



UNIVERSITY OF THE  
WITWATERSRAND,  
JOHANNESBURG



NATIONAL  
MINIMUM  
WAGE

RESEARCH INITIATIVE

# DESIGNING THE NMW TO TRANSFORM THE WAGE STRUCTURE AND REDUCE POVERTY

02-02-16

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Wits Club

# Introduction

Context

Employee protection

Conceptualising minimum wages and workers' needs

Working poverty

Cost pressures & interdependencies within households

# Ideas explored in presentation

- Big idea: design of NMW must account for both job precariousness and household precariousness
- Extent of employee (un)protection in wage-setting regime
- We must think of poverty and ‘workers’ needs’ properly
- NMW must respond to context of cost pressures faced by poor households



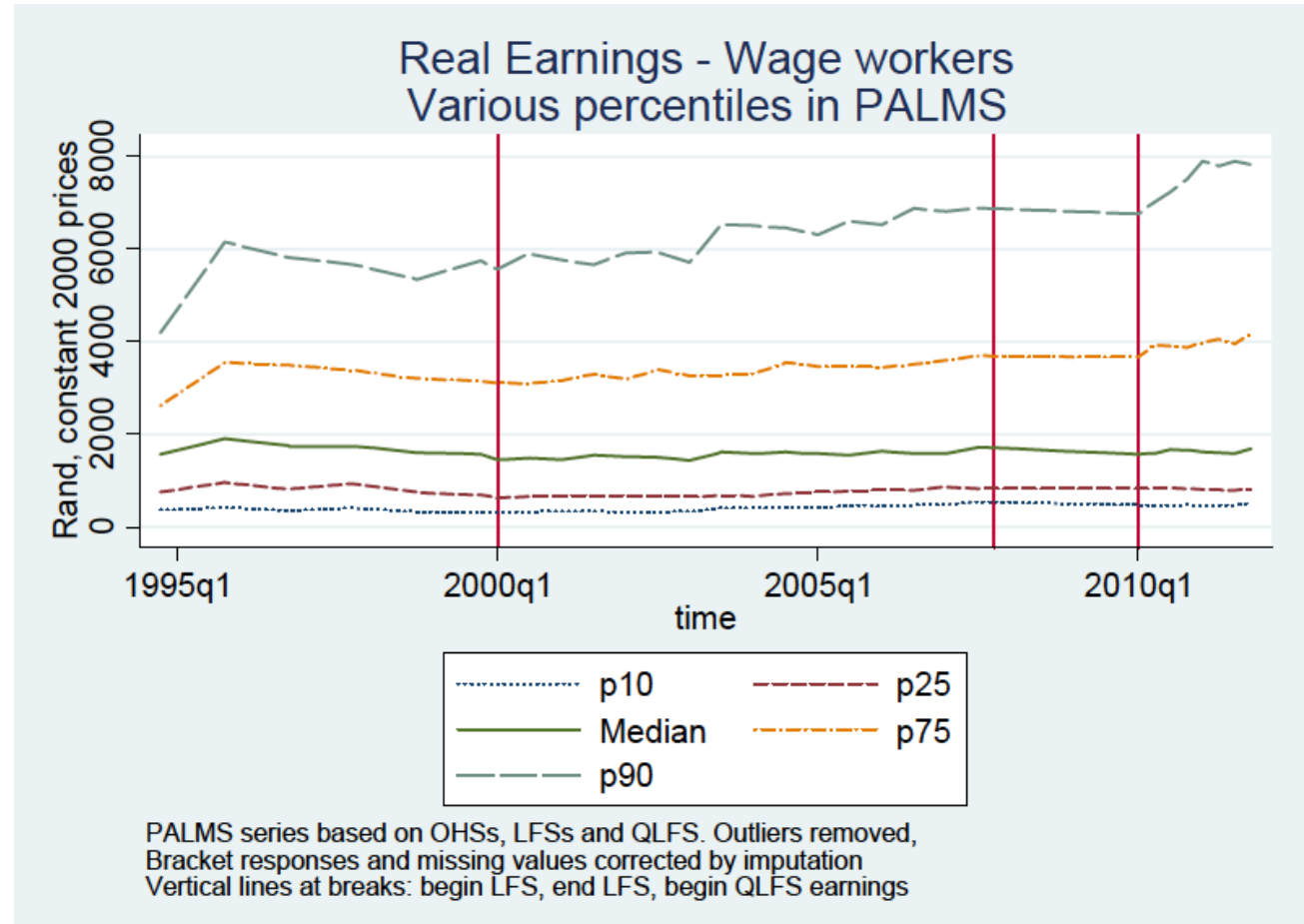
# Context

# Wages trends & inequality

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## Key points:

- Real wages for poorest are flat
- Real wages for richest are increasing
- Low share



# Wages trends and inequality

## Wage in 2015

- There is still much inequality today
- Up to a R 6000 difference between the average is and what the lowest 50% earn for all sectors
- The lowest wage sectors are more compressed

<b>Sector</b>	<b>Mean</b>	<b>Median</b>
Formal	R10 471	R4 414
Informal	R4 918	R1 912
Formal excl. agriculture	R10 967	R4 810
Private households	R1 823	R1 435
<b>All</b>	<b>R9 140</b>	<b>R3 421</b>

<b>Industry</b>	<b>Mean</b>	<b>Median</b>
Agriculture	R2 865	R1 912
Mining	R9 682	R6 621
Manufacturing	R10 692	R4 064
Utilities	R13 332	R9 563
Construction	R5 732	R3 090
Trade	R8 253	R3 310
Transport	R9 088	R4 304
Finance	R12 257	R4 414
Services	R12 279	R6 621
Domestic services	R1 821	R1 435

# Wages and inequality

- Wages key to inequality
- ‘the labour market is the driving force behind aggregate inequality in the country’
- State grants have helped to decrease poverty but have had ‘virtually no effect on overall inequality’
- 2008:
  - 38% of the wage inequality is because 28% of households have zero wage income
  - 62% of the wage inequality is because of the inequality of wage income among the 72% of households that do have access to some wage income.

