

## At What Level Should a National Minimum Wage in South Africa be Fixed?

*By Eddie Cottle*

The struggle for a National Minimum Wage (NMW) in South Africa has a long history, having been waged, largely by organised worker formations, since the 1930s. These efforts have taken various forms from open class conflict, to more subdued trade union representations, 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 in the country.

To date, no NMW has been set. It is only after the Marikana Massacre and the farm workers' revolt of 2012, that the post-apartheid African National Congress (ANC)-led government has decided to the introduction of a NMW, initially through agreeing to an investigation. The content of the various reports of the task teams involved in the investigation have not been made public, and the rank-and-file members of the trade unions have not been involved in democratic processes to decide where the NMW should be set.

### How do we quantify the NMW?

The following section outlines some key issues that must be taken into consideration in determining a NMW for South Africa. One major consideration is the poverty line of R2, 648 per month (US\$ 204) for a household, especially if the primary goal of the 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. We should also consider that the majority of workers' incomes are determined solely by the employer, as 8 million formal sector workers (69%) are not directly covered by any form of collective bargaining. Only 3.6 million workers (31%) benefit from some form of collective bargaining. A NMW must, by its very nature, be universal. This is so that it can enable the lowest paid workers, most of whom are women, regardless of their location in a particular sector or industry, to be lifted out of life-long poverty.

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's Quarterly Employment Statistics (QES), the average monthly income for the formal non-agricultural sector was R16, 470 (US\$1,256) in November 2014. In South Africa, the average minimum wage, calculated against the average wage level, would therefore be between R5,766 (US\$439) and R7,412 (US\$565). On the other hand, if the NMW is set at 50-60% of the median wage of R3,033, the NMW would be a wage of R1,517-R1,820. Clearly, using the average and median wage as the rate at which

to fix a NMW would either be too high (almost exceeding the highest minimum for all industries) or too low (falling below the poverty line) and would leave the majority of workers trapped in poverty. Further, using the national median wage of R3, 033 would mean setting it too close to the household poverty level of R2,648 per month (US\$202).

Complicating the issues is the concern that a high NMW may increase unemployment, and that differences between conditions in economic sectors involved in the export sector and those of the domestic market should be taken into account, as well as differences between sectors facing different profitability levels. In the 2012 farm workers' revolt in the Western Cape workers demanded a minimum wage of R3,000 (US\$229) while, on the other hand, the striking Marikana (platinum mining) workers demanded a living wage of R12,500 (US\$955).

What is important is that workers themselves can express their own perspectives on their needs, and on what a minimum wage and a living wage should be – regardless of what certain experts may argue. For instance, the 2012 figure of R3,000 (US\$229) was what farm workers felt would take them out of poverty wages, and provide a minimum wage on which they could live. Would it therefore be feasible to use an LRS median minimum wage of R3, 600 (US\$275) as a benchmark for all industries 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 issue of a living wage, based upon any working class family being able to afford a low-cost house. This is called a housing-based living wage. According to the LRS (1989:2), a housing-based living wage is premised on important assumptions:

1. That housing is the largest item for expenditure in household income;
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 spend no more than a third (33.33%) of its monthly income (after tax and other deductions) on monthly bond repayments. First National Bank's "Property Barometer: for former "township" markets indicates that the aver-

age house price was R323,000 (US\$24,639) in 2015. Using the bank's own bond calculator, we arrive at a monthly bond cost of R3,067 (US\$234) and a qualifying minimum gross income of R10,224 (US\$780) per month." This would mean a housing-based living wage would be R10,224 (US\$780) per month for 2015.

### **Will employment be affected by the NMW?**

It thus appears that, in order to take workers out of the low-wage system inherited from apartheid, the NMW would have to be located somewhere between the all-industries median minimum wage of R3,600 (US\$275) and the housing-based living wage of R10,224 (US\$780). At the same time, the fixing of a NMW should not be set so high as to be confused with a (housing-based) living wage.

If the all-industries median wage of R3,600 (US\$275) is accepted, then about 7 million workers out of the total of 11.7 million formal sector workers in South Africa, stand to benefit. Is it feasible to adopt a universal NMW without shedding jobs and causing harm to the broader economy?

A survey of the agricultural, wholesale and retail, domestic work, forestry, tax and security industries by researchers at the University of Cape Town found that it was only in the agricultural sector that there was significant occurrence of unemployment after the implementation of sectoral wage determinations. Even so, reports of economic growth in the agricultural sector remained positive, and there were no economic shocks (even in exports) that would have caused the unemployment in the sector's largest employers: citrus, maize and grapes.

LRS's findings on employment in the agriculture sector over time also show 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. Moreover, employment increased again between 2005 and 2006 (by 181,000 jobs) and then dropped steadily to a low of 627,000 in 2011, then started to increase again in the first quarter of 2015 (reaching 891,000). With the increase of 20% (an additional 182,000 jobs) in the first quarter of 2015, compared to the first quarter of 2014, employment levels thus returned to roughly the level of 2003 when the sectoral determination was first implemented.

There is thus no simple correlation between wage rates and job losses. Further, the drop in employment of 55 000 farm workers by 2014 is thus a very small decline given the magnitude of the increase in the minimum wage, and its positive impact on hundreds of thousands, and when looking at employment levels over the long-term. According to the Department of Agriculture (2014:11), the agricultural sector registered strong growth of 5.6% in 2014, up from 1.5% in 2013. The sector's growth involved a R25.1 billion (13.2%) increase in gross income from agricultural products in 2014,

as compared to 2013. Thus profit levels in the agriculture sector increased, despite the introduction of the sectoral determination for farm workers in 2003 and the strike-driven increase of 50% in farm workers' wages in 2013.

The employment figures show that most farmers had in fact absorbed a massive increase in the new minimum wage of R105 (US\$8) a day, a 50% increase (on the prior R69 (US\$5) a day) in 2013. Workers also benefited sharply from the increase in the wage bill of R1.5 billion (US\$114 million) in 2013 and a further R1.6 billion (US\$122 million) in 2014. The wage determination has modestly increased real average wages, but the overall wage bill was only 10.6% of total farming costs in 2013 (Department of Agriculture, 2013:4).

A 2014 study by the Institute on Poverty, Land and Agrarian Studies (PLAAS) at the University of the Western Cape also shows that employment figures in the agricultural sector indicate a key trend towards the stabilisation of employment, and significant shift from casual and seasonal to permanent employment. Both of these are reversals of previous trends, and are closely linked to improvements in workers' incomes and conditions.

What the experiences in agriculture and statutory minimum wage determinations indicate, is that there is no mechanical relationship between wages and employment or evidence for the claim that increases in wages automatically leads to greater unemployment. Simplistic arguments that increased wages leads to increased unemployment are not supported by evidence: instead what we observe is increased employment and job stability, as well as increased profitability.

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This paper is based on extracts from a booklet, Cottle, E. 2015. *Towards a National Minimum Wage in South Africa*. International Labour Organisation. Geneva.

See also:

[http://www.ilo.org/addisababa/information-resources/WCMS\\_390762/lang-en/index.htm](http://www.ilo.org/addisababa/information-resources/WCMS_390762/lang-en/index.htm)

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