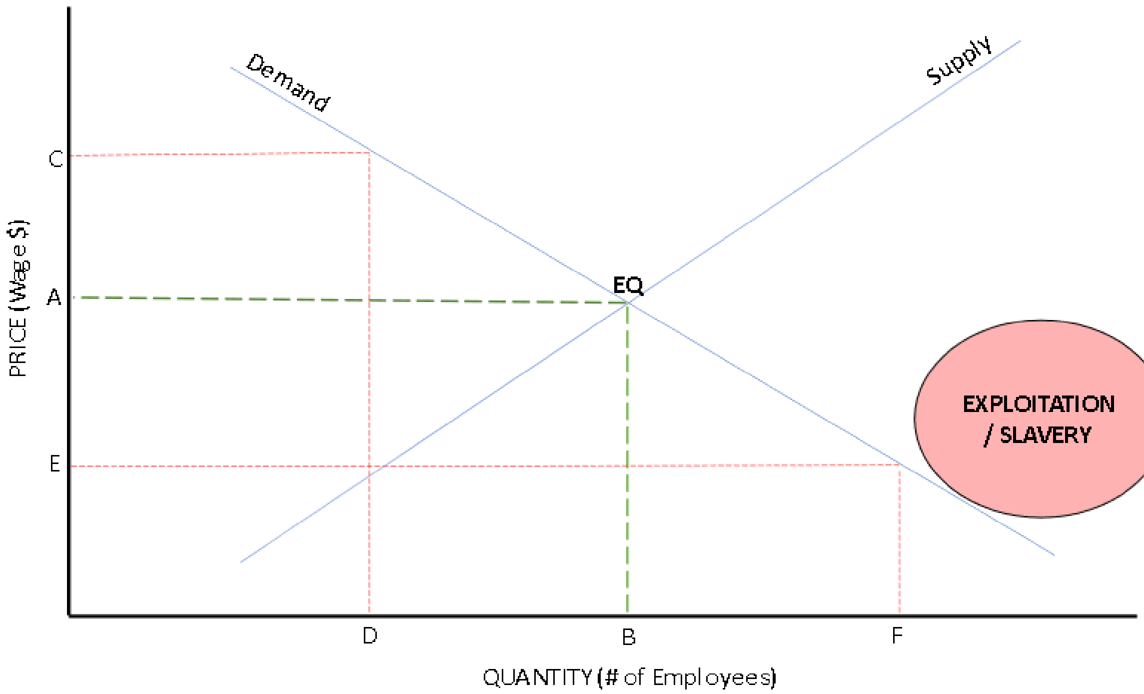
If there is not adequate incentives and appetite to grow the business, no new jobs are created, and employment levels remain stagnant. If business does not operate in a sustainable, profitable manner, business activities are reduced, or ceased completely, causing unemployment to increase.

Government's experiment to use the public service sector for job creation, while not creating an enabling environment for private sector to grow, and in fact outright competing with private sector in most sectors of the economy, is now coming to fruition. Predictably, this leads to massive and ever-increasing government debt, economic decline, and a real decline in tax revenue. Numerous liquidations of public enterprises, as was Air Namibia's inevitable fate, are still to come. The state coffers are empty, while the state's liabilities are increasing every day.

Despite government's usual, expected optimism, economic indicators show that Namibia has become a high-risk destination for investors, has a credit rating of junk-status, and is increasingly likely to default on her debt obligations, probably soon. This places a severe risk on our currency peg, which, if removed, will see the value of private and contractual savings materially reduced in a period of weeks. By then the gates on capital movement and currency conversion will be closed. If money cannot be moved out of Namibia, no investor will invest in Namibia.

It is crucial that a policy on minimum wage does not fuel this already deplorable situation as depicted. The unintended disastrous outcome can be averted by setting overarching principles for a minimum wage policy based on sound economic principles.

Graph 2: Free Market vs Price Manipulation



Graph 2 above provides a graphic explanation of the possible consequences of setting the price of wages higher than what the market would dictate based on supply and demand. We have no doubt that the commission is familiar with the principles. However, we provide the latter nonetheless for purposes of explaining how a minimum wage policy can possibly be of benefit, but also, if not done in a systemic, holistic, principled manner, may have dire consequences.

As explained above, business takes up employees based on the requirements of the business to be sustainably profitable. Theoretically **B** number of employees are employed at price **A**, which is the equilibrium between the demand for employees and the wage for which they are willing to work. Everybody wants to be paid more, but at the equilibrium they are willing to work for at least wage **A**.

As there is an oversupply of, and limited demand for labour, business may be tempted to pay less than the equilibrium wage **A**. Business now pays the lower wage **E**, and of course at this lower wage, demand for such cheap labour grows. But this employment practice now enters the area of exploitation, with workers having reduced leverage, given the oversupply of labour, and business simply dictating ever-lower wages, until they cannot find employees willing to work for practically almost nothing anymore. It is this extreme to the far right of the X-axis which a government policy must seek to mitigate.

