Minimum wage for South Africa: A question of power

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The debate about a minimum wage waxed and waned for almost two decades, until it eventually reached the point at last where became law. What are the factors that determine why a country should introduce a minimum wage? Is the minimum wage a floor or a ceiling and what impact can we expect it to have on social and economic development? The authors discuss the minimum wage in the context of the legal, economic and political landscape of South Africa, paying specific attention to the vast inequality for which the country has become notorious. They use impressive data to make a compelling case to support the decision to pass the minimum wage legislation.

INTRODUCTION

South Africa has embarked on the historic implementation of a national minimum wage. This is both a timely and important intervention because the South African labour market continues to generate some of the highest levels of income inequality in the world, partly the result of unemployment but also due to massive inequalities in wages and a significant growth in low-paid jobs. While policy attention is turning, rightly and importantly, to issues of wealth, it is vital that we continue to focus on income inequality too. The minimum wage is intended as a structural intervention – one attempt to transform the nature of the South African labour market by setting a realistic wage floor, and establishing the institutional capability to implement a system that ensures that wages are set at fair and humane levels.

This intervention cannot have come soon enough. In 2015, the top 10% of full-time South African employees took home, on average, 82 times more than the bottom 10%, with the average earnings for white workers more than three times higher than for African workers (Isaacs, 2016). This is not only a reflection of very high wages for executives, but of just how low the wages are for the lowest earners. Wage inequality matters, because, as found by Finn, (2015) it is the largest determinant of overall income inequality by a significant margin. Wages account for 90.65% of total income inequality in South Africa – far in excess of the contribution to inequality from remittances and investment income combined. People in the poorest households survive on R323 per month while in the richest households, people have R12,509 – nearly 40 times more – in 2012 prices (DPRU & CDSA, 2016). Furthermore, the pattern of low pay in South Africa also has a marked gendered aspect. The minimum wage is one tool that can be used to raise wages at the bottom of the income distribution, mitigate poverty to some extent, and begin to decrease South Africa's rampant income inequality.

The process leading to the adoption of the National Minimum Wage (NMW) in its current form has its genesis in the call by former president Jacob Zuma, on 17 June 2014, as part of his State of the Nation Address, for South Africa's social partners to address low wages, wage inequalities, and violence in the labour market as well as protracted strikes (National Economic Development and Labour Council, 2014). As a response, the South African National Economic Development and Labour Council (Nedlac) convened a conference in November 2014 which gave rise to the Ekurhuleni Declaration. The Declaration was significant because it signified recognition by the social partners of the following important issues. Firstly, that wages are the most important component of income for South Africa's working people. Secondly, that income from wages is the main source of ensuring a sustainable livelihood for workers. It is also a key factor in the competitiveness and sustainability of enterprises in the private sector, as well as the sustainability of enterprises in the public sector. A key part of the argument is that increasing wages at the bottom end of the wage distribution creates the possibility for boosting the demand for wage goods, and for boosting domestic production. Third, unemployment and underemployment, including the legacy of low wages, are the biggest causes of poverty and inequality in the country. Fourth, unemployment, underemployment, poverty and income inequality can result in income insecurity that undermines social cohesion. Finally, that large pay differentials between executives and low-income workers undermine the prospects for cooperative labour relations and workplace cohesion (Valodia et al., 2016).

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The minimum wage is certainly an economic intervention, but it is equally a legal and political one. We have written a number of articles on the need and viability of the NMW in South Africa (Valodia & Francis, 2016; Valodia, 2017), and we present these arguments in brief here. In this paper, we develop an argument for how the minimum wage can increase the bargaining power of workers and suggest two important implications. First, through bolstering both formal and substantive bargaining power, the minimum wage is an opportunity to raise the incomes of half of all working people in South Africa, and we argue that including the concept of power into a model for understanding how labour markets work allows us to break out of viewing minimum wages as a zero-sum game which will necessarily lead to job losses. Second, we suggest that improving the bargaining power of workers will allow for a more effective enforcement of the NMW. In order to develop this, we turn first to the institutional landscape of minimum wages in South Africa, before examining the economics of labour markets. Finally, and most importantly, we turn to the issue of power between employers and employees and the role that the minimum wage can play in increasing bargaining power of low-wage workers.

