

# Towards a South African National Minimum Wage



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Towards a South African National Minimum Wage

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# Towards a South African National Minimum Wage

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## The Aim of this Booklet

This booklet is an accessible educational resource for trade unions on the important subject of a National Minimum Wage in South Africa.

The booklet provides an overview of the key issues and is intended to assist trade unions to popularise democratic debates on a NMW amongst workers, shop stewards and officials.

# Foreword

Productive employment and decent work are key elements to achieving a reduction in poverty. The International Labour Organisation (ILO) has developed an agenda for putting the Decent Work Agenda into practice through four strategic pillars, namely, employment, rights at work, social protection and social dialogue, with gender equality as a cross-cutting objective.



Vic van Vuuren

The ILO notes in its Global Wage Report 2014/2015 that while the income of low-income groups has been raised through direct employment programmes in South Africa, the most effective and sustainable route out of poverty for the working-age population is a productive job that is fairly paid. The report further notes that there has been a decline in real wages and a rise in inequality because the income growth of the bottom poorest households stagnated in real terms, while that of more affluent households continued to increase.

The ILO Africa is supportive of the decision of the South African government to investigate the possibility of a National Minimum Wage (NMW) as one of the key mechanisms to reduce income inequality.

The collaboration with Labour Research Service in Cape Town, South Africa to produce this booklet is geared towards assisting the labour movement in its endeavour to achieve a minimum wage system that contributes to poverty eradication and decent work.

Vic van Vuuren

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# Towards a South African National Minimum Wage

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# Glossary of Terms

**Average wage:** this is the typical wage or salary paid to workers in an occupation or industry. The average is calculated by adding up all the wages or salaries of people working in the position and then dividing that sum by the number of people working in the position. The amount received is the average salary.

**Median wage:** is the boundary between what the highest 50% of earners are paid and what the lowest 50% of earners are paid. Thus if the median wage in South Africa is R3, 033 this means that 50% of workers are earning above the median and 50% are paid below.

**Minimum wage:** this is the lowest level of pay established through a minimum wage fixing system which is guaranteed by law.

**Median minimum wage:** is the median of all the minimum wages in an occupation or an industry.

**Living wage:** it is the level of wages that allows workers to meet their own as well as dependents' needs. Furthermore, a living wage must satisfy more than the basic survival in terms of food, housing and clothing needs and also make provision for participation in a country's social and cultural life.

**Poverty line:** is a measure used to separate the poor and the not poor. Statistics South Africa calculates the poverty line by determining the food and non-food items that are essential for daily survival.

**Gini coefficient:** is a measurement of the national income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on residents' net income, helps define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality.

**Gross operating profit:** the profit of a company for the sale of goods and services after operational expenses are deducted. Interest and taxes are not deducted.

# Introduction

This booklet addresses the desirability of a general National Minimum Wage (NMW) in South Africa. Over a period of several decades since the 1930s this matter has been subject to struggles and representations, largely by the trade union movement, to the various governments of the day. Most of these representations by the labour movement to government were made for the introduction of a NMW system that would enforce a minimum wage across all industries throughout the country.

As early as 1935 a Bill was prepared by the Department of Labour to establish an enforceable NMW, but dropped after protests from employer organisations and in favour of amendments to an existing 1925 Wage Act. There were several other reviews on the implementation of a NMW in the 1940's as a result of the labour market abnormalities created by World War II and further again in 1961 and 1974 when the economy became stronger. By 1977 South African Congress of Trade Unions (SACTU) called for a national minimum wage of R50 per week. This was after the Durban strikes of 1973 and the Soweto uprisings of 1976 that the government felt pressured to establish the Wiehahn Commission of Enquiry of 1977 in order to look at the industrial relations system in South Africa and that a substantive investigation took place on the issue of a NMW. The Commission stated that, "although there was a difference of opinion on the issue in the commission itself, it came to a clear conclusion that a number of weighty considerations preclude a recommendation that South Africa should introduce such legislation". These were:

- a). That such a policy would run counter to the government's policy of encouraging and promoting free collective bargaining at industry and company level.
- b). That the introduction of a NMW would have a detrimental effect on the country's high rate of unemployment and job creation.
- c). That the ILO prescribed a careful approach which took into consideration certain economic factors in determining minimum wages.

The above factors, as we shall demonstrate later, would be critical in determining future policy in South Africa. Building on the Wiehahn Commission, against the backdrop of rising trade union militancy of the 1980s, the National Manpower Commission Report of 1983 on "The Principle and Application of a National Minimum Wage" concluded that, "in a developing community such as that in South Africa there was certainly *room for a partial system of statutory minimum wage determination*, [but] it could not find justification for either a general National Minimum Wage or a regional minimum wage system". The commission was convinced that *production and employment growth would slow down*, and in particular, that the development pattern would become less labour intensive. Furthermore, a NMW could not be



extended to certain sectors such as agriculture as South Africa had a dual economy consisting of a technologically advanced economy existing side by side with an underdeveloped economy. The specific development of an economy, it argued, is therefore very important when developing a policy on a NMW.

Despite the conclusions of the National Manpower Commission, COSATU, at its Inaugural Congress in 1985, called for “a legally enforced national minimum living wage”. And while the Freedom Charter of 1955 called for a “national minimum wage” it was only in the African National Congress’ (ANC) 2014 Election Manifesto that the party decided under pressure from COSATU to include an investigation into the introduction of a national minimum wage.

In the President’s State of the Nation Address in July 2014 he spoke of the need to explore minimum wages in the context of the triple challenges of *unemployment, poverty and inequality*. He went further in stating that:

Given the impact of the untenable labour relations environment on the economy, it is critical for social partners to meet and deliberate on the violent nature and duration of the strikes. The social partners will also need to deliberate on wage inequality. On our side as Government we will during this term investigate the possibility of a [national minimum wage] as one of the key mechanisms to reduce the income inequality. Deputy President Cyril Ramaphosa will convene the social partners’ dialogue, within the ambit of NEDLAC.

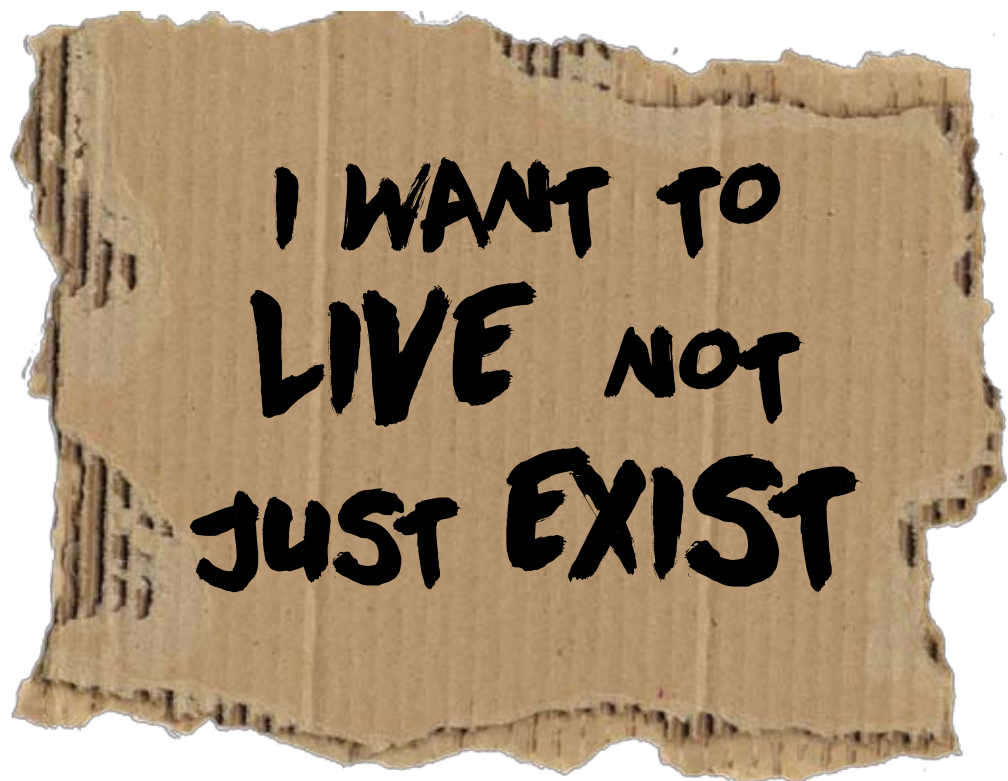
At a Labour Relations Indaba in November 2014 a committee, which included 6 cabinet ministers and representatives of labour and business, was appointed to develop an agreement and report back by July 2015.

*A NMW is a necessary and powerful weapon the trade union movement can use in the struggle against poverty and the low wage system inherited from apartheid.*

The long-term aim of a minimum wage is to remove the problem of poverty pay, which exists when the earnings from paid work do not result in a living minimum wage and fail to push people out of poverty.

# What is a Minimum Wage?

ILO legal experts have defined the minimum wage as: “the minimum sum payable to a worker for work performed or services rendered, within a given period (...) which may not be reduced either by individual or collective agreement (and) which is guaranteed by law”. According to ILO Convention No. 131 the primary purpose of such a minimum wage is to provide protection for wage earners against “unduly low wages”. In other words, *a minimum wage aims to set a floor to the distribution of wages, below which no worker can legally be paid.*



# The Goals of Minimum Wage Policy

The primary goal of any minimum wage policy is to increase the incomes of those at the very bottom of the wage scale through a distribution of national income. Low wages are a prime contributor to poverty and misery for large sections of the working class – thus the reference to poverty wages in the labour movement. The policy tries to ensure that every worker is paid at a level of income that enables him or her to maintain a minimum living standard above the bare subsistence level that employers are keen to maintain. A NMW is thus generally seen as a way to dealing with poverty which the capitalist system is unable to deal with, as a primary national goal, on its own.

