

# DESIGNING THE NATIONAL MINIMUM WAGE TO TRANSFORM THE WAGE STRUCTURE

INPUT TO NATIONAL MINIMUM WAGE SYMPOSIUM

Wits University 3 February 2016

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# ILO on the objective of a National Minimum Wage

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- The main objective of minimum wage fixing is “reducing poverty by establishing a generally applicable lower limit under which wages are not permitted to fall. The fixing of such general minimum wages normally is associated with the view that all workers, as a matter of right, ought to receive protection against unacceptably low wages.”

ILO Minimum Wage Systems, 2014 p31

# What is the purpose of a National Minimum Wage?

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- What is the intention of introducing a NMW? Deputy President Cyril Ramaphosa: we need a **meaningful National Minimum Wage** which “makes a real difference in the lives of workers”. In other words, it must not entrench the current wage structure.
- The primary goal of introducing a National Minimum Wage in South Africa is to create a decent minimum wage floor, assist in transforming the apartheid cheap labour structure, and combat working poverty and inequality.
- Its primary goal has never been to create employment, and this is not the goal anywhere in the world. A NMW, by raising working peoples incomes, *could complement* other economic and industrial policies, by stimulating demand in the economy. However, a National Minimum Wage, set at *whatever level*, can't create employment by itself.

# Snapshot of working poverty in SA

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- The ILO states that “Convention No. 131 requires that not only workers’ needs, but also those of their families, be taken into account in fixing minimum wages.”
- Majority of South African workers, particularly black and women workers, are trapped in poverty
- 53% of full time workers fall below the **working poor line** of R41 25. NMW RI research indicates that a low-paid worker in 2015, with an average number of dependents, despite receiving other forms of income through social grants etc., would need to earn at least **R4 125** in wage income to lift her or his head and those of their dependents above the poverty line

# Snapshot of working poverty

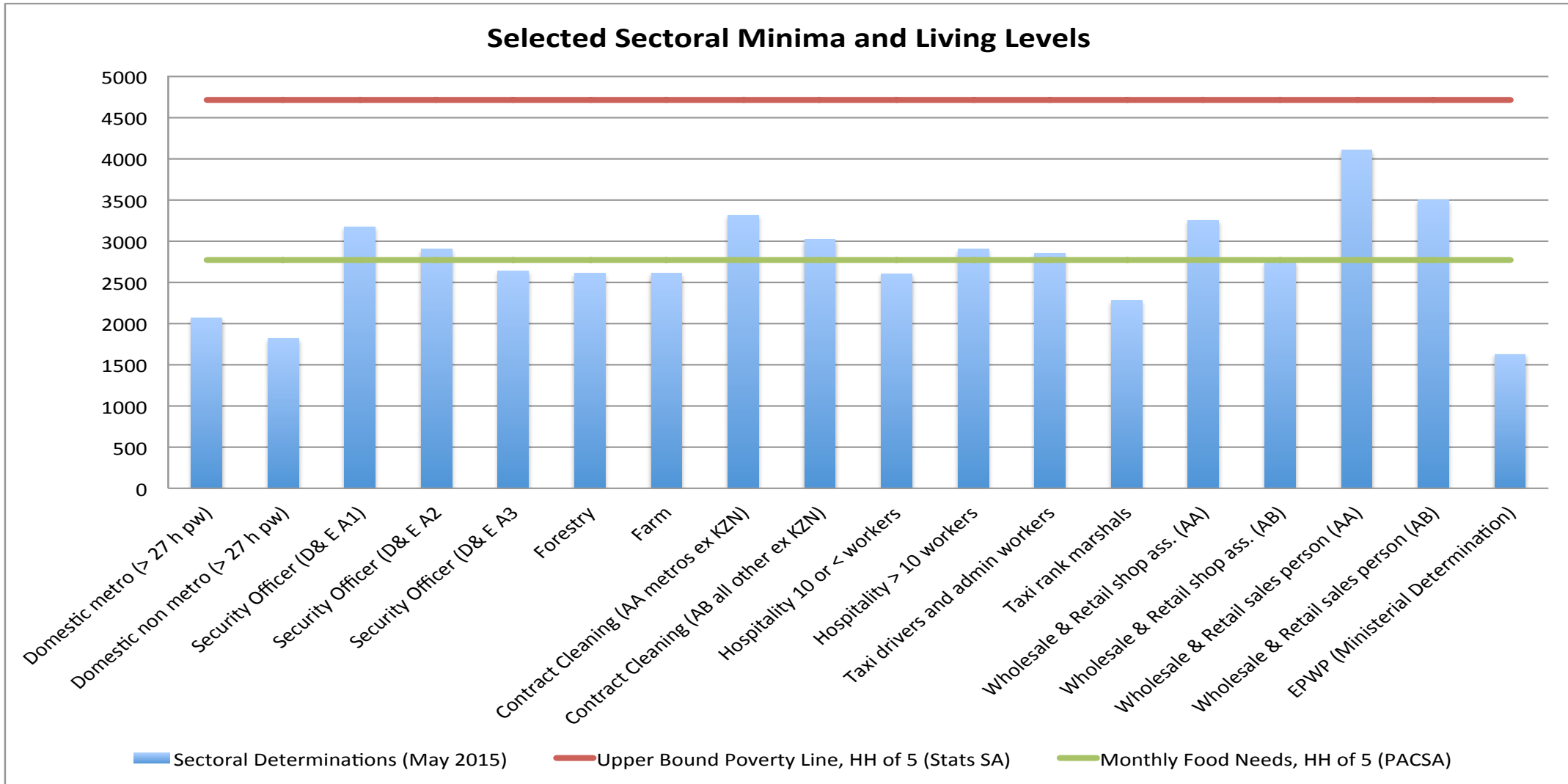
- In 2014, according to the QLFS (Quarterly Labour Market Survey) 50% of **all South African employees reportedly\*** earned below R3033 per month (*the median*);
- In 2014 50% of **women workers** earned\* below R2600 per month;
- In 2014 50% of **African workers** earned\* below R2800 per month;
- In 2013 50% of workers in the **formal non-agricultural sector** earned below R 4333\* per month;
- In February 2014, according to the QES (Quarterly Employment Survey) the **average wage** for all workers in the **formal non-agricultural sector**, including high paid workers, was R14731. This survey however has certain limitations, & cannot be compared directly to the QLFS.