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# Employee Protection

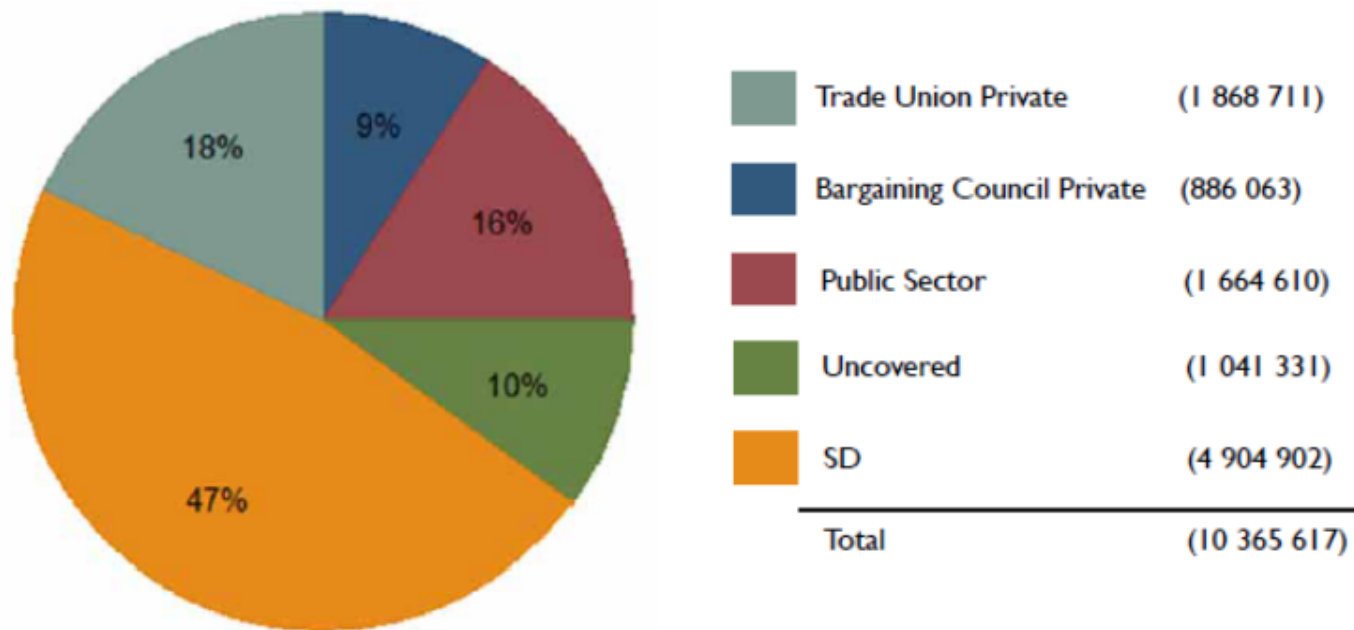


# Employee protection

- History of labour exploitation and vulnerability lead to lofty ideals of post-apartheid legislation such as Basic Conditions of Employment Act (BCEA) and Labour Relations Act (LRA)
- Requires strong social partners
- Challenges:
  - Decline in coverage through rise in precarious work in South Africa, characterized by informality and casualization
  - Growth in Temporary Employment Services (TES) outsourcing, labour brokering leading to declining unionisation
  - Fracturing labour movement
  - Challenges specific to employee protections
    - ▣ Ineffective enforcement mechanism
    - ▣ Challenges to how collective bargaining is done in SA