THE LEGAL: INSTITUTIONS FOR MINIMUM WAGES IN SOUTH AFRICA

Wage determination in South Africa has until now been based on two key pieces of legislation: the Labour Relations Act (LRA) of 1995, and the Basic Conditions of Employment Act (BCEA) of 1997. The former provides for collective bargaining (for almost all employees) and it sets out the legal framework within which collective bargaining operates. The BCEA specifies the basic rights and conditions of work for all employees, irrespective of whether they belong to bargaining councils. It also provides for sectoral determinations, which set minima for sectors where collective bargaining is not present. Sectoral determinations cover 46%, or 4.9 million workers, while 14.3%, or 1.5 million, are covered by public sector collective bargaining agreements. A total of 9.9%, or 1.1 million workers are private sector workers covered by trade union agreements, and a further 7.6% are private sector workers covered by bargaining council agreements. This left 22.3% of the workforce, numbering 2.4 million workers, uncovered by any form of minimum wage protection[1] (DPRU & CDSA, 2016).

The problem of patchy coverage of minimum wages has been exacerbated by the findings that, under the fragmented minimum wage dispensation, enforcement is poor. Rani, Belser, Oelz, & Ranjbar, (2013) find that, for 2011, non-compliance with minimum wages was very poor in certain sectors: 30% in manufacturing, 60% in agriculture and more than 70% in construction. Furthermore, Mayet (2010) and Rani et al. (2013) show that minimum wage noncompliance is very high in vulnerable sectors which fall under sectoral determinations, such as security, domestic work, the taxi industry, construction and agriculture (Murahwa, 2016, p. 2). In general, Bhorat, Kanbur, & Mayet, (2012) found very high levels of minimum wage noncompliance. For 2011, they found that 44% of workers *covered* by some form of minimum wage legislation get paid below the legislated minimum, and the magnitude of this under payment is 35% on average. There were thus two clear problems with the previous minimum wage legislation, both of which should be addressed, at least to some extent, by the introduction of the NMW. The first is the large gaps in minimum wage coverage under the sectoral determination and collective bargaining systems. The second is the very poor compliance with the current laws. While the minimum wage will automatically cover those excluded from the current system, it should go some way to addressing noncompliance because, absent any improvements in enforcement, its simplicity and transparency could improve compliance. We discuss this in more detail later in this paper.

THE ECONOMIC: LOW PAY IN SOUTH AFRICA

With this background of the legal landscape of minimum wages, we now turn to the economic situation. It is important to make the point that the minimum wage is not a policy intervention on the margins, but rather one that seeks to effect structural change at the heart of the economy. Much of the debate about the implementation of the minimum wage in South Africa concerns the long-run employment dynamics following its implementation, and the extent to which, if at all, the new wage floor will lead to job losses. But one of the most important aspects which is often ignored is how the policy process has highlighted the depth and extent of low pay in South Africa.

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The labour market in South Africa has generated, and continues to generate, some of the highest levels of inequality in the world. While executive salaries are some of the highest in the world, low pay is widespread, with over half of all full-time workers earning less than R3,500 per month in 2016 (Valodia et al., 2016). This is compounded by persistently high unemployment, which is concentrated in poor households. In this regard, we have two important observations. The first is that there is an egregiously high level of unemployment among households in quintiles one and two, at 61.2% and 32.7% respectively (this is according to the narrow definition of unemployment which does not take into account discouraged work seekers), compared to 3.3% for those in quintile five, the richest 20% of the population. This is in comparison to the national unemployment rate which is recorded at 25.1%. The second observation is the average wage of the employed. Those in quintile one earn an average wage of R1,017 per month and those in quintile two earn R1,707 per month, compared to R13,458 for those in quintile five, and a national average of R5,787 in 2012 prices (DPRU & CDSA, 2016). These figures highlight both the magnitude of wage inequality in the country and the extent of low pay. They are even lower than expected because they include part-time workers, and thus reflect actual take-home wages rather than monthly adjusted figures. Finally, the percentage of working households rises significantly across the quintiles, from 36.2% in quintile one to 87.8% in quintile five. These data suggest that poverty in the country is, among many other variables, a problem of both extremely low pay (for those in employment) and extremely high unemployment. Recent calculations show that the monthly mean wage is R10,634 compared to the median wage of R4,485 (Valodia et al., 2016). This gives an indication of just how skewed the income distribution by those earning high salaries: the average worker earns less than half of the average salary.

