

Minimum wage and collective bargaining strategies in South Africa, and the fight against inequality

Presentation to ACTRAV Symposium on
Income Inequality, Labour Market
Institutions and Workers Power

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The context

- May 2012- COSATU Discussion Paper (updated in recently released GLU Working Paper No.17) recognised that post 1994- we have failed to fundamentally transform apartheid labour structure, particularly its cheap labour basis, and excessive levels of income inequality.
- Our proposals aim to transform the apartheid wage structure, and introduce a coherent wage solidarity policy.

Summary of proposals

Drawing on the Brazilian experience, paper calls for a national wage, social protection, and economic policy to address inherited inequality and poverty in the labour market, and proposes :

1. Adoption of a legislated national minimum wage (NMW);
2. New Collective bargaining (CB) strategies to reconfigure the wage structure, based on comprehensive centralised bargaining;
3. A campaign for universal income support for all adults;
4. This package, connected to an overhaul of our macro-economic policies, should lay the basis for a national development strategy

Recent developments

- COSATU's March 2013 Bargaining conference adopted these proposals
- Alliance Summit August 2013- supported in principle the need for a NMW; & comprehensive CB.
- COSATU campaigning for inclusion of proposals in 2014 ANC Elections Manifesto- see below.
- Despite progress, are in early phases of campaign, and SA labour movement facing serious internal challenges

International trends

- Contradictory trends: The need for greater state intervention in wage regulation is accepted , by the ILO and some states, particularly in Latin America, including the need for a National Minimum Wage, and a greater state role in promoting Collective bargaining.
- Others, including IMF & European states, are trying to radically roll back collective bargaining and wage regulation, as part of a new accumulation strategy.
- Need for international strategy to defend & consolidate these key elements of workers power.