A NMW policy will also deal with income inequality as wages and salaries are the main components of income. Wage compression will reduce the gap between those at the top and bottom of the wage scale as it will lift the wage of those at the very bottom.

For government it is hoped that a NMW will lead to a reduction in industrial unrest. Government in particular was concerned about the Association of Mineworkers and Construction Union (AMCU) led 5 month long platinum strike which was the longest and most costly strike in South African history and also the month long strike by the National Union of Metalworkers of South Africa (NUMSA) in 2014. In particular there appears to be an upward trend in both the number of strikes (doubling after the 2008 financial crisis) which reached 114 by 2013, indicating a new upward trend in worker militancy.

While organised business has been largely quiet about a NMW they are having intense discussions behind the scenes. Business will not come out publically against less inequality and poverty, but against a national minimum wage that they claim will exacerbate unemployment.

For the labour movement the increased wages due to the implementation of a NMW will expand demand for more goods and services and thus jobs will be created as the economy expands.

In many ways, for the supporters of a NMW policy the goal is that it must contribute to overcoming the triple challenges of *unemployment, poverty and inequality*. A NMW is however, just one policy measure to take workers out of poverty; one other is the social wage bill of government.

Let's now examine the extent of the triple challenge in South Africa.

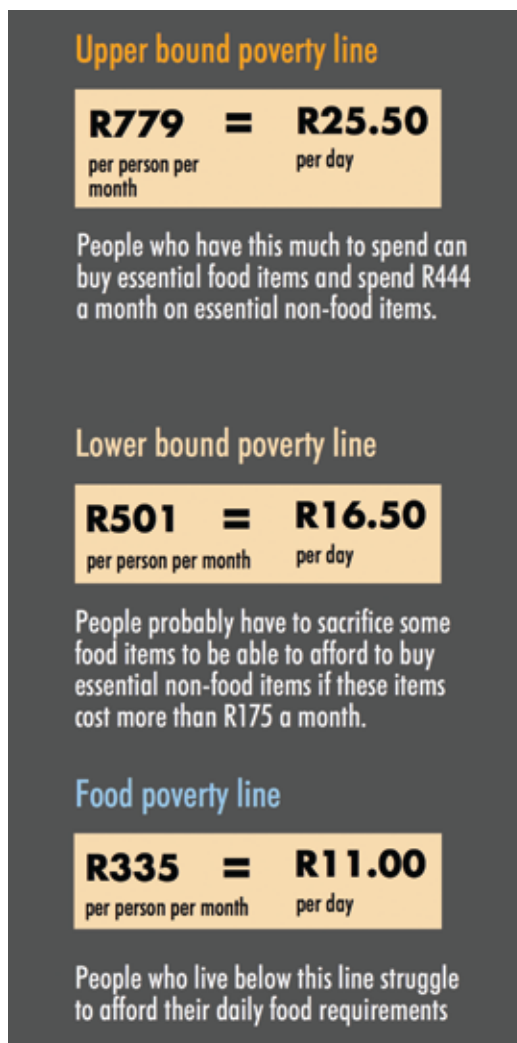
## Poverty

Statistics South Africa published a set of three national poverty lines for individuals in 2014:

\* The *upper-bound poverty line*

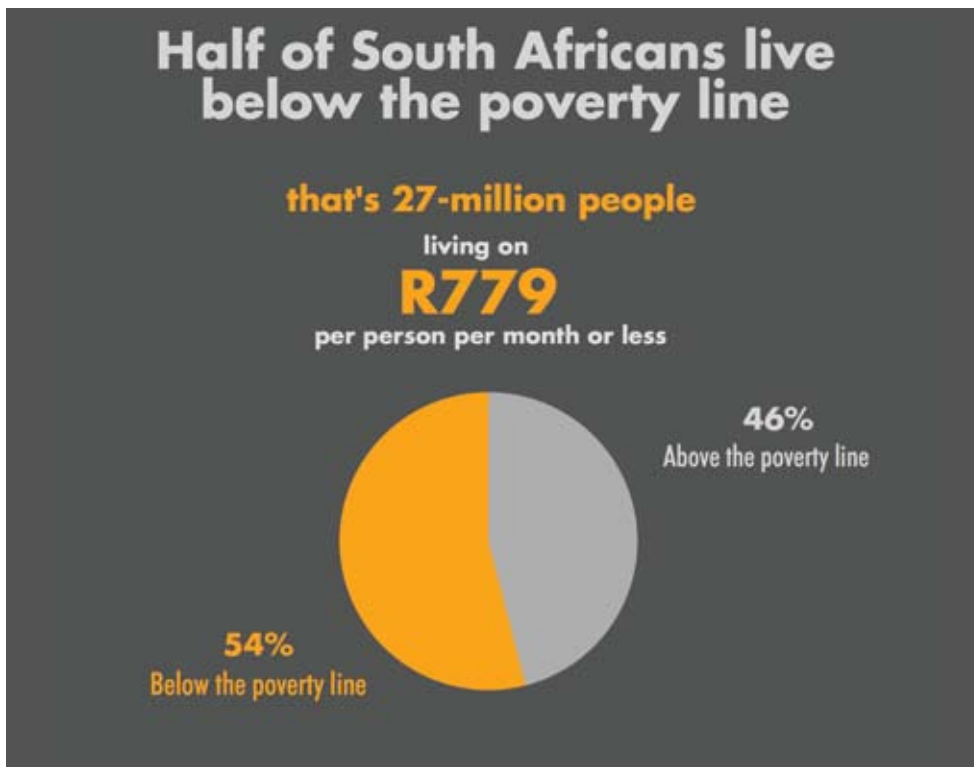
\* The *lower-bound poverty line*

\* The *food poverty line*



Source: <http://mg.co.za/data/2015-02-05-infographic-poverty-in-south-africa>

In 2006, more than half (57.2%) of the population of South Africa were living in poverty. By 2011, less than half (45.5%) of all South Africans were living below the poverty line which reflects a 20% reduction in poverty from 2006 to 2011. However, the revised calculations of poverty estimates overall poverty increased from 45.5% in 2011 to 53.8% in 2014. This means that 27 million people live in poverty.



Source: <http://mg.co.za/data/2015-02-05-infographic-poverty-in-south-africa>

However, the drop since 2006 in poverty levels is largely due to social wages in South Africa. This includes free primary health care; no-fee paying schools; social grants (most notably old-age pensions and child support grants); RDP housing; and the provision of basic services to households, namely water, electricity and sanitation. In 1998, 2.5m people received grants. By the end of 2012/2013, nearly 16.1m people were beneficiaries. Close to 60% of government spending is allocated to the social wage.

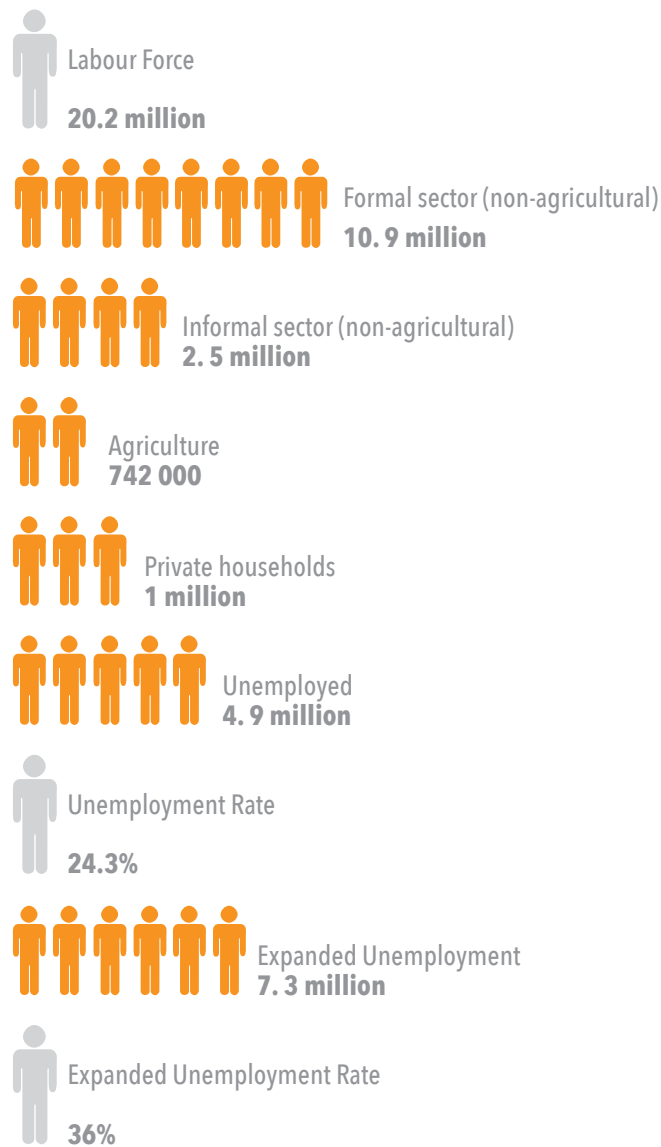
According to the World Bank, social grant programmes typically represent 1-2% of GDP in developing countries. In SA, the ratio has remained 3.4% since 2009/2010, in line with average welfare spending in advanced countries.