The post-apartheid period has seen significant growth in wage inequality, in spite of a profusion of redistributive policies enacted by the state, and the policies in place to address vulnerable work. In 2016 there were 6.2 million workers out of 13.2 million (47.3%) who earned less than R3,500 (DPRU & CDSA, 2016). This alone is a striking figure. What is more notable, however, is that 53.1% of *all* working women earn less than R3,500 per month, compared to 42.5% of men (Ibid.). At an even lower point on the income distribution, R2,500 per month, 40.8% of all working women earn below that

> **. . . . increasing wages at the bottom end of the wage distribution creates the possibility for boosting the demand for wage goods.**

level, compared to 29.9% of men. In agriculture, nearly 85% of all workers earned less than R3,500 in 2016. For domestic work, this was 91%. In construction, 55% of workers earn less than R3,500 per month, and in retail, this figure is 48%. This is in comparison to manufacturing (39.7%) and financial services (36.9%) (Ibid.). Furthermore, far more women than men work in low paid jobs, and women earn less than men across the income distribution. Indeed, some recent research by Stats SA found that, in 2015, the median wage for women was only 77.1% of that for men. For the bottom 25% of wage earners, the median wage for women is only 75.0% of that for men (Statistics South Africa, 2016). What is striking is that low pay is concentrated in wholesale and retail trade, community, social and personal services (CSP), and private households. Indeed, 55.1% of all workers earning below R3,500 per month are found in these sectors. Two important things are common (to differing degrees) between these sectors: the first is that they are poorly organised (particularly in CSP and domestic work), and secondly, women make up a high proportion of the workforce (in CSP and domestic work, women are the majority). These figures underscore the depth and extent of low pay in South Africa, and they provide the impetus for the implementation

of the national minimum wage. They also, however, point to some systemic problems in the labour market – those with the lowest bargaining power earn the lowest wages.

THE POLITICAL: BARGAINING POWER AND MINIMUM WAGES

We have now discussed both the institutional and economic landscape of the national minimum wage. It is clear that low pay is widespread, and is concentrated in certain sectors, both those where there are high proportions of women, and those where organising is difficult. Much of the criticism, of minimum wages, from a neo-classical perspective at least, focuses on the negative impacts on employment when wages are raised by legislative means. In this perspective, and assuming perfect competition, the market for labour behaves like any other market. For example, in the market for tomatoes, we have a downward-sloping demand curve. The cheaper the product, the greater the amount demanded, and this is a linear and constant relationship. Under this conception of the labour market, increasing minimum wages can have only one effect, and that is a commensurate reduction in employment.

We would argue that is a very simplistic view of how labour markets actually operate, and it completely ignores power relationships in labour markets. Indeed, labour markets are different from other markets in several important ways. First, unlike in a market for tomatoes where, at least in theory and in some limited instances in practice, the buyers and sellers have equal power, in the labour market the buyers of labour (employers) have a lot more power than the workers, particularly in sectors where workers are unorganised or where workers face a systemic disadvantage.

Second, labour markets are more complex, and there is a whole range of social forces that shape outcomes in the labour market. For example, gender relations have a huge impact on labour market outcomes.