# Minimum wage coverage for low wage workers

## Employee Coverage





# Conceptualising workers' needs and poverty

# Workers' needs and poverty

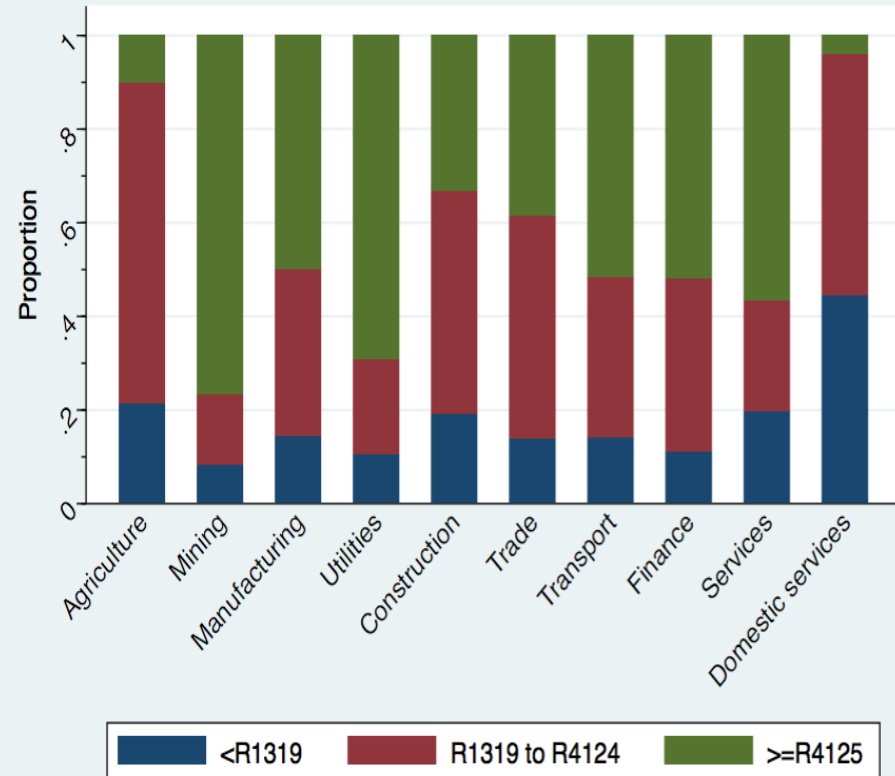
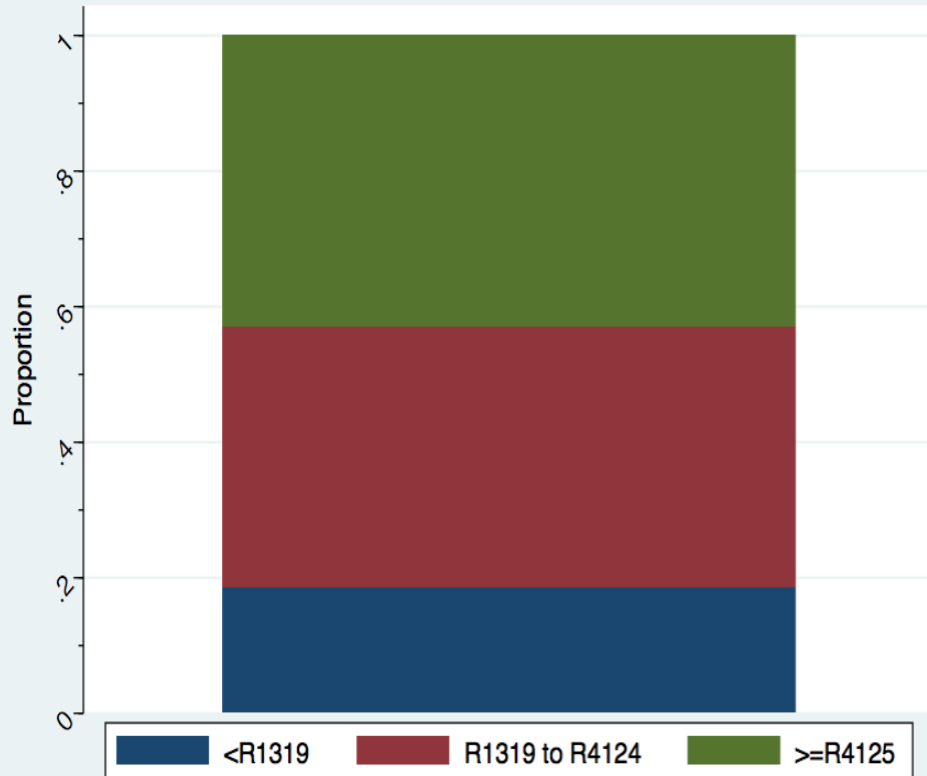
- ILO definition : main point of min. wage is to ensure to protect workers against poverty
- But, “poverty” is conceptualised in many different ways
- One measure of poverty: the Cost-of-Basic Needs absolute, money metric poverty lines
- Stats SA: R779 (2011), R 960 (2015)
- SALDRU: R1034 (2011), R1319 (2015)
- Criticisms:
  - ▣ Very basic, survivalist
  - ▣ Hides various complexities of poverty that are gender, region, environment and structural aspects of poverty

# Workers' needs and poverty

- Dependency ratio from NIDS Wave 3 (2012) data is about 3 dependents per worker
- Using this R 1319 per capita per month poverty line + above dependency ratios & other information we can obtain the 'working poor' line of R 4125 (see Finn (2015) for details)