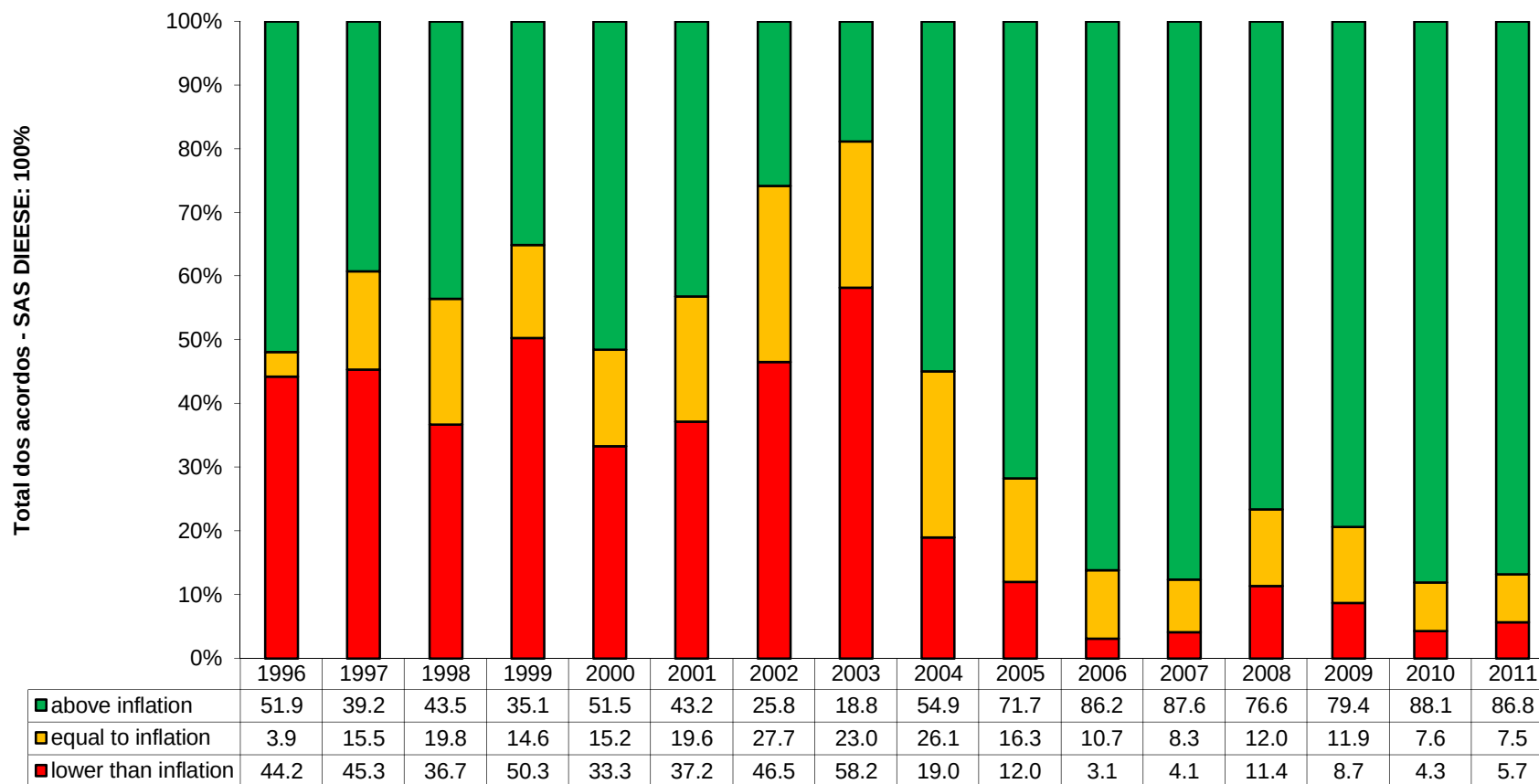
The Brazilian experience

- Major gains since President Lula (2003-10) in reducing poverty, unemployment & inequality.
- Key factor - consolidation of National Minimum Wage and formalisation of labour market; combined with comprehensive social protection.
- 2003-10: NMW increased by 81% in real terms.
- 17 million formal jobs created 2002-11.
Proportion of formal employment in economy (2004-08) increased dramatically, outpacing informal jobs by 3:1. Although 90% of new jobs less than 1.5 NMW, based on rapidly rising NMW
- Two thirds of reduction in inequality a result of improvements in wage equity. Remaining gains from social safety net.

The Brazilian experience II

- Contradicts idea that Minimum Wage leads to unemployment.
- Unions bargaining up real purchasing power of wages. No longer bargaining away rights to maintain employment.
- Increased incomes has fuelled domestic demand, and promoted formal employment. Contribution of domestic demand to Brazilian GDP rose from -0,5% in 2003, to 9.1% in 2010 (BNDES).
- Poverty down by 20 million from 61.4 million to 41.5 million, 2003-8.
- Improved labour inspection has improved compliance.
- Nevertheless Brazilian labour market still requires major transformation