## Unemployment

The largest concern with regard to the NMW is the issue of unemployment. According to the World Economic Forum's Global Risk 2014 Report, South Africa has the third highest unemployment rate in the world for people between the ages of 15 to 24 and estimates that more than 50% of young South Africans between 15 and 24 are unemployed.

Recent statistics released by Stats SA (2015) show that joblessness in South Africa has reached its highest level since 2008, and is currently at a rate of 24.3%. The number of unemployed persons increased to 4.9 million. Taking into account the expanded definition, which includes people who have given up looking for jobs, unemployment has risen to 7.3million (36%).

The Labour Force in South Africa 2014



Source: Stats SA, Labour Market Dynamics in South Africa, 2014

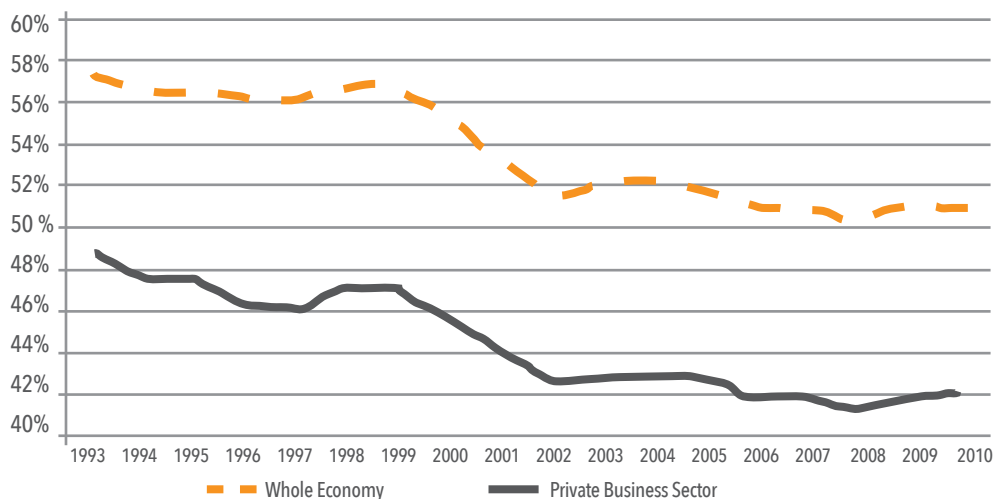
The gain in employment in 2014 by occupational categories was mainly in skilled jobs due to a rise in Sales (468 000), Managerial (234 000) and Clerical (110 000) occupations. White and Indian/Asian populations are more dominant in skilled occupations compared to the black African and coloured population groups. Proportions of employed black African and coloured populations are the largest among low-skilled occupations for both men and women. However, black African women remained vulnerable – about 42% were employed in low-skilled occupations compared to only 1.3% of white women and 2.1% of Indian/Asian women.

## Inequality

The post-1994 period in the South African economy is characterised, perhaps most powerfully, by the fact that the economy recorded one of its longest periods of positive economic growth in the country's history. From 1993 until 2013, South Africa's GDP growth rate averaged 3.2 % reaching an all-time high of 7.6 % in 1996. Until the last quarter in 2008 South Africa had seventeen years of positive economic growth.

Despite this positive economic growth, the country has the *most unequal income distribution* in the world with a Gini coefficient of 0.69 in 2013, an increase from 0.64 in 1995 just one year after apartheid officially ended. South Africa's Gini coefficient was also much higher than countries such as Brazil at 0.54, India at 0.33, China at 0.47 and Russia at 0.42, a country deemed to be on a high level of human development by the UN.

Figure 1: Wage Share of GDP in South Africa 1993-2010



Source: AIDC (2014)

Figure 1 shows that the labour share of GDP compared to profit dropped over an 18 year period from 57% to 51% between 1993 and 2012. *In other words, less of the total wealth generated through economic growth is going to workers and more is going to the upper classes.*

Furthermore, a Labour Research Service study on the wage gap of some 90 listed companies shows that there was on average a 40 year wage gap between directors and workers in 1994. The wage gap in 2014 has increased to an average of 200 years between directors and workers.

South African Census 2011 showed while the income of black households had increased by nearly 170% in the last decade, they still earned the least. The income of white South African households is six times higher than black ones. The average annual income for blacks is R60, 613 while for their white counterparts it is R365, 134.

# Arguments in Response to a National Minimum Wage

Arguments for and against a national minimum wage are usually based on economics. But economics itself is also a reflection of class interests and thus we find that the bosses, political parties and governments, conservative academics and even certain trade unions oppose the introduction of a NMW. Even where there is agreement to fix a national minimum wage some (like the government and business) want to maintain a low wage economy. Thus in most circumstances it is often those in well off positions who earn high incomes who are opposed to a NMW and are resistant to accept such measures that redistribute national income. Thus supporters of a NMW argue that for every worker and their family to be able to maintain a certain “minimum living standard” there has to be state intervention as the free market is not only resistant but also cannot achieve these broader national goals. When trade unions normally oppose a national minimum wage they do so because they believe it would undermine collective bargaining or that it may increase unemployment.

There are three major arguments for and against a NMW. There are issues relating to inflation, unemployment and investment.

## Arguments Against a National Minimum Wage

Probably the most common argument against a NMW made by employers and some trade unions is that it will have a negative effect on employment levels which could happen in the following ways:



### Effect on Unemployment

- a). If wage costs are unreasonably increased employers will be forced to reduce the number of workers employed.
- b). Employers will make more productive use of labour because of higher labour costs and thus require fewer workers.
- c). Employers adopt more capital intensive production and thus replace semi-skilled and unskilled workers with machinery especially in traditional labour intensive industries.
- d). Employers may also increase their reliance on more part-time and casualised work and reduce the number of hours of work leading to a drop in the wage bill.



## Effect on Inflation



- a). By increasing wages of lower paid workers employers will merely follow with an increase in prices of goods and services leading to higher inflation.
- b). Due to the higher cost structure that is introduced with a NMW on the final products, these increases will be passed onto the consumers, thus creating an inflationary effect.
- c). There will be an increase in the cost structure of goods and thus exports will be uncompetitive in the global market and may well decline. There will be an overall negative effect on the export sectors of the economy especially in agriculture, textiles and mining.
- d). The increased inflation will force employers to reduce the other possible services provided to workers including housing, transport, water and electricity (the so-called social wage), which are not fully factored into the wage bill. This problem is particularly important in the agricultural and mining sectors.

## Productivity



- a). Increases in the real value of a NMW will affect the price of labour and thus levels of productivity. A NMW will artificially set the price of labour above its value thus lowering levels of productivity.
- b). Decent work for the few was achieved through rising capital intensity and job destruction. This is tragic for the millions of unskilled, unemployed South Africans whose only hope of regular employment is a more labour-intensive growth path.

## Effect on Investment and Economic Growth



- a). There will be a decline in the real demand for goods and services resulting from higher prices after a NMW that has been fixed too high. There will therefore be a negative effect on employment as fewer profits will be available for reinvestment and expansion of businesses.
- b). The higher cost structure is likely to lead to reduced investment by companies both locally and internationally and will thus have a negative effect on economic growth.
- c). The higher cost structure may lead to a reduced and less successful export sector which may conflict with the trade and exchange rates policy of government.
- d). The setting of a NMW does not take into account the present and expected profit of a company or an industry and may result in the bankruptcy of some firms. There will thus be an increased bankruptcy rate of businesses especially smaller business as a result of the higher labour cost.
- e). Industries that rely heavily on semi-skilled and unskilled labour or labour intensive industries may experience a decline in growth and hamper the economy's ability to create employment.
- f). Potential new firms do not open businesses because of poor profit expectations.

# Arguments in Support of a National Minimum Wage



## Inflation

Employers argue that the introduction of a NMW would rapidly increase inflation. But we know that workers do not control prices of commodities, the bosses do and they often increase the prices regardless of costs and consideration for inflation through cartels. A cartel is a collection of businesses that act together and agree to influence prices for certain goods and services by controlling production, marketing and pricing thus nullifying free competition. In general, firms engage in cartel activities to maximise the joint profits of cartel members. We recall here the recent activities of the national food companies, Pioneer, Premier and Tiger Brands, that fixed the selling price of bread - they all contravened the Competition Act. They caused harm to consumers in the form of higher prices, less choice and inferior services. Bread market supplies a staple food to millions of South Africans and any increases in prices would have a disproportionate impact on the poor and the working class. Thus when we consider inflation we cannot only look at wages.

In countries where a NMW has been implemented it generally added less than 1% to inflation but real inflationary effects can be neutralised by the following factors:

- a). Wages forms only one small part of the unit cost of production and employers can reduce the non-wage input costs. The overall unit percentage increase will be lower than the percentage increase in costs of wages.
- b). Increases in cost can also be borne by lower returns on profit by shareholders resulting in an increase in the wage share.
- c). The macro-economic consequences of an increase in disposable income of the low paid might actually reduce average costs as production runs increase to meet higher demand. There is thus no need to pass on costs to the consumer.



## Productivity

- a). Many employers underpay workers despite improvements in productivity and profit thus maintaining the cheap labour system inherited from apartheid.
- b). Low wages permit inefficient companies to remain in business and low pay effectively serves to subsidise inefficiency and incompetence of employers.
- c). When labour costs increase employers will use labour more efficiently, provide training and improve management and production methods for producing goods and services. In the process companies will have higher productivity and so recover the additional wage costs without increasing the price of goods and services or reducing the profit margin.