**\*Underreporting:** there is a concern amongst researchers that QLFS figures may underreport real wages by at least 40%. Van der Berg found that government payroll data indicates public sector teachers' gross earnings were 40 % higher than household surveys suggest, the same ratio as in the mining sector. Even if the 2014 median was inflated by 40% however, at R4246, the majority of workers still fall below the poverty line. The issue of underreporting is being subjected to further research.

# Do workers receiving SD minima escape poverty?

Source: Gilad Isaacs Wits NMW Research Initiative

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# Sectoral Determination Minimum wages

Source: Jane Barrett, Cosatu, 2015

Sector	Min ph	Min pd (9 hour day)	Min pm	Increase date
1. Domestic metro (above 27 hours pw)	10.95	98.55	2065.47	1 Dec 2015
Domestic non metro (above 27 hours pw)	9.30	83.70	1812.57	
2. Security Officer Grades D& E Area 1	15.25	-	3172.00	1 Sept 2015
Security Officer Grades D& E Area 2	13.95	-	2901.00	
Security Officer Grades D& E Area 3	12.68	-	2637.00	
3. Forestry	13.37	120.32	2606.78	1 March 2016
4. Farm	13.37	120.32	2606.78	1 March 2016
5. Contract Cleaning Area A metros ex KZN	16.98	152.82	3308.55	1 Jan 2016
Contract Cleaning Area B all other ex KZN	15.47	139.23	3014.33	
6. Hospitality 10 or < workers	13.34	120.06	2601.88	1 July 2015
Hospitality > 10 workers	14.87	133.83	2900.08	
7. Taxi drivers and admin workers	13.68	123.12	2847.01	1 July 2015
Taxi rank marshals	10.94	98.46	2275.81	
8. Wholesale & Retail shop ass. Area A	16.67	750.05	3249.98	1 Feb 2016
Wholesale & Retail shop ass. Area B	14.09	634.32	2748.51	
Wholesale & Retail sales person Area A	21.04	946.70	4102.04	
Wholesale & Retail sales person Area B	17.92	806.15	3493.08	
9. EPWP (Ministerial Determination)	9.34	75.10	1625.00	1 Nov 2015

# Vast majority of workers fall below the poverty line

- The basic needs **poverty line** (the Upper Bound Poverty Line) produced by Stats SA has been revised by SALDRU at UCT in 2015 and is calculated at R1319 per person or **R5276** for a household of four (three being roughly the average number of dependents in poor households)
- The MLL does not provide for a decent living level, but constitutes a *poverty line* which only provides for the absolutely basic amount required for working families to meet their bare necessities, to live from day to day. Bodies such as Stats SA, Saldru and Pacsa, which calculate MLL amounts, do so after detailed costings of the basic basket of goods and necessities required for a family of a specified size to ensure a basic level of survival.