Collective bargaining, Brazil



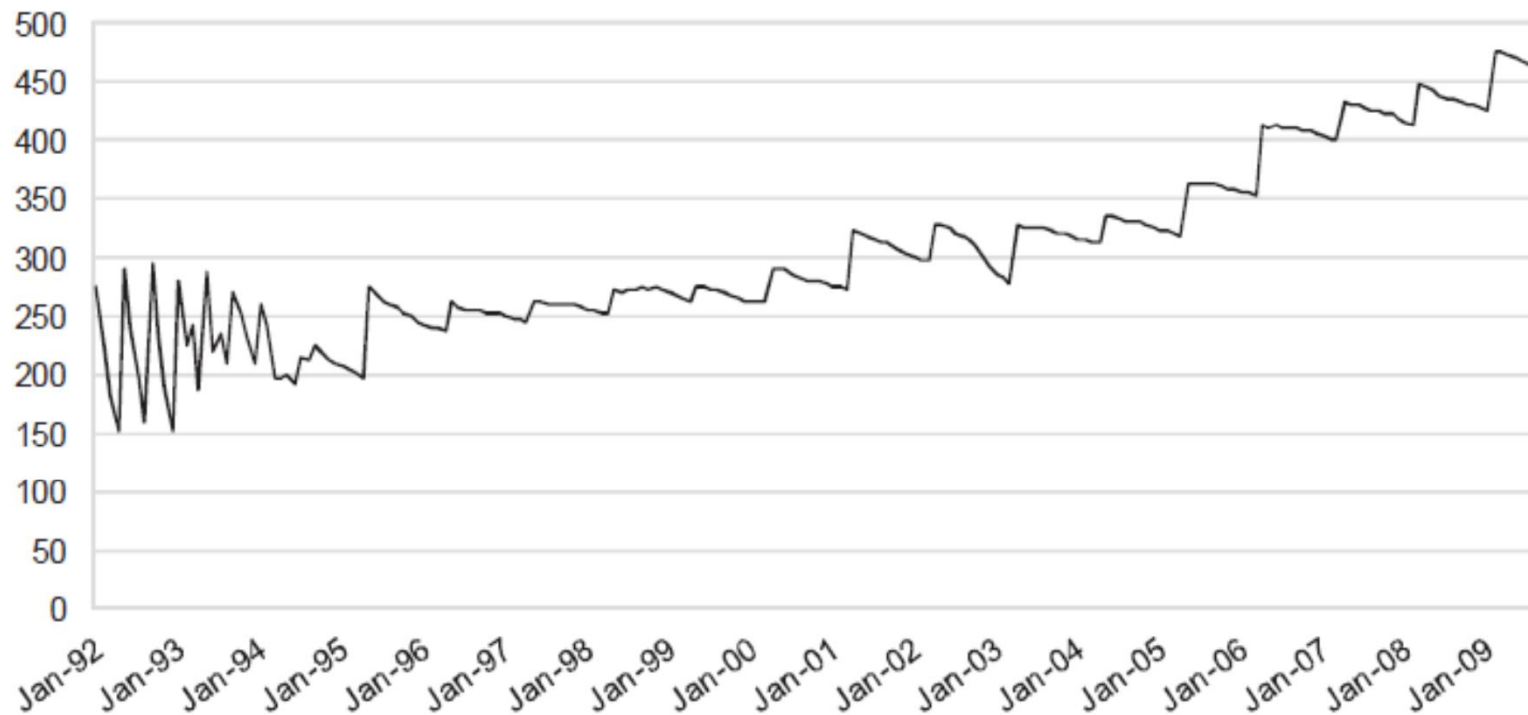
Wage increases and collective bargaining, Brazil, 1996-2011

Source: SAS-DIEESE

Brazil's Story: A rapidly rising minimum wage combined with rapidly rising employment

Figure 2.1. **Brazil's real minimum wage monthly trend since 1992**

In Brazilian Reais



Source: Labour Ministry and INPC/IBGE.

Increase of regular workers



Number of regular workers in Brasil, 2002-2011, millions of workers.
Source: Ministry of Labor and Employment (MTE – Brazil).

Unemployment Rate, Brazil



Questions from Brazil

- How to transform the wage structure, create greater equity, and accelerate employment
- How to deal with employers counter-strategies
- The links between transforming the labour market, and macro economic, & industrial policy
- Mobilising domestic demand to drive economic development.
- Managing relations with productive vs. financial capital

What are we calling for in SA?

- A coherent wage and (pro-poor) incomes policy, aimed at radically reducing inequality
- A Minimum Wage as *one* cornerstone and **springboard** of that policy, to protect all low-paid workers
- Legislated comprehensive sectoral bargaining to **improve on that minimum wage floor**
- Comprehensive social protection and a universal social wage, to provide workers with non-wage income

What are we calling for in SA?

- A national wage policy, combined with an appropriate macro economic and industrial policy....
- Not the policy in National Development Plan which would entrench deregulation of the labour market, repress wages, & promote deindustrialisation
- This is the lesson of Latin America- for a decent wage policy to be most effective, it must be driven by a developmental state, as part of comprehensive strategy. Eg if rising income in Brazil, wasn't combined with increase in domestic productive capacity, that income would not have driven the creation of large scale formal employment

What are we NOT calling for

- We are not calling for the National Minimum Wage to be our **destination**; but rather to be a **vehicle & springboard** towards a **living wage for all workers**, and a **radical restructuring of our economy**. It is only a basic floor to protect workers from ultra-low wages.
- We are not calling for the National Minimum Wage to be a **substitute for collective bargaining**. That would lead to demobilisation of workers, and would lead to the National Minimum Wage becoming a *maximum wage*. Collective bargaining must *improve* on the National Minimum Wage

Current challenges in South Africa

- South Africa has no coherent wage policy
- Collective bargaining is under attack.
- The apartheid wage structure is not fundamentally altered: majority of black workers, particularly in the private sector, continue to live in poverty.
- Over half of South African workers earn below the estimated Minimum Living Level -i.e the working poor
- Minimum wages in sectoral determinations, *and many bargaining council agreements* are way below the MLL.
- Huge, & increasing, inequalities between levels of the wage structure: top, middle & bottom; & *between* different sectors.