- d). The minimum wage should not raise total costs if companies improve management and production methods.
- e). There will be a decrease in industrial disputes and an improvement in workers' morale and living standards which will improve the workers' capacity to work and ensure a reduction in debilitating disease and time off due to illness and accidents caused by fatigue. Low productivity is thus a direct consequence of low pay.

## Unemployment



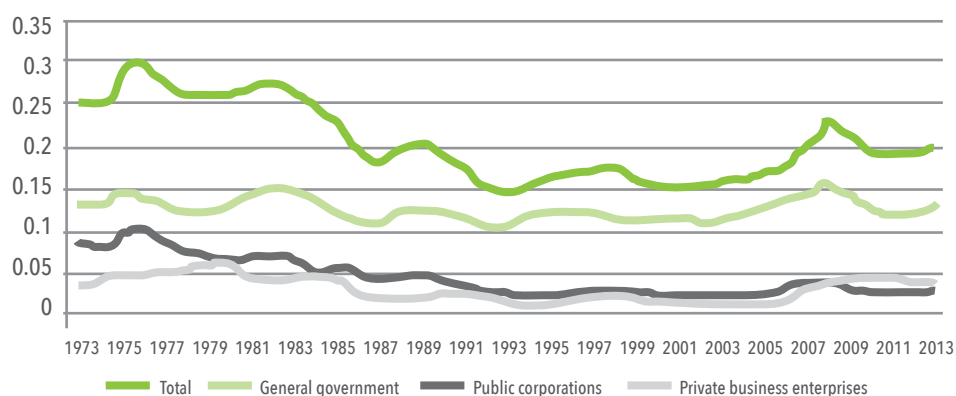
- a). Those who argue that unemployment must take precedence over poverty wages until unemployment is substantially reduced base this upon a false assumption that poverty wages reduce unemployment. *The persistently high average rate of 25% unemployment since the days of Apartheid testifies that poverty wages do not save workers from retrenchment.*
- b). The main flaw in the argument is that labour is treated as a cost like all other costs of production. But labour is unique in that it is also at the time a buyer of goods and services. When wages are low workers cannot buy the outputs of production and workers get retrenched. In this case low pay is the cause of unemployment.
- c). The increased productivity arising from a NMW will increase the buying power of workers and expand markets thus increasing employment in the economy as a whole.

## Investment and Economic Growth

It is argued that if a NMW entails redistribution from the owners of capital to the low paid workers then savings and investment in the economy would decline. For one it is true that workers will likely spend their new higher incomes rather than save it.

In post-Apartheid South Africa there has been massive redistribution of wealth towards capital and the profit rate in the non-financial corporate sector more than doubled between 1994 and 2012 to 13.5%. For the large firms listed on the Johannesburg Stock Exchange (JSE), business has been particularly good. A 2013 Credit-Suisse study compared these companies to more than 30 000 competitors and found them to be amongst the most profitable anywhere in the world. Returns for shareholders have been consistently high, averaged 18.4% p.a. over the 10 years up to 2013. However, the track record of the rich in South Africa shows that they are not inclined to either save or invest their profits in the local economy.

Figure 2: Investment as a Percentage of GDP 1973 – 2013



Source: Nail Reddy (2014)

As we can see above, investment in South Africa over the last four decades averaged just 15.6% of GDP for 1994 to 2003 and 19.2% between 2004 and 2013 compared to 26.4% in the 1970s. These rates are far below those commonly agreed to be a precondition of rapid growth. Investment, of course, is the precondition for high growth and employment creation. This low investment rates occur despite the maintenance of a cheap labour system in South Africa. Most of the wealth of the rich has been transferred overseas and much of it has been spent on the consumption of luxury imported goods. On the other hand workers spend most of their income on basic goods which have very low import content.

The core economic logic of the old system was the cheapening of the price of labour. As many early Marxist scholars pointed out, this functioned by making workers partly reliant on the subsistence economies in Bantustans and rural areas, allowing employers to get away with paying extremely low wages. The current macro-economic strategy perpetuates the legacy of Apartheid South Africa which suffers from a weak internal market.

Instead, those who do not support a NMW or at least a 'living national minimum wage' tend to confine the debate to a single dimension of higher wages causing unemployment by causing lower profits and thus a lack of investment. They base their views on the low wage growth path inherited from apartheid and perpetuated by the African National Congress (ANC) government. One of the most striking critiques levelled against the government's macro-economic strategy, the National Development Plan is that it plans to create 11 million precarious and low paid jobs in the Small Medium and Micro-sized Enterprises (SMMEs) - outside the core productive sectors of the economy.

It is further argued that the SMME sector would not be able to afford the higher wages imposed by a NMW and thus most of the un-skilled and semi-skilled workers employed in this sector would be retrenched. The key question is should workers who find themselves in poverty continue to subsidise unproductive business enterprises with low pay? Low pay reduces the loss of unprofitable firms and permits them to stay in business longer. Workers are thus subsidising their employers by accepting low wages. Furthermore, the tax payer also provides subsidies to unproductive companies through the youth wage subsidy of the government. Should we continue to subsidise unproductive companies that rely on the maintenance of a cheap labour system (including through subsidies) or should they be allowed to go out of business?



# The Structure of a National Minimum Wage

South Africa does not have a national minimum wage. Unlike many other countries, the minimum wage in South Africa is different for each sector. The Basic Conditions of Employment Act (BCEA), allows the Minister of Labour to set minimum wages for sectors and areas of the economy considered to be vulnerable. Minimum wages are set as part of overall conditions of employment in identified sectors. These conditions are published in legislation called sectoral determinations. The body responsible for guiding state legislation on the various sectoral determinations is the Employment Conditions Commission (ECC). The ECC is a representative body within the Department of Labour (DoL) established to advise the Minister of Labour on appropriate and feasible sectoral wage schedules.

Sectoral minimum wages were first introduced in South Africa in the post-Apartheid period in 1999 in the Contract Cleaning sector, followed by sectoral minima for the Civil Engineering and Private Security sectors in 2001.

## Department of Labour: Sectoral and Ministerial Determinations

- Domestic workers
- Wholesale and retail
- Farm workers
- Forestry
- Hospitality
- Taxi
- Contract cleaning
- Private security sector
- Expanded Public Works Programme\*

\*Ministerial determination

## How Does a Minimum Wage Work?

Industrial relations in South Africa have always entailed that employers and unions negotiate and agree on minimum wages and conditions of employment in a given sector. A national minimum wage would not replace these arrangements, but would set a floor below which they cannot go. The minimum wage refers to the lowest wage an employer can legally pay an employee. It protects the most vulnerable employees from excessive wage exploitation by establishing a wage higher than what the market would otherwise establish. Parliament would pass a minimum wage through legislation and everybody would have to pay at least that. Unions and employers would still engage in collective bargaining, and the ECC would still recommend minimum conditions of employment, but none of this could be lower than the national minimum. In other words, all other forms of collective bargaining or determination can be set equal to a NMW or higher towards the achievement of a living wage.

## Universal Coverage versus Sector Specific Minimum Wages

The first decision for policy makers and trade unions to make is whether there shall be one minimum wage applicable to all workers or whether there can be exemptions for certain sectors. There are several countries where all workers are covered on a national level and in other countries, certain categories of workers are exempted completely or a different wage rate is fixed for them. The main consideration here is the distinction between tradable and non-tradable sectors. The non-tradable sectors (such as private security, domestic work, retail and restaurants) do not face competition from imports.

Agriculture is a good example of a tradable sector that exports fruit, flowers, wine, meat and wool and requires special treatment as it is export oriented and prone to international competition and trade agreements. The effects of fixing the minimum wage too high could lead to considerable retrenchment of farm workers. It may thus be strategic to think about setting a NMW at the level of the better paying farmers so that all workers can be included in a single NMW.

The other concern when developing a universal NMW system is geographical as living costs vary enormously from one region to the other. Noting all the various considerations and judgments that have to be made, it is advantageous to have a universal NMW as it will be administratively simple and would ease enforcement. Since all workers and employers would more readily know what the NMW is, the more difficult it would be for non-compliance.

# Criteria for Fixing Minimum Wage Determination

The primary goal of a NMW is to protect the most vulnerable section of workers from gross exploitation. The ILO developed six criteria, to be taken into account in determining the level of minimum wages, namely:

1. The needs of workers and their families
2. The general level of wages in the country
3. The cost of living and changes therein
4. Social security benefits
5. The relative living standards of other social groups and
6. Economic factors, including the requirements for economic development, levels of productivity and the level of employment.

We have dealt with elements of the criteria in previous sections and will only focus here on addressing points 1, 2 and 5.

The most common reference for setting a minimum wage is the *needs of the worker*. According to the ILO, a minimum wage should be able “to cover the minimum needs of the worker and his or her family”. What those needs are is often disputed. For employers, basic needs refer to a subsistence/ minimum wage where workers and their families can physically reproduce themselves at a meagre standard. This is why the labour movement has preferred to use the term, a “national minimum *living wage*” to signify a wage that takes workers out of poverty and closer to a living wage.

However, determining a NMW is fraught with methodological difficulties as experts tend not to agree how to calculate the needs of a worker and the household. Thus there are various ways to benchmark where a NMW should be fixed. The poverty line translates into an average household income of R2, 648.6 i.e. R779 multiplied by the average household size of 3.4 people in 2014. Should we use the upper-bound poverty line to fix the minimum wage? Clearly this does not take workers out of poverty.