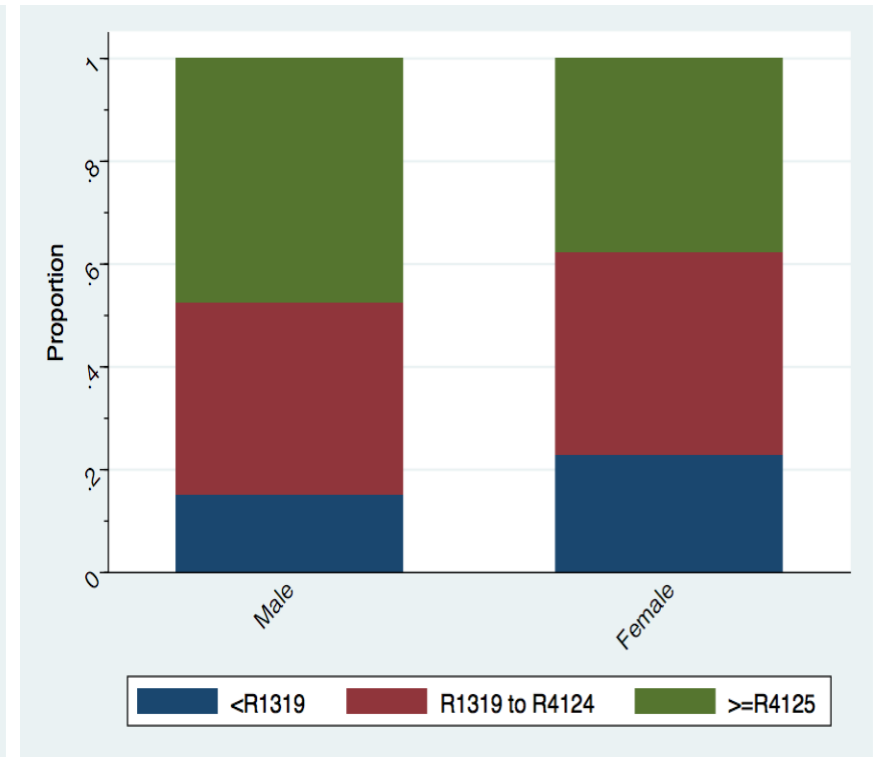
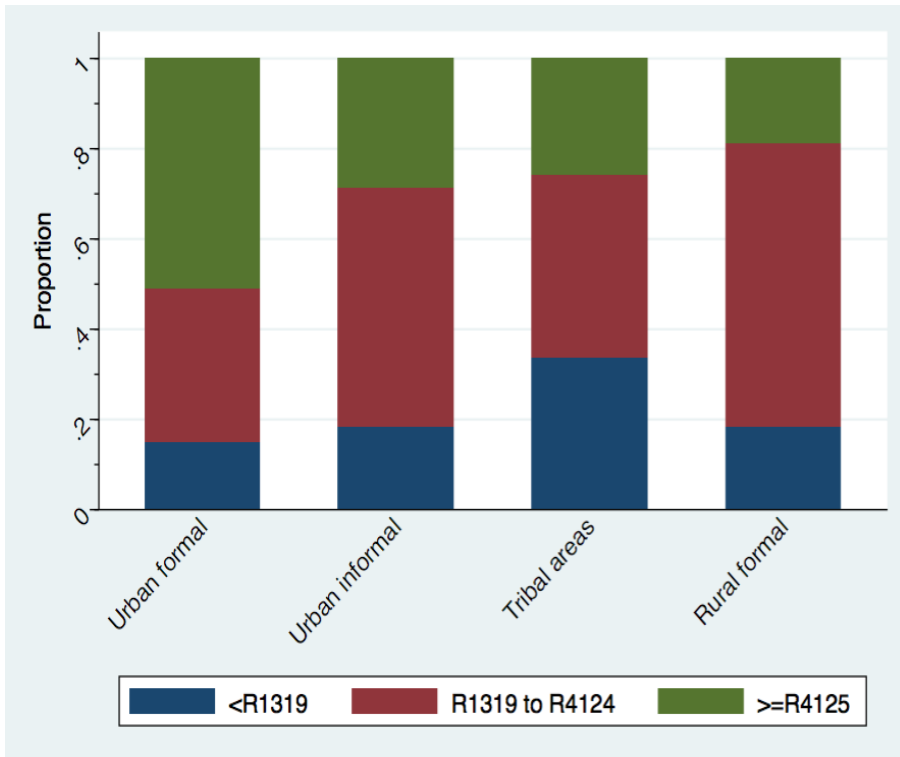
# Working poverty 1