Minimum wages in SA

- Bargaining Councils only cover about 2,4 million workers; and Sectoral Determinations 3.5 million (out of 10,2 million formal sector workers). Some additional company level agreements.
- No national approach. Fragmentation, and technocratic processes eg in Employment Conditions Commission disadvantages workers, and assists powerful interests.
- Many workers covered by MW's getting stuck at level of very low minima & remain in poverty. Low levels of enforcement.
- 2/3 of workers covered by SD's in 2007 were living in poverty (DPRU).

Minimum wages in SA

Multiple, low, minimum wages:

- Some set through Collective Bargaining, including 47 Bargaining Councils (BC's); some by government through 11 sectoral determinations (SD's); and some through agreements at company level.
- Very low: compared to guide of R4000 as Minimum Living Level (MLL), in 2011 average minimum for SD's R2118;& R2725 for BC's. Only public sector, most mining, & some manufacturing pay more than R4000.
- Huge variation in MWs' between and within sectors. No coherent wage policy governing MWs.

International benchmark for the National Minimum Wage

- The international benchmark used eg by ILO and OECD for a NMW, is a proposed ratio of 40-50% of the average national wage.
- OECD report: South Africa, at less than 25%, is “considerably below the OECD average”

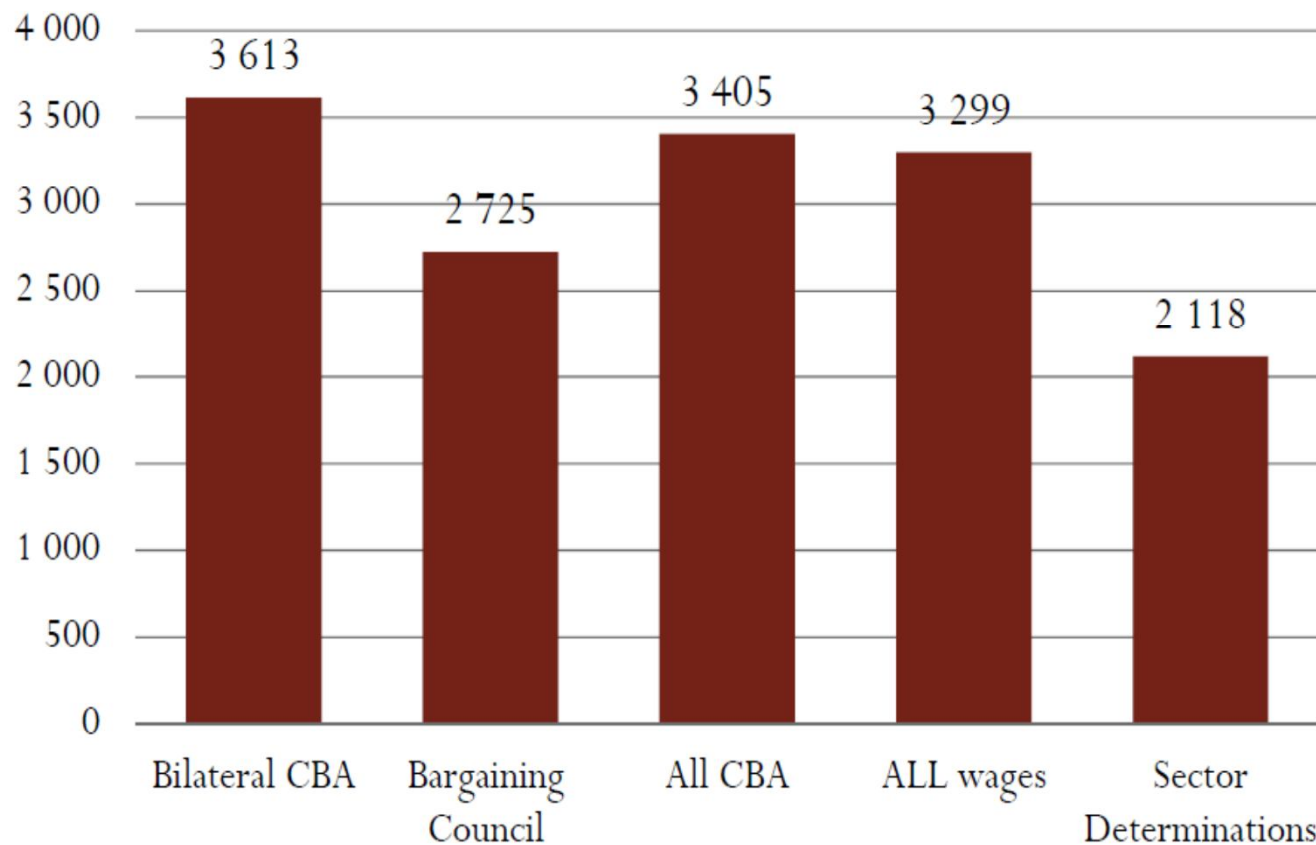
Selected SD minimum wages in some sectors July 2012 *COSATU Secretariat Report September 2012*