The other benchmark is to look at *median earnings*. Statistics South Africa reported that while median earnings increased from R2, 900 in 2010 to R3, 033 in 2013 and remained the same at R3, 033 in 2014. As we can see the median wage is not far off from the poverty line for a household of R2, 648 per month.



Table 1: Monthly Earnings of Employees, 2010 & 2014

	Number of employees	Bottom 5%	Bottom 10%	Bottom 25%	Median	Top 25%	Top 10%	Top 5%
2010	11 638	600	866	1500	2900	6900	12885	17106
RANDS								
2014	11 692	500	700	1574	3033	8000	17000	24000

Source: Stats SA, Labour Market Dynamics 2014

Between 2010 and 2014, the monthly median earnings for men increased from R3, 200 to R3, 500, while those of women increased by R200 (from R2, 400 to R2, 600). There is thus a huge gender wage gap of R900 per month. A NMW for all workers would thus greatly assist in terms of reducing the gender wage gap especially at the lower end of the labour market where most women find themselves in vulnerable employment.

According to Table 1, in 2010, the top 5% earned almost 30 times more than the bottom 5% of employees, and by 2014, this had increased to almost 50 times.

In 2014, the bottom 25% (2.9 million) of workers earned below R1, 574 per month and 50% (5.8 million of an 11.7 million workforce) of workers earned below the median wage of R3, 033 per month. Whereas the top 25% of workers (or 2.9 million) earned up to R8, 000 per month, the top 5% (585 000) of workers earned up to R24, 000 per month.

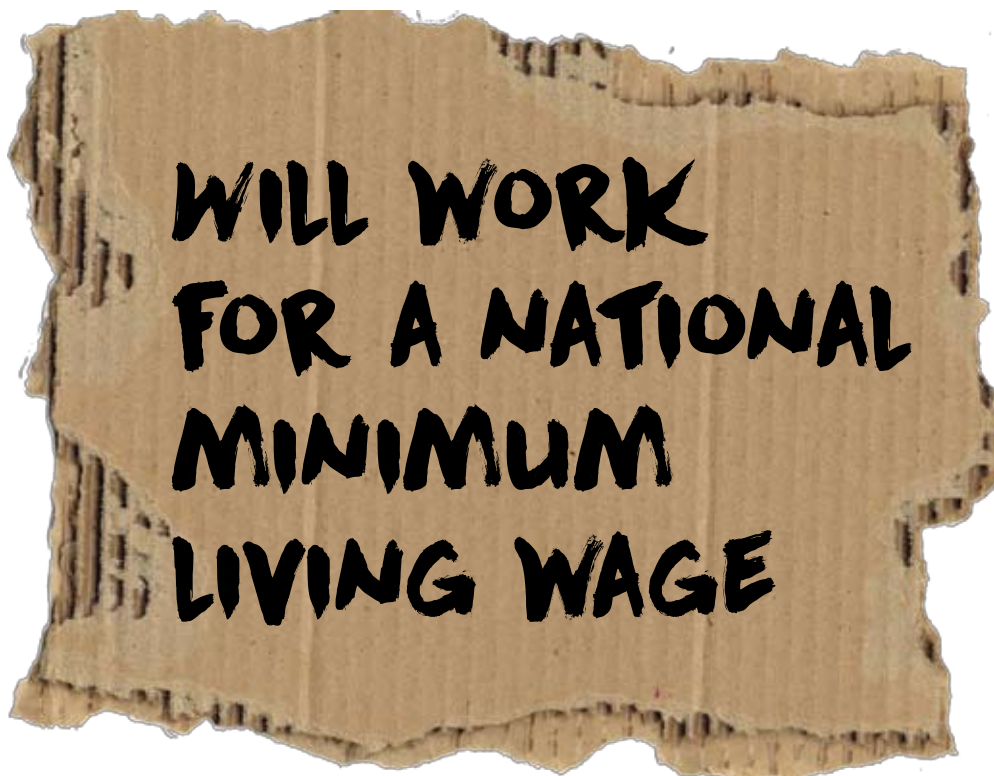
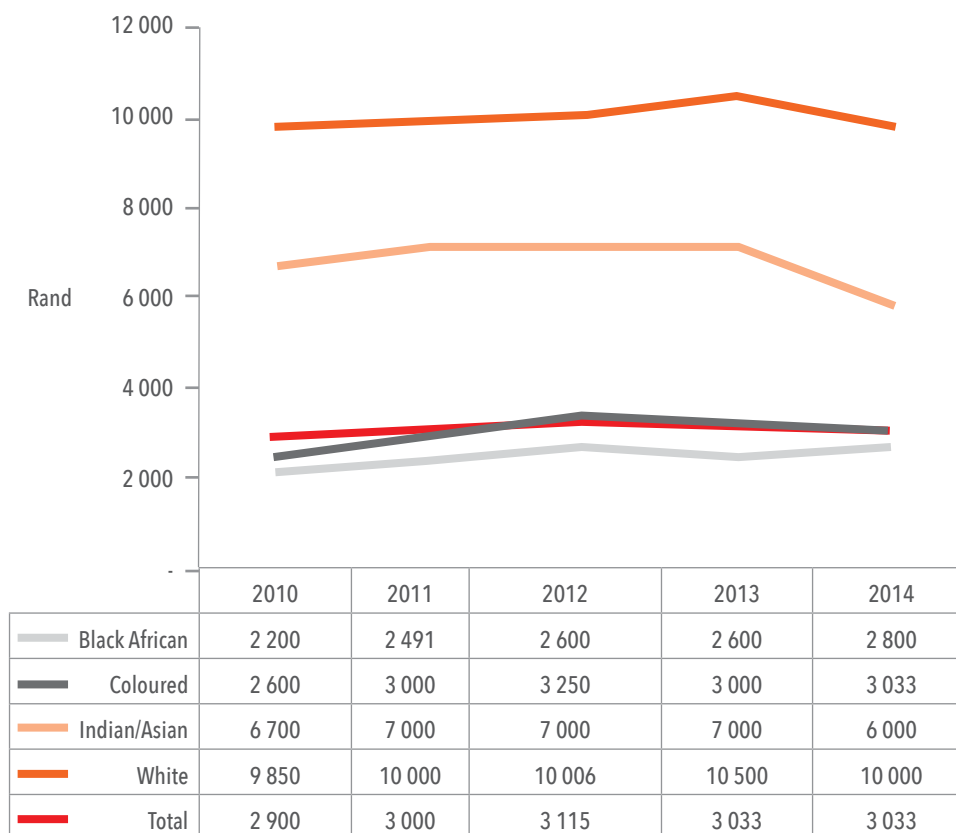


Figure 3: Median Monthly Earnings per Racial Group 2010-2014



Source: Stats SA, Labour Markets Dynamics 2014

In 2010 the monthly median earnings (figure 3) of the white population was R9, 850 and reached R10, 000 per month in 2014. Moreover, the median *earnings of this population group* were more than three times those of the black African (R2, 800) population group. The median earnings of Indians/Asians (R7, 000) remained unchanged over the period 2011–2013, but declined by R1, 000 in 2014 to R6, 000. We can thus clearly see that the so called coloured (R3, 033) and black African median earning are poverty wages.

Table 2 indicates the monthly *median earnings per economic sector*. Median earnings of employees in Utilities were the highest for two consecutive years (2013–2014) and the lowest for Private households over the period 2010–2014. In 2014, the monthly median earnings were higher for employees employed in Utilities (R7, 000), Mining (R7, 000) and Services (R5, 000) and lowest for employees engaged in Private household activities (R1, 400). The highest increase in the monthly median earnings over the period 2010–2014 was observed in the Mining (R2, 000) and Utilities (R1, 000) sectors. Median earnings in Services declined by R1, 000.

Table 2: Median Earnings per Economic Sector per month

	2010	2011	2012	2013	2014
<b>Rand</b>					
Agriculture	1 295	1 300	1 495	1 733	2 153
Mining	5 000	5 800	6 000	6 000	7 000
Manufacturing	3 250	3 500	3 500	3 672	3 900
Utilities	6 000	6 000	6 000	8 666	7 000
Construction	2 437	2 600	2 600	2 800	2 816
Trade	2 505	2 800	3 000	3 000	3 033
Transport	3 500	3 600	3 800	3 900	4 000
Finance	3 501	4 333	4 000	4 000	4 000
Services	6 000	6 000	6 500	6 000	5 000
Private					
Households	1 000	1 200	1 200	1 300	1 400
<b>Total</b>	<b>2 900</b>	<b>3 000</b>	<b>3 115</b>	<b>3 033</b>	<b>3 033</b>

Source: Stats SA, Labour Market Dynamics 2014

A different method of determining a benchmark for a NMW is to look at the Labour Research Service's Actual Wage Rates Database, which collects information of minimum wages of actual collective bargaining agreements representing 392 collective agreements representing over 2.2 million workers and 9 sectoral determinations representing 4.5 million workers. LRS uses minimum wages per industry to calculate the median minimum wages of the lowest paid workers.

Table 3: Bargaining Levels and Worker Coverage 2014

Bargaining Units	Sample	Estimated Coverage
All Industries	392	2196 022
Enterprise CBA	341	309 705
Bargaining Council	51	1 886 317
Sectoral Determination	9	4 549 657

Source: LRS Actual Wage Rates Database, Ministry of Labour, Industry Reports, LRS' Calculations.

Figure 4 indicates the median minimum wage per industry in 2014 with the exception of agriculture which only has one minimum wage which is R2, 420 per month.<sup>1</sup> The highest median minimum wage is in the electricity industry at R6, 021 per month.