A wage policy that encroaches on the area of free movement of the equilibrium (point **EQ**), will likely have the devastating, unintended consequences described in these presentations.

For example, a wage policy which forces a wage price higher than the equilibrium wage price **A**, i.e., to wage price **C**, will automatically decrease the already limited demand for labour. As labour becomes more expensive, the cost in doing business increases, and the incentive to maintain, let alone expand a business, is reduced. This will increase unemployment – which already stands at an estimated, staggering 40%. New investment is also stifled, as investors factor in the higher input cost. This is the unintended consequences of a minimum wage policy which should be avoided at all costs, especially given our already ailing economic environment.

It could be argued that, in the latter scenario, the lives of only those retaining their jobs will at least be improved by a forced increase in their wages, but we pause to reiterate: a “decent standard of living” cannot be forced through minimum wages. A decent standard of living is achieved through numerous factors, including access to proper quality education, healthcare, access to serviced land, access to jobs, sanitation, and reasonably priced basic goods. Stifled economic growth, and increased inflation, reduces the availability of all the above drivers of development.

3.2. INFLATION

A minimum wage set at price **C**, reducing demand to **D** number of workers, will reduce access to jobs, will reduce economic activity on which government relies on (through taxes; domestic, foreign and portfolio investment; royalties and grants) to provide healthcare, safety and security, education, social grants to the most vulnerable, and services land.

Moreover, a forced increase in wages (**C**), which directly translates to an input cost for business, will have an inflationary effect on the services and products of such businesses. This is inevitable as business must continue to operate in a sustainable, profitable manner. If it does not, it downsizes, or closes, and jobs are lost.

The price of all goods and services are set by the market forces of supply and demand (plus government taxes). A product, say bread, available on the shelf of the local shop, has taken a long journey (value added supply chain) through many service and product providers. The farmers provide raw grain, sugar, and dairy products. Several secondary industries transform these products into flour, butter, refined sugar etc. Several products, such as yeast, are imported and availed to the market through a supply chain of importers and distributors. Then the bakers and retailers make and sell the final product. The local authority must ensure a reliable supply of electricity and sufficient, clean water to all these entities. All these entities, from the farmer to the retailer, employ people to provide their products and services.

A minimum wage will increase input costs (labour) within all these entities, and because cost is added throughout the supply chain, its inflationary effect is accumulated. The consumer thus pays for the increased cost added by every entity.

A minimum wage policy which does not take the above into account, will increase the price of basic goods and services, causing the poorest and most vulnerable people in our society to suffer even more. It will in fact reduce the standard of living instead of increasing it.

3.3. YOUTH, LOWEST SKILLED AND UNEMPLOYED FACE BIGGEST RISK

A prescribed minimum wage higher than currently being paid (assuming price **A**) by a business will likely result in such business making some difficult decisions to buffer the increased cost to its operations before such cost is passed on and added to the price of products and services provided, i.e., to its consumers. Options include reducing labour hours and reducing labourers. In reducing labourers, employers are likely to first reduce the most unskilled and inexperienced labourers. Young unskilled labourers are most likely to be included in this “redundant” group.

The impact is therefore likely to disproportionately affect the young, the unskilled, the long-term unemployed and those in lower productivity regions. In the British experience there is evidence that minimum wages cause firms to replace lower-skilled and less experienced younger workers with older workers. The 18–24-year-old unemployment rate had risen from 11.5 per cent in April 1999 (when the national minimum wage was first introduced) to 17.9 per cent in 2014. Of those unemployed within this age group, the proportion out of work for more than 12 months has risen from 14.4 per cent in 1999 to 31.8 per cent in 2013. This is a scenario which Namibia, with a reported youth unemployment rate closing in on 60%, cannot afford.

This phenomenon is also likely to hit graduates. A UK study (ONS 2014) of young people in the labour market found that from 2000 (just after the minimum wage was introduced) to 2014, the proportion of students with jobs reduced from 41 per cent to 27 per cent. The same report explains how young people are most likely to work in low-skilled jobs such as kitchen assistants or waiters.[2]

Bourne and Shackleton submit that the British minimum wage is not a targeted poverty reduction tool. 46 per cent of those individuals in households defined as in poverty, are jobless and a minimum wage can do nothing to help them. Whilst many of those individuals currently on low pay would benefit from a minimum wage, many of the beneficiaries of a minimum wage are not in poor households. 44 per cent of low-paid workers in the UK are in households in the top half of the household income distribution. If Namibian statistics are not assessed, a future wage policy could be founded on a false premise.