Sector	Area/size	Job	R per hour	R per week	R per month
Contract Cleaning	Metros	Cleaner	13.51	-	-
	KZN	Cleaner	10.07	-	-
	All other	Cleaner	12.23	-	-
Domestic Workers	Metros	Unspecified	8.41	378.45	1639.82
	All other	Unspecified	7.01	315.45	1366.84
Forestry Workers	All	Unspecified	7.21	324.46	1405.90
Farm Workers	All	Unspecified	7.71	374.10	1503.90
Hospitality	<10	Unspecified	11.49	517.10	2240.60
	10>	Unspecified	12.80	576.00	2495.80
Wholesale & Retail	Area A	General Assist.	11.79	530.55	2298.87
		Shop Assist.	14.06	632.70	2741.49
		Cashier	14.97	673.65	2918.93
	Area B	General Assist.	10.29	463.05	2006.40
		Shop Assist.	11.56	520.20	2254.03
		Cashier	12.29	553.05	2396.37
Private Security	Area A	Grade D	8.79		1828.00
		Grade A	12.98		2701.00
	Area B	Grade D	10.06		2093.00
		Grade A			
Taxi		Driver & Admin	11.78	565.40	2449.90
		Rank Marshall	9.42	452.20	1959.40

Minimum wages by bargaining level

Source: LRS

Minimum wages by bargaining level, 2011



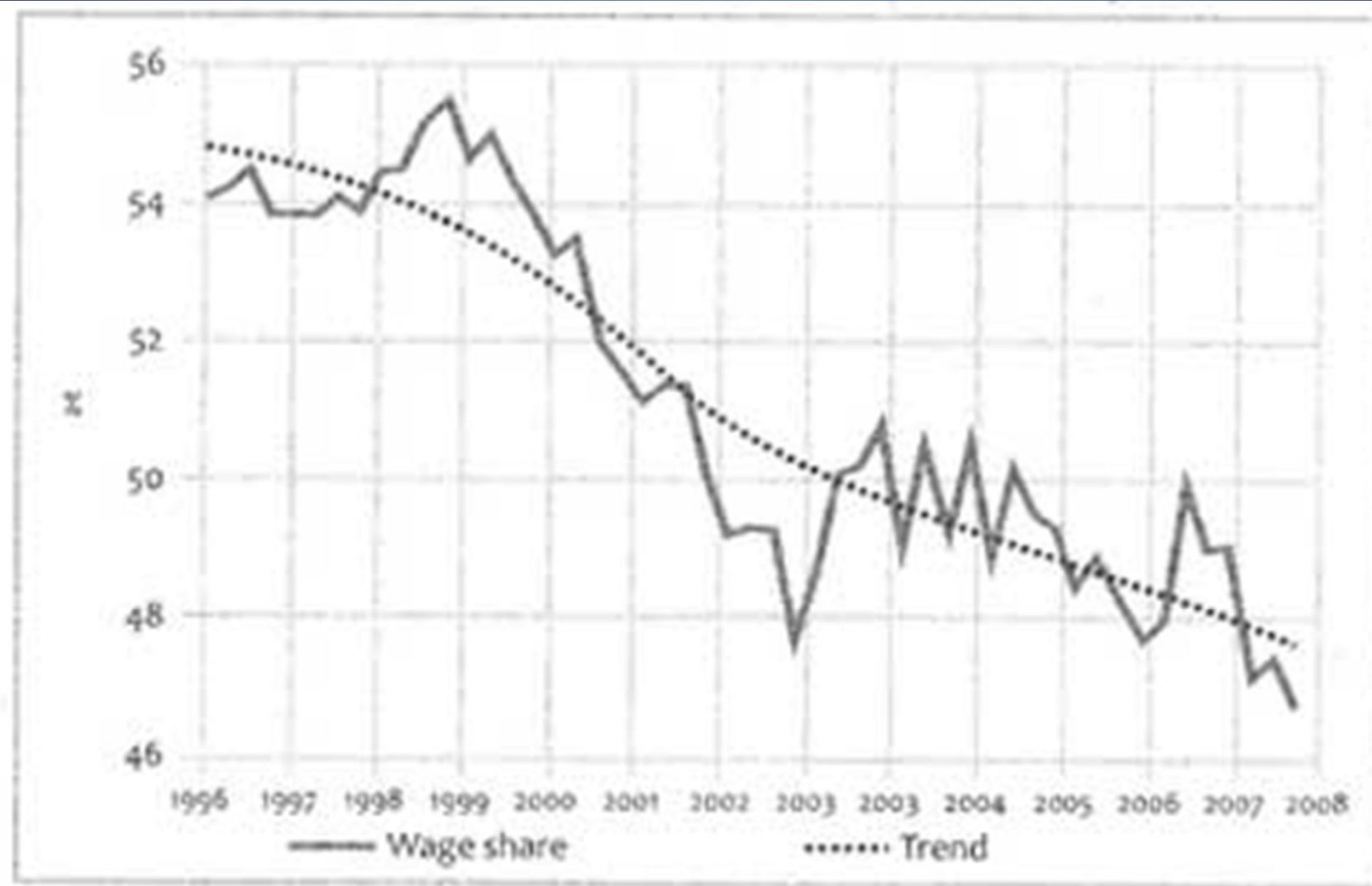
Restructuring of labour market

- Post-1994 creation of **multitier labour market**, building further on the structure of the apartheid '2 tier' cheap labour market: casualisation, labour broking, contracting out etc.
- Undermines relative power of labour: capital, & goes with increase in profit share & decrease in wage share
- LRA model of 'self-regulation' cannot deal with this situation. Workers & unions buffeted by forces of neo-liberalism, deregulation, labour market restructuring etc.
- Needs decisive state intervention

Wage share of GDP in South Africa

1995-2008

Source: the People's Budget 2010



Value of a National Minimum Wage

A National Minimum Wage would be important:

- In combating wage fragmentation at bottom end, and ensuring comprehensive uniform coverage;
- In facilitating campaigns for a national wage floor as a weapon to fight working poverty;
- Because of its simplicity and clarity, every worker would be made aware of their rights;
- Current huge problem of non-enforcement would be countered. NMW easier to enforce.