Figure 4: Median Minimum Wage per Industry 2014



Source: LRS, Actual Wage Rates Database

Figure 5 indicates that the lowest median minimum wage according to sectoral determination is in the domestic sectoral determination at R1, 631 per month and the highest median minimum wage at R3, 037 per month is contained in the private security industry sectoral determination.

An important point to note is that government's Expanded Public Works Programme (EPWP) employs workers in the most vulnerable conditions where women are more likely to participate in these programmes, with the share of women among those who participated increasing from 59.3% in 2011 to 63.1% in 2014. The wage of workers in the EPWP where there is only one minimum wage has one of the lowest minimum wages paid (R1, 819) per month, just higher than domestic workers.

1. Due to challenges in the collection of collective agreements for agricultural workers, they have been omitted.

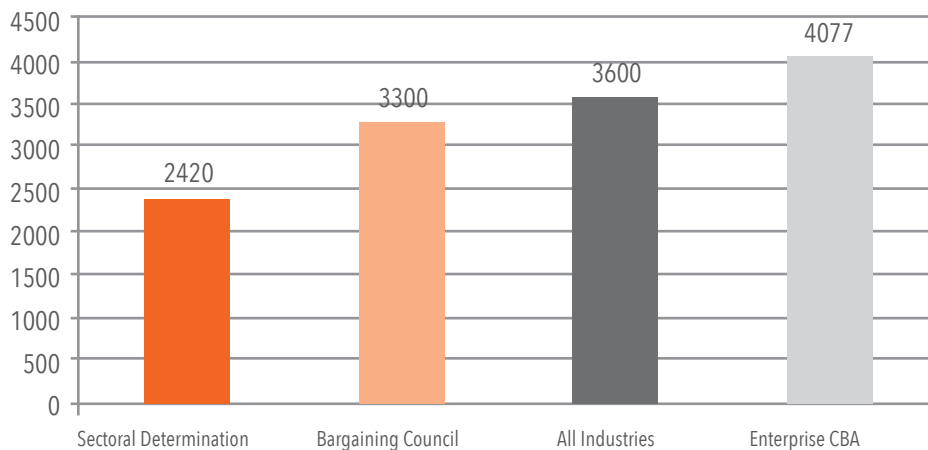
Figure 5: Minimum Median Wage for Sectoral Determinations 2014



Source: LRS, Actual Wage Rates Database

Figure 6 indicates the median minimum wage by bargaining level. LRS data shows a median minimum wage for sectoral determinations at R2, 420 and all industries at R3, 600 per month. It further shows that workers who bargain at enterprise level scored higher median minimum wages (R4, 077 per month) than workers at bargaining council level (R3, 300 per month).

Figure 6: Median Minimum Wages by Bargaining Level 2014



Source: LRS, Actual Wage Rates Database

Having looked at poverty levels and two sets of data (Statistics South Africa and Labour Research Service) on median earnings for workers in South Africa we can now consider a benchmark to fix a NMW.

## At What Level Do We Fix the NMW?

Our main consideration should be the poverty line of R2, 648 per month for a household as the primary goal of any minimum wage policy is to increase the incomes of those at the very bottom of the wage scale and in so doing lift them out of poverty. Our concern therefore when fixing a NMW is to fight poverty wages. We should also consider that the majority of workers' incomes are being determined by the employer and only 31% (3.6 million workers) by collective bargaining arrangements. The vast majority of workers (69% or 8 million workers) of the 11.7 million (formal sector) workers in total are not directly covered by any form of collective bargaining.

The NMW must therefore, by its very nature, be universal so that it is able to assist the lowest paid in the workforce who is currently earning around R2, 648 per month or less and who is living in poverty regardless of the economic sector or industry.

In many countries the NMW is set using the figure of 35 - 45% of the national average wage or 40 - 60% of the median wage. According to Statistics South Africa, Quarterly Employment Statistics (QES), the average monthly income for the formal non-agricultural sector was R16, 470 in November 2014. In South Africa, the average minimum wage based on the average wage level would therefore be somewhere between R5, 766 and R7, 412. If the minimum wage would be based as 50 - 60% of the median wage of R3, 033, it would result in a wage of R1, 517 - R1, 820. Clearly, using the average and median wage as the rate to fix a NMW would either be too high (as it almost exceeds the highest minimum for all industries) or too low (since it's below the poverty line) and would leave workers in the poverty trap. Even using the national median wage of R3, 033 is clearly too close to the poverty level of R2, 648 per month. Another suggestion could be to fix the NMW in relation to the LRS median minimum wage amount of R3, 600 per month for all industries.

There is much concern as outlined earlier that a high NMW may increase unemployment and that there is a difference between conditions for economic sectors involved in the export sector and those that essentially serve the domestic market. A NMW that is fixed too high might lead to considerable retrenchments in the agricultural sector. In the famous 2012 farm workers revolt in the Western Cape farm workers demanded a minimum wage of R3, 000 and on the other hand the Marikana striking workers demanded a living wage of R12, 500. What is important is that workers themselves have their own perception of what their needs are for a minimum wage and a living wage regardless of what experts might determine.

In broader terms the figure of R3, 000 in 2012 was what farm workers felt would take them out of a poverty wage and a minimum wage they could live on. Would it therefore be feasible to use the LRS median minimum wage for all industries as a benchmark of R3, 600 to fix a NMW in 2015 or is it still too close to the poverty level?

Finally, we cannot set a benchmark for the NMW without first examining the most important benchmark for workers - that of a living wage which should be based upon any working class

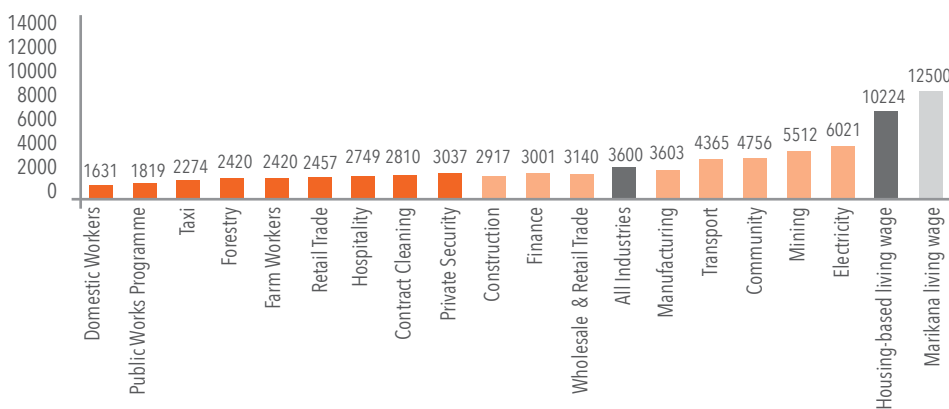
family being able to afford a low cost house – a housing-based living wage. According to LRS a housing-based living wage is premised on important assumptions, namely:

1. That housing is the largest item for expenditure in household income and
2. That a living wage can be derived from the monthly cost of housing if this is set at a particular percentage of total income.

According to the banking industry a household should look at spending no more than a third (33.33%) of its monthly income (after tax and deductions) towards monthly bond repayments. The First National Bank's property barometer for former "township" markets indicates that the average house price is R323, 000 in 2015. Using the bank's bond calculator we have a monthly bond cost of R3, 067 per month and a qualifying minimum gross income of R10, 224 per month. We have thus derived at calculating a housing-based living wage of R10, 224 per month for 2015.

It thus appears that in order to take workers out of the poverty wage system inherited from apartheid the NMW would have to be located somewhere between the all industries median minimum wage of R3, 600 and the housing-based living wage of R10, 224. An important consideration is that the fixing of a NMW should not be set too high so that it is confused with a living wage.

Figure 7: Comparison of Various Median Minimum Wages and Living Wages



Source: LRS AWARD, Author's Calculations

Looking at Figure 7, we now have a clearer picture of the various minimum wages in all industries and living wage benchmarks. If the all industries median wage of R3, 600 is accepted then workers covered by sectoral determinations (from domestic workers to private security) and workers in construction, finance and wholesale and retail then about 7 million workers will benefit out of the 11.7 million formal sector workers in South Africa. The extent of the coverage depends on how high the NMW is finally set between the all industries and the housing based living wage benchmark.

But how feasible would it be to adopt a universal NMW without shedding jobs and causing harm to the broader economy? We shall now consider lessons from experiences of implementing minimum wages in South Africa and elsewhere.

# The Impact of a National Minimum Wage

How do employers in a low-wage labour market respond to an increase in the minimum wage? Those that largely oppose a NMW would argue that it would lead to job losses.

A famous 1993 study by researchers David Card and Alan Krueger found no evidence that the rise in New Jersey's minimum wage reduced employment at fast-food restaurants in the state. In 2009, after 10 years of monitoring, the United Kingdom Low Pay Commission (consisting of employers and workers) had not found any significant negative effect on employment. In Brazil we saw the creation of 17 million formal sector jobs from 2002-2011. Brazil increased real wages by 81% in this period with no apparent consequences for employment and for economic growth. The Brazilian GDP rose from -0.5% in 2003 to 9.1% in 2010 and unemployment decreased from 12% in 2003 to 5% in 2014. This year the Brazilian NMW is set at R3, 091 per month or similar to the South African median wage of R3, 033. Similarly, Turkey's clothing and textile sector consistently out-competes South Africa's despite Turkish wages having been 24% to 41% higher in 2011.