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# Working poverty 2

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# Household precariousness

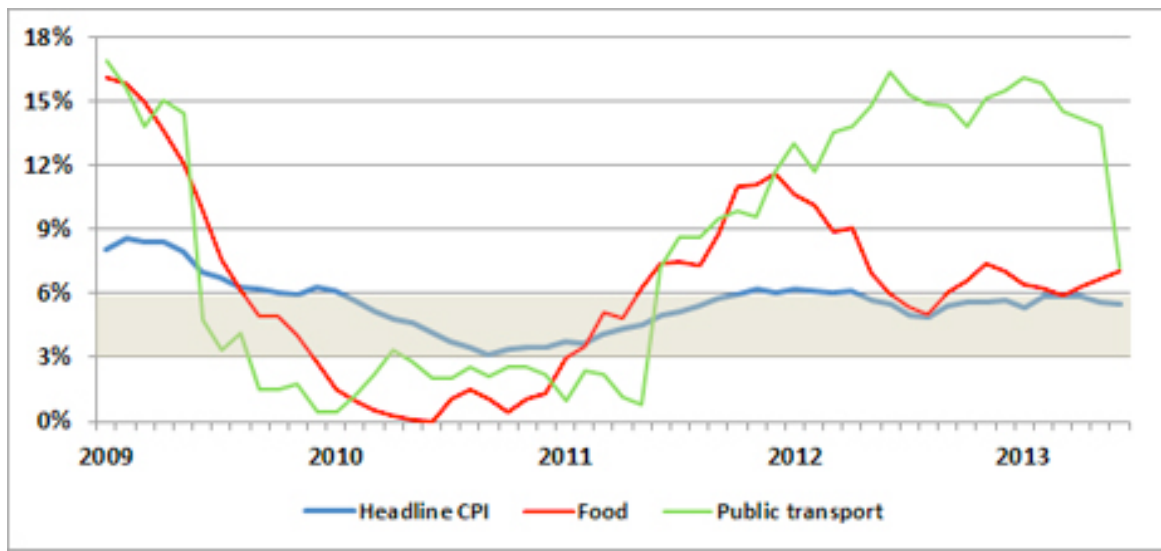
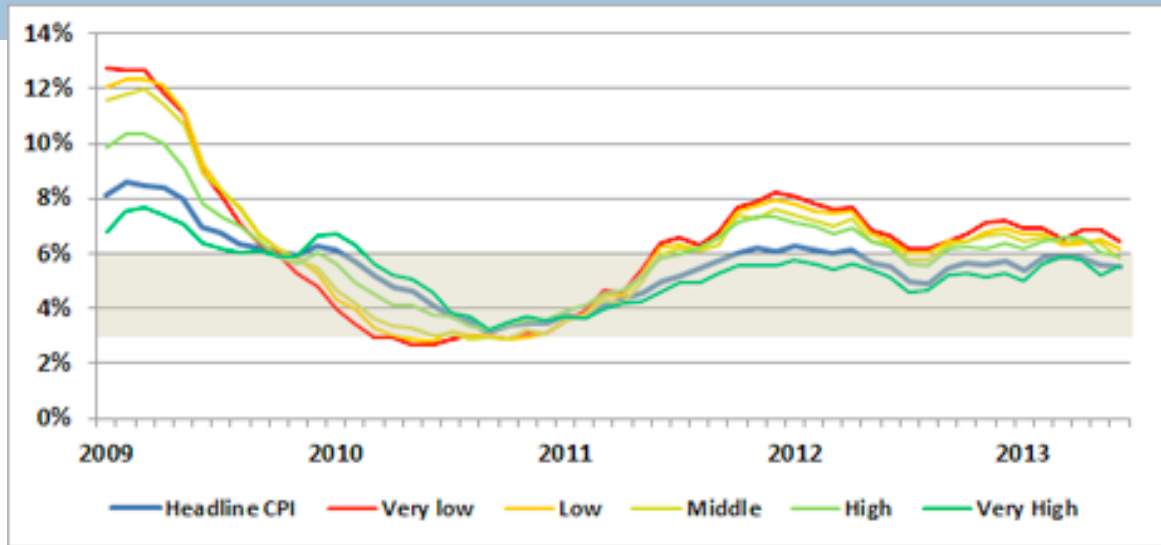