- In laying the basis for more comprehensive improvements in wages & conditions through Collective Bargaining.

Cost of not having a NMW

- Now seeing huge cost of not having a NMW floor which is progressively improved
- Both social cost, & impact on productivity of economy- low wage, low productivity nexus
- Damage to workers and externalisation of costs. See Marikana, & need for NMW to be combined with social wage & social protection
- Cost of conflict & damage to sectors
- Both output & consumption gap, because of suppressed demand and production

Minimum Wages and employment

- Conventional economic wisdom on trade off between MW's and employment no longer widely accepted. Major movement among economists to reject this line.
- Latin American experience refutes this in practice.
- In SA, study found after introduction of higher minimum wages through SD's, employment actually *increased* by over 650 000 workers, from 3,45 million to 4,1 million, (2001 to 2007)
- Employment performance explained by various economic factors, beyond introduction of a minimum wage. Sectoral conditions, industrial strategy, trade dynamics & broader economic conditions, have key role in determining how sector performs. **Wage policy must be combined with appropriate macro & sectoral policies to have the desired employment impact.**

Minimum living levels

- Challenges in constructing a NMW: *no established official poverty line, or minimum living level*. MLL measure particularly important where low wage earners are *single breadwinners* in households, and where adult unemployed lack income support- in that situation *minimum wage needs to be able to support a family*. It must include the cost of basic necessities, and be supplemented by the social wage, to ensure public provision of education, health care etc.
- Proposals for poverty line highly contested. Some aim to combat poverty. Others aim to defend low wage structure of economy. Therefore require needs-based approach to determining minimum living levels, driven by the assertion by **workers themselves** as to what their basic needs are, combined with objective scientific surveys .