Women in low-paid jobs have lower bargaining power both because of their social status as low-paid workers but also because they are women in what continues to be a patriarchal and sexist society. »

This means that we cannot approach labour market regulation in the way we would for any other market. Fine argues, "it is wrong to consider that the labour market as a whole and individual labour markets function in the same way. There are not only different labour markets but each is structured and is reproduced differently" (Fine, 2013, p. 16). An understanding of power relations must underpin the debate about intervening in the labour market. Even if we take an individualist rather than class-based approach, few classically trained economists would argue that salaries are set purely on the basis of the marginal productivity of an individual, or on the basis of the equilibrium of demand and supply for a certain set of skills. Nevertheless, much of the opposition to the minimum wage, or indeed to any intervention in the labour market, is predicated on the assumption that the labour market is a commodity market that should be treated no differently to, say, the market for tomatoes. But this view does not take into account the political and historical realities in which the labour market operates, nor the most important point that employers and employees do not participate in the labour market as equals. It is quite clear, both empirically and conceptually, that the bargaining power of both parties is highly significant in wage-setting negotiations, and it is abundantly clear, certainly in the low-paid, low-skilled section of the labour market, that bargaining power lies predominantly with the employer. If we broaden our perspective and, instead of perfect competition in the labour market, we imagine a monopsonistic labour market which recognises that employers have more bargaining power than workers, the demand curve for labour would be upward sloping at some points.

This is an extremely important change since it implies that in cases such as this the imposition of a minimum wage would result in *increases* in employment (Basu, Chau, & Kanbur, 2007). More conservatively if the labour market demand curve is at least flat at lower wages the implication is that an increase in the minimum wage up to a certain point will not lead to job losses (this exact point is, of course, very important).

A second criticism of the minimum wage is that its enforcement will be poor and ineffective and its inadequacy will undermine the effectiveness of the NMW. More recent theoretical work by Basu, Chau, & Kanbur (2011), has developed the concept of 'endogenous enforcement' of minimum wages. While the models are complex, the intuitive idea is quite simple. In models with imperfect competition, workers and employers themselves have agency in the enforcement of minimum wages.

There are two implications of this. First, the employment effects of minimum wages run the full gamut of possibilities, depending on the exact nature and configuration of these relationships, from increasing employment to a neutral impact to a negative impact. Second, and more importantly for us, a carefully designed minimum wage policy can enable significant enforcement from workers themselves. It is for this reason that the new NMW was designed to be transparent and easy to understand. It is easy for an employee to calculate if they are being paid at least the required R20 per hour. This is in contrast to the complicated schedule of minimum wages contained in the sectoral determinations (although it must be noted that the sectoral determinations which are above the minimum wage will remain in place). This transparency can empower workers to ensure that they are being paid the minimum wage. This is particularly important in sectors where it is difficult for workers to organise, and to get assistance with minimum wage compliance. The most obvious of these is domestic work. In private households, bargaining power lies almost entirely with the employer, and the employee has very little recourse to ensure a fair wage. As we have seen, noncompliance is very high in private households. A simple and transparent national minimum wage will go some small way to shifting bargaining power to employees, and raising wages.

CONCLUSION

Clearly, the problems of low pay and high-income inequality are over-determined, and will require a systematic and coherent labour market policy in South Africa which addresses both low and excessive pay, among other factors. But the NMW is nonetheless an important policy intervention because it effectively improves the bargaining power of low-paid and unorganised workers. So consuming are the debates about the relationship between minimum wages and employment levels, that the ability of minimum wages to raise wages is often forgotten. While the extent of the effect of the minimum wage on employment levels remains to be determined, what is incontrovertible is that the minimum wage in South Africa will raise the incomes of almost half of all working people, the majority of whom are women. As we have argued here, the minimum wage is a powerful policy instrument because it acts in three particular spheres: the legal, the economic and the political. Firstly, it provides a formal legal framework that ensues no workers remain uncovered by minimum wage protection. Secondly, given the extent and depth of low pay, the minimum wage is not merely a formal policy mechanism, but will substantively raise the wages of almost half of all working people. Finally, the minimum wage matters because it shifts the balance of power in wage bargaining between employers and employees.

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ENDNOTES

1 These figures are for workers earning below the cut-off level stipulated in the Basic Conditions of Employment Act (which was set at approximately R200,000 per annum in 2014). This is important because all sections of the BCEA apply to workers earning less than this amount. NA