Increased labour cost is an incentive for businesses to reduce their demand for labour through labour saving devices. The automatic checkout machines now commonly found in retailers in developed countries serve as an example. For instance, Coles Supermarket chain in Australia employs an average of 75 people per location, while the average grocery retail store in Namibia employs on average about 200 people per location. The latter is also within the context of much lower productivity of the Namibian labour force compared to Australia.

Coincidentally, domestic workers in Australia and Germany are a rare sight, as only rich families can afford domestic workers at the prescribed minimum wage. Because of affordability, work for honest domestic workers in Namibia is reasonably widely available. Should our situation change to emulate the Australian situation, it will be devastating for our poor communities.

If a standard minimum wage is to be introduced, it is advised that the rate for the youth be lower than the standard rate, and the rate for apprenticeships be lower than the rate for youths. This should incentivise the employment of youth and apprentices, as opposed to the unintended, but logical consequence that these groups will suffer higher unemployment as businesses opt to rather keep the already skilled and experienced. A foreseeable increase in labour costs due to a minimum wage can most probably contribute to a reduce intake of students for Work Integrated Learning (WIL) and apprenticeship that can impact negatively on students that will take longer to acquire the work experience to graduate and reduce the quality and opportunity for on the job learning and on the job training.

3.4. UNINTENDED DOWNWARD PRESSURE ON WAGES

A minimum wage policy aimed mainly at mitigating the risk of exploitation, which is the only policy we believe can have some benefit given our current economic circumstances and high unemployment rates, that may inevitably exercise downward pressure on wages generally. Employers who are paying market related wages, or higher, before introducing a minimum wage, may over time reduce wages (or increases thereto) they would normally be willing to pay, as their competitors, who only pay minimum wage, obtain an advantage over them in the market.

In industries where the cost of labour is a substantial variable in assessing financial sustainability, a business paying more than minimum wage to labourers who can only receive a minimum wage elsewhere, is unlikely to be sustainable, all other dependable variables set aside. The downward pressure on wages is thus likely to affect labour intensive industries more materially.

[2] ONS (2014), 'Young people in the labour market, 2014', Office for National Statistics. United Kingdom.

3.5. RISK OF POLITICAL ABUSE

Minimum wage policies can be low hanging fruit for politicians and populists aiming to obtain favour from voters quickly. The latter is more likely to be applicable when the economy in a country is under extreme pressure, and a ruling party has lost considerable political support during a recent election. As such, even if the initial policy may be based on sound economic research, subsequent changes to the policy may not be. In the EPRA survey mentioned previously in this document, 92.4% of businesses were of the opinion that government does not understand what is required to grow the private sector, and 83.8% believe that it is not an honest objective of government to create a conducive environment for private sector growth.

Quick political gain by increases in the minimum wage, while not accounting for the most likely negative consequences, may thus cause irreversible harm to an economy in the medium and longer term, the results of which only become evident at the end of a political term. Unfortunately, very few politicians are professionally qualified in the principles of economics, and only a few, very mature politicians request and accept expert advice. The profound intricacies of economic principles, and especially their cause and effect, are notoriously of little or no interest to unskilled, poor, suffering voters of whom most struggle to survive, and therefore also not to those who represent them.

4. CONCLUSION

An ailing economy with extremely high unemployment levels, such as Namibia, will most likely be hard-hit by a minimum wage set above any level dictated by market forces at the time. Countries that have successfully introduced minimum wages, without causing substantial job losses, did so on the back of already vibrant, large, sustainable, growing economies. In such economies the impact of a minimum wage can be largely absorbed, especially if accompanied by a positive correlation of an increase of productivity at the lower end of the labour compensation strata. This is not the case in Namibia.

A minimum wage policy can be beneficial insofar as it mitigates the risk of exploitation, where an employer abuses the oversupply of labour to reduce wages to levels far below those which are paid by reasonable, sustainable, profitable businesses. However, it can also be counterproductive if it is used as blunt tool to gain political favour, as opposed to being based on sound economic principles (and due regard for what the market can afford).

A minimum wage set above the market equilibrium, or too close to such equilibrium to allow for sufficient movement in the equilibrium over time, and as market forces change, will most likely have devastating consequences for the economy, and especially the poor who are the most vulnerable in society to absorb economic shocks.

We urge the Wages Commission to fully assess all the factors/dependable variables that contribute and detract from a “decent standard of living for all”, and report on different probable economic and labour related scenarios in its report to the Honourable Minister. Our current, deplorable situation cannot be resolved if all stakeholders are not fully informed of their responsibilities to resolve a complex situation, and if they do not accept accountability to do so.

Lastly, we kindly urge the Wages Commission to include in its submissions to the Honourable Minister an appeal to government to halt giving government contracts to foreign state-owned companies and firms while there are competent and capable Namibians to provide such services and products.

Yours faithfully,

EPRA Management Committee