The National Minimum Wage & wage solidarity

- The National Minimum Wage , combined with restructured CB, should be consciously designed as part of a South African wage solidarity model, to
 - progressively increase real minimum wages, and reduce gaps in overall wage levels
 - improve pay for all those in the bottom half of the wage structure.

The National Minimum Wage collective bargaining, & wage solidarity

- Setting of the National Minimum Wage , and other forms of minimum wage setting (eg BC's), should be required by government, to achieve certain targets, in terms of reducing wage inequality, and meeting nationally set Minimum Living Levels.
- Achievement of sectoral and company plans to promote wage solidarity should be a condition for access to certain state incentives. Eg Greater London Council requires payment of living wage by companies to be eligible for procurement by the GLC.
- Employment Equity Act should be strengthened, requiring companies to reduce income differentials .

NMW and collective bargaining

- Complementary role: The minimum wage sets a floor. Collective bargaining improves on this wage floor in different sectors, and negotiates a wide range of benefits and improvements for workers.
- In SA, confusion of the roles of these different mechanisms: trade unions struggle to use CB to defend a basic minimum wage floor, because of lack of a NMW. And minimum wage setting mechanisms ie SDs, are also used for CB in vulnerable sectors. Therefore we have a **hybrid** system, which fails to do justice to either element.

NMW and collective bargaining

- The ILO for this reason supports a unified NMW, and warns against proliferation of sectoral minimum wages. There is place for the two key legs of the system of wage determination. Statutory minimum wages alone can't address needs of different layers, CB by itself cannot deal with the problem of the most vulnerable and low-paid work.
- Proposal is to have one NMW complementing a system of compulsory centralised bargaining. Would combat problem of fragmented statutory minimum wages, and undermining of collective bargaining. Challenge: to ensure sufficient union representivity in the most vulnerable sectors, to allow for effective collective bargaining.

Alternative collective bargaining strategies

- Making centralised bargaining mandatory. Unless architecture changes from current voluntarist system, pressures undermining centralised bargaining are only likely to increase.
- Would need to be combined with a far more effective programme of enforcement, as in Brazil, which also complemented this with other strategies, eg to fight against atypical work, informalisation and non-registration of employers.
- Latin America showing high level of CB coverage eg 60% in Argentina & Brazil, & 100% in Uruguay, despite low union density

A new collective bargaining model

Elements of a new collective bargaining model should include

- wall to wall sectoral bargaining
- coherent demarcation and definition of national sectors, to replace the current patchwork arrangement
- alignment of sectoral bargaining with sectoral developmental strategies, industrial policy, skills, retirement funds etc
- an explicit mandate to address wage and income inequalities
- creation of powerful collective bargaining institutions inter alia using economic levers of state
- negotiation of sectoral frameworks, supplemented by workplace bargaining
- well resourced structures backed up by effective state programmes to formalise and regulate the labour market.

Design & implementation of new Wage Policy

Matters to be addressed include:

- Development of a national wage policy linked to broader economic policy
- Development of a National Minimum Living Level
- Ensuring that 'uprating' of NMW progressively increases its real value – see Brazilian formula.
- Legislative provisions to give effect to the NMW & comprehensive collective bargaining .
- Penalties to give real teeth to the NMW
- Ensuring all instruments of the state require adherence to this national wage policy.
- Capacity in Department of Labour to ensure compliance
- Civil society role- Coalition for a National Minimum Wage?
- Technical international support required, particularly by the ILO

Proposals for 2014 ANC Manifesto

COSATU proposals on labour market currently being discussed with ANC include:

1. Introduction of a legislated national minimum wage, linked to an agreed minimum living level;
2. Ensuring that collective bargaining takes place in all sectors of the economy. Use of bargaining councils to promote greater wage equity, including through using state incentives.
3. Legally require employers to report progress on measures to reduce extreme income differentials
4. Measures to promote formalisation of employment
5. Strict regulation to combat atypical employment practices.

Good progress is being made in advancing these proposals