In South Africa there have been numerous studies on the impact of minimum wages on employment and the economy. Researchers at the University of Cape Town, Development Policy Research Unit studied how the introduction of the "sectoral determinations" affected jobs. Their study focused on the impact of the wholesale and retail, domestic workers, forestry, taxi, and private security sectors on unemployment since the dates of their introduction. Together, these sectors accounted for approximately 2.2 million workers in September 2007, which amounts to 17.2% of non-agricultural employment. We summarise in full the findings of their research below.



## Unemployment

For the *wholesale and retail sector*, there was an increase in employment following the introduction of minimum wages. For *domestic workers* there was an insignificant initial decline after which it increased to new highs. Employment in the *forestry sector* showed a statistically insignificant decline; the *private security sector* experienced a sustained and large increase in employment. There was also a significant increase in full-time employment in these sectors after the sectoral minimums were implemented.

The only sector in which we see a significant decline in employment is the *taxi sector* – but this could be as a result of the decline of the industry itself a few years before the introduction of the sectoral minimum.



However, these findings contrast strongly with those of the *agricultural sector*, in which minimum wage laws appear to have contributed to an overall decline in the likelihood of employment of as much as 13% in the four years after the law was introduced.

## Wages

As far as real wages are concerned, the only significant changes were increases in two sectors. In the wholesale and retail sector, real wages increased significantly – and also the domestic work sector experienced a sustained upward trend in real hourly wages.

Collectively the results suggest that the introduction of minimum wage laws were associated with subsequent positive increases in *real hourly earnings* in four of the five sectors, i.e. in all sectors except forestry. In addition, wages tended to rise more in districts where wages initially were far below the introduced minimum wage.



## Hours of Work

The minimum wage has had an effect on the deployment of workers in terms of the usual number of hours worked per week. Significant declines in hours of work occurred in wholesale and retail (2.2 hours per week), domestic work (3.3 hours) and the security sector (2.7 hours). These are also the sectors in which the employment numbers continued to rise after minimum wage laws were enacted. This suggests that employers started to reduce the usual work hours of employees in order to afford, or counter, higher hourly wages.

However, as far as the effect of the laws on real monthly income is concerned, the wholesale and retail, domestic work and security sectors showed an increase in real hourly wages that was sufficient to outweigh any reductions in hours worked – workers ended up being better off on aggregate. Workers in the forestry and taxi sectors appear to have been unaffected in real income terms.



## Level of Compliance

A low level of compliance with prescribed minimum wages occurred in four of the five sectors, 40-60% of workers were paid less than the applicable minimum wage. In domestic work, non-compliance was even worse, averaging 75% (though declining). However, the share of workers with wages near the 'compliant' region far outweighed those that were non-compliant outside the region of the prescribed minimum.



## The 'Special' Case of Agriculture

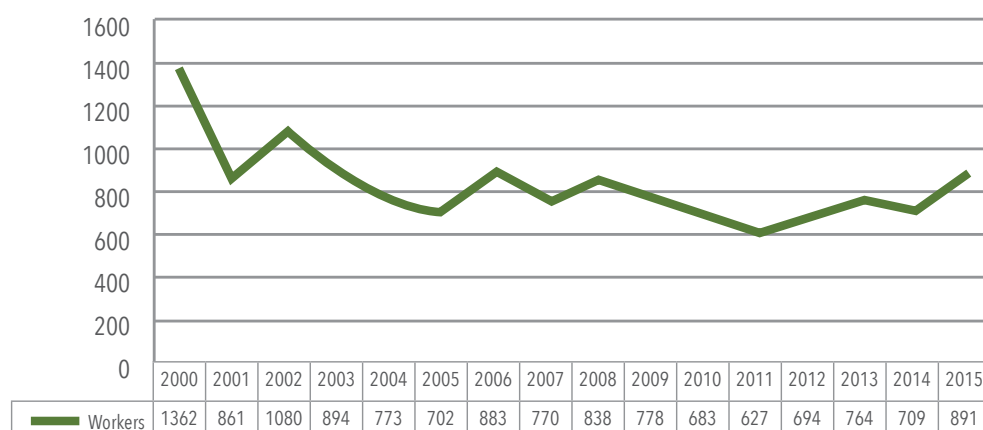
Of all the sectors studied the researchers at UCT found that it was only the agricultural sector where there was significant occurrence of unemployment after the implementation of the agriculture sectoral determination of 2003. However, reports of economic growth of the agricultural sector remained positive and thus there were no economic shocks (even in exports) that could have caused the unemployment in the sector's largest employers – citrus, maize and grapes.



Thus what were the reasons for employment losses despite relatively stable output?

1. There was excess employment prior to the implementation of the sectoral determination and the higher wage bill encouraged farmers to shed the excess unskilled labour and replace them with more skilled workers.
2. Farmers anticipated the legislation and increased capital investment (tractors, machinery and implements) by 83% thus displacing labour on the farms.
3. The Extension of Security of Tenure Act of 1997 (ESTA) and the minimum wage promulgation in 2003 were underpinned by strong political economy views amongst white farmers about further state interventions (as in the case of Zimbabwe).
4. Workplace consolidation took place with the proportion of part-time workers falling through increased use of more skilled, permanent workers.

Figure 8: Number of workers in agriculture, forestry and fishing



Source: Stats SA, Labour Force Survey Historical Tables 2000-2007, QLFS Q1 trends 2008-2014, QLFS Q1 2015. LRS' Calculations.

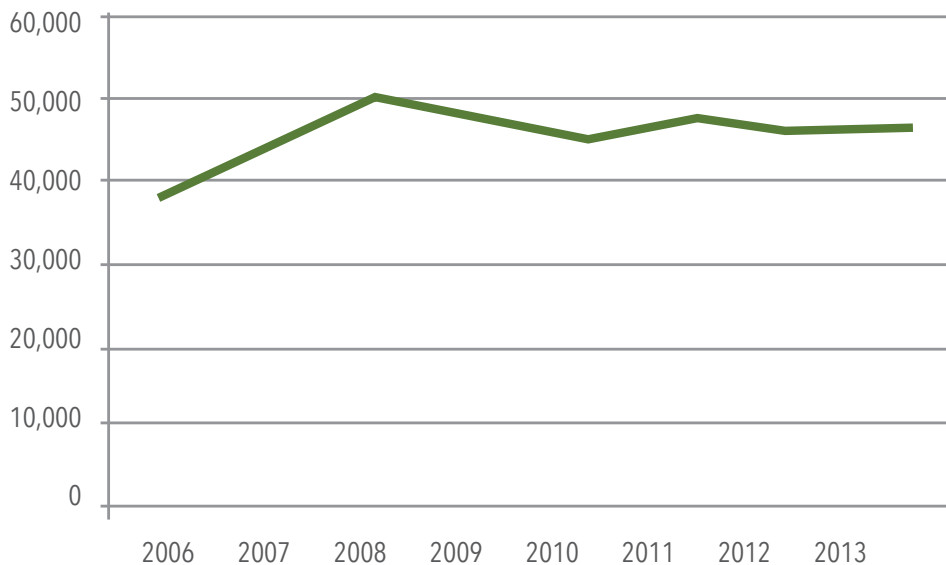
Figure 8 shows LRS' findings on employment in the agriculture sector over time indicating that the largest drop in employment took place in 2001 (just over 500 000), two years prior to the implementation of the 2003 sectoral determination. However, employment increased again between 2005 and 2006 by 181 000 jobs and dropped steadily until a low of 627 000 in 2011 then started to increase again to 891 000 in the first quarter of 2015. This represents an increase of 20% or an additional 182 000 jobs in the first quarter, year-on-year in 2015. Employment levels thus returned to the level of 2003 when the sectoral determination was first implemented.

The drop in employment of 55 000 workers by 2014 is thus a very small one given the magnitude of the increase in the minimum wage and looking at employment levels over the long-term.

What the employment figures show is that most farmers had absorbed a massive increase in the new minimum wage of R105 a day, a 50% increase (on the prior R69 a day) in 2013.

Workers also gained tremendously with an increase in the wage bill of R1, 5 billion in 2013 and a further R1, 6 billion in 2014. However the wage determination has modestly increased real average wages and the overall wage bill was only 10.6% of total farming costs in 2013.

Figure 9: Real Gross Operating Profit for the Agriculture Sector 2006-2013



Source: Stats SA, GDP Q3 2014, LRS' Calculations

According to the Department of Agriculture, the sector registered strongest growth of 5.6% in 2014, up from 1.5% in 2013. The sector's growth was because of the R25, 1 billion (13.2%) increase in gross income from agricultural products in 2014 compared to 2013. Furthermore, income increased by 8.6% in 2013 from 2012 due to increases in production and higher commodity prices. Thus profit levels in the agriculture sector increased despite the introduction of the sectoral determination for farm workers in 2003 and the increase of 50% in farm worker wages in 2013.

The study by the Institute on Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape sums up the experience of the agricultural sector in relation to minimum wages by stating that employment figures in the agricultural sector indicate a trend toward stabilisation of employment along with a large shift from casual and seasonal to permanent employment – i.e. both these factors are reversals of previous trends.

PLAAS indicates that the reasons for the stabilisation are:

- Labour-substituting mechanisation has been largely achieved
- More marginal farm enterprises have already retrenched, or gone bankrupt
- Farms need to retain a certain number of the labour-force to retain production levels
- Farmers have been able to adjust production systems to make the new wages affordable
- Rising cost of intermediate goods (fuel, seeds, fertilisers, fencing, crop protections etc.) rather than labour, land or capital are the main explanatory factors in the cost-price squeeze in agriculture.