# Cost pressures faced by the poor

- Evidence that price inflation in the last two decades has been anti-poor, dampening impact of declining absolute poverty
- Slightly higher inflation faced by low income and those with 'poor' labour market characteristics (unskilled, non-unionised) (Oosthuizen, 2013)
- Lack of adequate social security system and social wage in South Africa (poor service delivery track record, poor educational infrastructure, poor healthcare)
- High indebtedness in poor households (Mashigo, 2006)

# Inflation trends

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Berkowitz, P., 2013. Who benefits from inflation-targeting? *Daily Maverick*, 30 Jul.

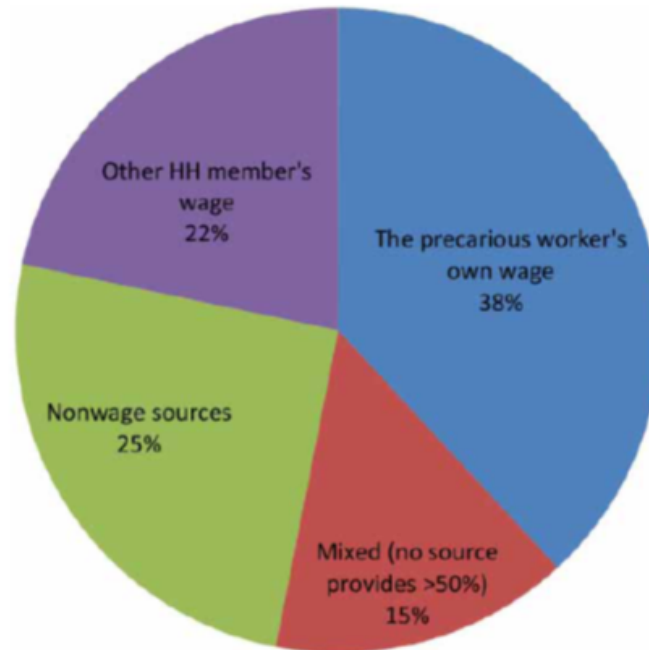
# Household dynamics

- Literature on interface of households with unemployment, migration and social transfers all point to the economic interdependence of the employed and unemployed
- Low paid South Africans also rely on non-wage income (remittances, grants), get “subsidised” by rural households, and receive “bottom”
- Thus, increased wages go on to support more people, both wage-earners and dependents

# Household dynamics

- Affected by definition of HH in household surveys
- Fluidity of the boundaries in poor SA HH (Maitra and Ray, 2001) (Randall and Coast, 2015)
- Rural HH: not discrete bounded groups; constantly evolving (O’Laughlin, 2014)
- Thus, increased wages go on to support more people, both wage-earners and dependents

# Sources of household income from



Scully (2015)

# International experiences?

- Unfortunately, literature is very scarce on what other countries include in the calculation of the NMW. Only “considerations”
- Only Malaysia and Brazil use formulas
- Most countries use general indicators like CPI/ inflation rate, some countries use specific cost-of-living measures or cost of certain items e.g. food, healthcare etc.
- Ultimately a political process
- More research needs to be done in South Africa



# Conclusion



# Design of the NMW must consider:

- Current extent of employee protection in wage-setting regime is (still) uneven and inadequate!
- The lower threshold of a wage that meets basic needs such as food and other essentials is around R4000.
- Wage income must respond to a context of high "household precarity: extended dependency and cost pressures due to both inflation and low social wage and social security
- Wage income actually benefits both wage earners and others they are economically interdependent with