What the experience in agriculture (an export sector) and minimum wage determinations indicates is that there is no mechanical relationship between wages and employment where increases in wages automatically lead to unemployment. The simplistic argument that increased wages leads to unemployment is not supported by evidence and instead what we observe is increased employment and increased profitability. Thus, besides financial gains farm workers have also scored a change from casual to permanent employment, including a reduction of workers' weekly hours from 47 (2008) to 46 hours (2014).



*Farm workers and community members rallying and protesting over wages and poor working and living condition in the fruit and wine farming towns of the Western Cape. Photograph: Esa Alexander/Sunday Times*

**End  
apartheid  
wages**



# How to Campaign for a National Minimum Wage

According to Gordon Young, the former director of LRS in a letter advising COSATU's Living Wage Committee on a NMW in 1990:

The National Minimum Wage should be set at a level which every union and every sector will find useful in its wage campaigns. Unions will use it differently, however. In high-wage industries, unions will use the National Minimum Wage as a floor or safety net to wages; in low-wage industries, unions will use it as a goal.

The National Minimum Wage should thus be set at a level which every union and every sector will find useful in its wage negotiations and campaigns. A NMW should not be exaggerated as it has the primary goal to lift the poorest sections of the working class out of poverty – it is a campaign against poverty wages! The NMW is there to assure all workers, regardless of the sector or industry they find themselves in, of a basic minimum living standard so that they do not need to endure a daily struggle with poverty. Fixing a NMW too high and too close to a living wage will confuse ordinary trade union members and dilute a campaign for achieving a universal minimum wage. One of the first tasks is therefore for the labour movement to come to a consensus on where to fix a NMW.

A NMW campaign highlights the importance of the trade union movement having a unified, national wage demand, the advantages of which will be:

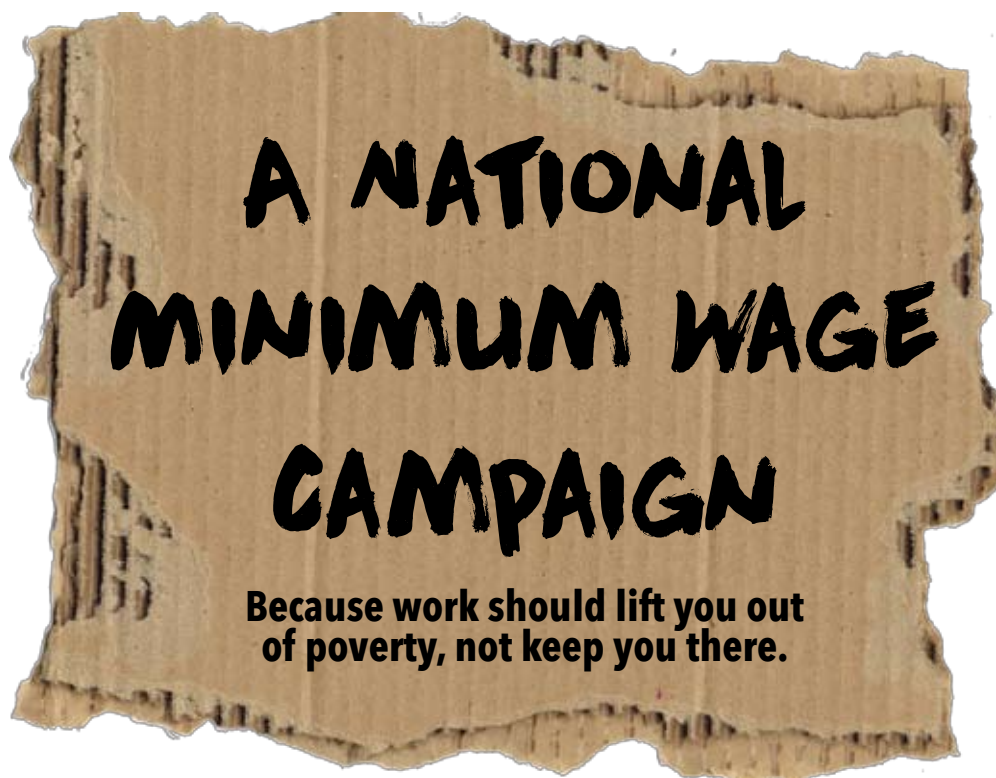
- a). A powerful organising tool to restore confidence in trade unions and to organise the unorganised
- b). A clear, unifying goal for all negotiators and shop stewards to revitalise democratic and accountable links with ordinary workers
- c). A formidable pressure on employers (who by contrast do not have a single position on a NMW)
- d). A popular and unifying theme for campaign materials and propaganda

The current method for fixing sectoral determinations through provincial hearings where employers and trade unions participate has led to the maintenance of the low wage system in South Africa and where government, more often than not, succumbed to the pressure from

employers. Workers who already earn higher, more liveable incomes may also be fearful that employers will use a NMW system to lower their wages. It is therefore important that trade union officials involved in high level social dialogue with government and employers in the fixing of a NMW be accountable to workers. The fixing of a NMW should involve workers at all levels of the union and the shop floor where workers will own a NMW as 'theirs'. Worker education programmes are therefore crucial and should equip shop stewards and negotiators in all sectors to understand the key issues in fixing the NMW.

Once agreement and consultations are complete workers can be unified across the country in a national day of action demanding a NMW with a single amount. The opportunity can be used to mobilise broader public support with debates in communities, newspapers, campaign adverts, and radio and television debates. The campaign materials must thus be accessible and able to speak to all workers regardless of occupation and industry. The campaign will however have a target group – that of the lower skilled workers often referred to as the 'general worker' who will be the biggest beneficiaries of a NMW.

The importance is for the labour movement not to wait until government and business agrees to an amount but to pre-empt their decision in the same way farm workers have shown us. In negotiations on the shop floor, company level and industry level, shop stewards and negotiators should already make the demand for a NMW amount as the minimum wage in all sectors of the economy.



# Conclusion

A NMW is a powerful weapon in the hands of labour to fight poverty wages and is both reasonable and necessary. A NMW is not about a 'normal' opposing of material interests between workers and the bosses, it is one of guarding the working class from decay, demoralisation and ruin. It is the trade union movement that has historically fought against poverty wages and it is only the labour movement that can make a NMW a reality.

South Africa already has multiple legislated minima for various groups of workers (Sectoral Determinations) but we do not have a National Minimum Wage. If there is a national minimum wage and some sectors are exempted then it is not *really* a national minimum wage. It would be better to fix a NMW at a level taking into account the special treatment of the agricultural sector and, in so doing, preserve the universal and thus unifying aspect of a real national minimum wage.

In order to meet the necessity of a NMW and abandon the low wage economy we should raise the levels of investment in the productive sectors of the economy. Implementation of a minimum wage should be an integral part of a package of far-reaching industrial policy (and other) interventions as well as the reorientation of macroeconomic policy. In this way high investment, high productivity and high employment can be accompanied by higher wages.

A NMW is therefore just one measure amongst many to overcome the triple challenges of unemployment, poverty and inequality.



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WORKERS OF SOUTH AFRICA!



UNITE AND FIGHT FOR A LIVING WAGE!



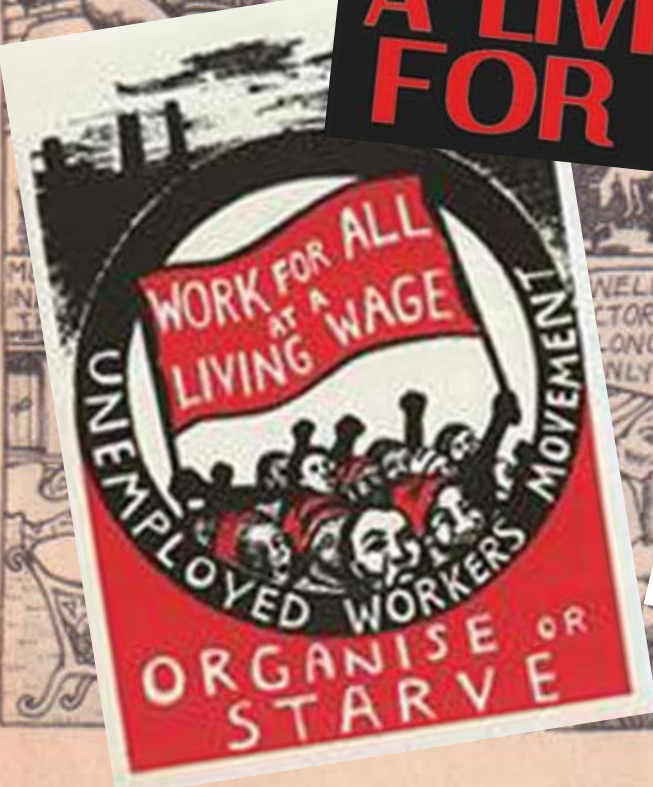
UNDER CAPITALISM, MILLIONS EMPLOYED AND UNEMPLOYED FORCED TO LIVE IN TERROR

WHY DO WE HAVE NO MONEY, NO FOOD, NO CLOTHING, NO HOUSING, NO EDUCATION IN OUR TOWN?



WHEN THOSE WITH JOBS WORK HARD, I DON'T EVEN GET ENOUGH TO LIVE IN BEINGS! BUT HOW DO WE DO?!

A LIVING WAGE FOR FAMILIES



WELL? IN FACTORY, SO LONG TO ONLY RIC

WHY SHOULD THE... ALL THE

Make Minimum Wage A Living Wage!

IS IT? WHAT'S RIGHT FOR THE WORKERS?

**“Knowledge is too Important  
to be left in the hands of the Bosses”**



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