# Some poverty lines

- Stats SA Upper-Bound Poverty line: this is calculated as R960 in 2015 prices, which is R3840 for a family of four (or R4840 for a family of five).
- Saldru cost of basic needs poverty line: R1319 per person in 2015 prices, which is R5276 for a family of four (or R6595 for a family of five)
- The PACSA monthly price barometer: approximately R1400 per person, which is R5600 for a family of four, (or R7000 for a family of five)

# Most workers are not able to afford basic needs

- The Pacsa Price Barometer, which is revised monthly, shows two critical points: firstly that it is calculated for an absolutely basic basket of goods, which excludes some essential requirements such as health care; and secondly that a range of scenarios for households earning income at and below R4660 per month, all leave households in considerable deficit ie needing to incur debt, or to sacrifice certain essentials such as food- *see attached table.*

# Are wages of South African workers high?

- “A premium is paid for professional and managerial skills in the South African economy. .. the median monthly wage for a manager in South Africa was more than double that of Poland and three times that in Brazil. A benchmarking study by BMA Analytics comparing South Africa and Thai automotive sectors found the ratio of artisan wages to be ‘an incredible 12:1’. .. reflecting the premium paid for skilled work...”
- In sum, according to the World Bank: “High wages in South Africa appear to be mainly due to high wages for managers and professionals and not to high wages at the bottom of the income distribution (World Bank, 2012).” [Our emphasis]

*UNDP 2014 The impacts of social and economic inequality on economic development in South Africa*

# The wage gap is growing

The wage gap between the top and the bottom is increasing at an alarming rate: in 2010 the top 5% earned around 30 times more than the bottom 5% employees. By 2014, this had increased to **almost 50 times**. In the space of four years!

**Table 4.12** (Stats SA 2014 Labour Market Dynamics)

	Number of employees	Bottom 5%	Bottom 10%	Bottom 25%	Median	Top25%	Top10%	Top5%
	Rand							
Men	6 545	780	1 083	1 733	3 200	7 000	14 000	20 000
Women	5 094	500	700	1 200	2 400	6 500	12 000	15 000
Both sexes 2010	11 638	600	866	1 500	2 900	6 900	12 885	17 106
Men	6 375	500	820	1 950	3 500	8 233	18 000	26 000
Women	5 316	500	600	1 365	2 600	7 000	15 060	20 700
Both sexes 2014	11 692	500	700	1 574	3 033	8 000	17 000	24 000

# The National Minimum Wage & wage solidarity

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- The National Minimum Wage , combined with restructured collective bargaining, 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.
- Reducing wage inequality and working poverty, as part of a general strategy to combat poverty and inequality throughout society, requires combination of a meaningful NMW, comprehensive collective bargaining in all sectors of the economy, and social protection which covers those currently falling through the cracks, particularly the adult unemployed

# A National Minimum Wage package

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Labour's approach to the level of the National Minimum Wage advances 5 considerations:

- It must be part of a **coherent package** which links the level of the NMW to an overall wage policy to address wage inequality
- We are proposing a **range** which is pegged between a minimalist & maximalist position. The minimalist approach pegs the NMW to the bottom of the wage structure, and makes no difference to the lives of workers. Pegged at this level, it doesn't address poverty or inequality. The maximalist approach proposes too drastic a jump which cannot be achieved in the short term.
- The National Minimum Wage level must therefore be part of a **medium term strategy** to progressively transform the wage structure and raise the value of the NMW over time
- The proposal of incorporating **tiers** within the National Minimum Wage for certain ultra-low wage sectors (Farm, domestic and EPWP) aims to address the realities of the labour market
- Labour isn't proposing a **specific figure at this stage, but is looking at a range**. Our proposal considers the current labour market structure and minimum wages, including those in SDs and CB agreements, and aims to break with excessively low minima, which are the legacy of SA's cheap labour structure.

## 2014 ANC Manifesto aims to transform the wage structure

Labours proposals on the labour market have partly been incorporated into the ruling party's Manifesto:

1. Introduction of a legislated national minimum wage;
2. Promoting collective bargaining 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. Strict regulation to combat atypical employment practices.

Unity and mobilisation of labour movement, and broader civil society, around these commitments is important to ensure their realisation .

# NMW and collective bargaining

- The National Minimum Wage floor is not intended to replace the campaign for a Living Wage, or to substitute for collective bargaining, but rather to act as a springboard to support these.
- Complementary role: The minimum wage sets a floor, and assists in compressing the wage structure. Collective bargaining improves on this wage floor in different sectors, and negotiates a wide range of benefits and improvements for workers.

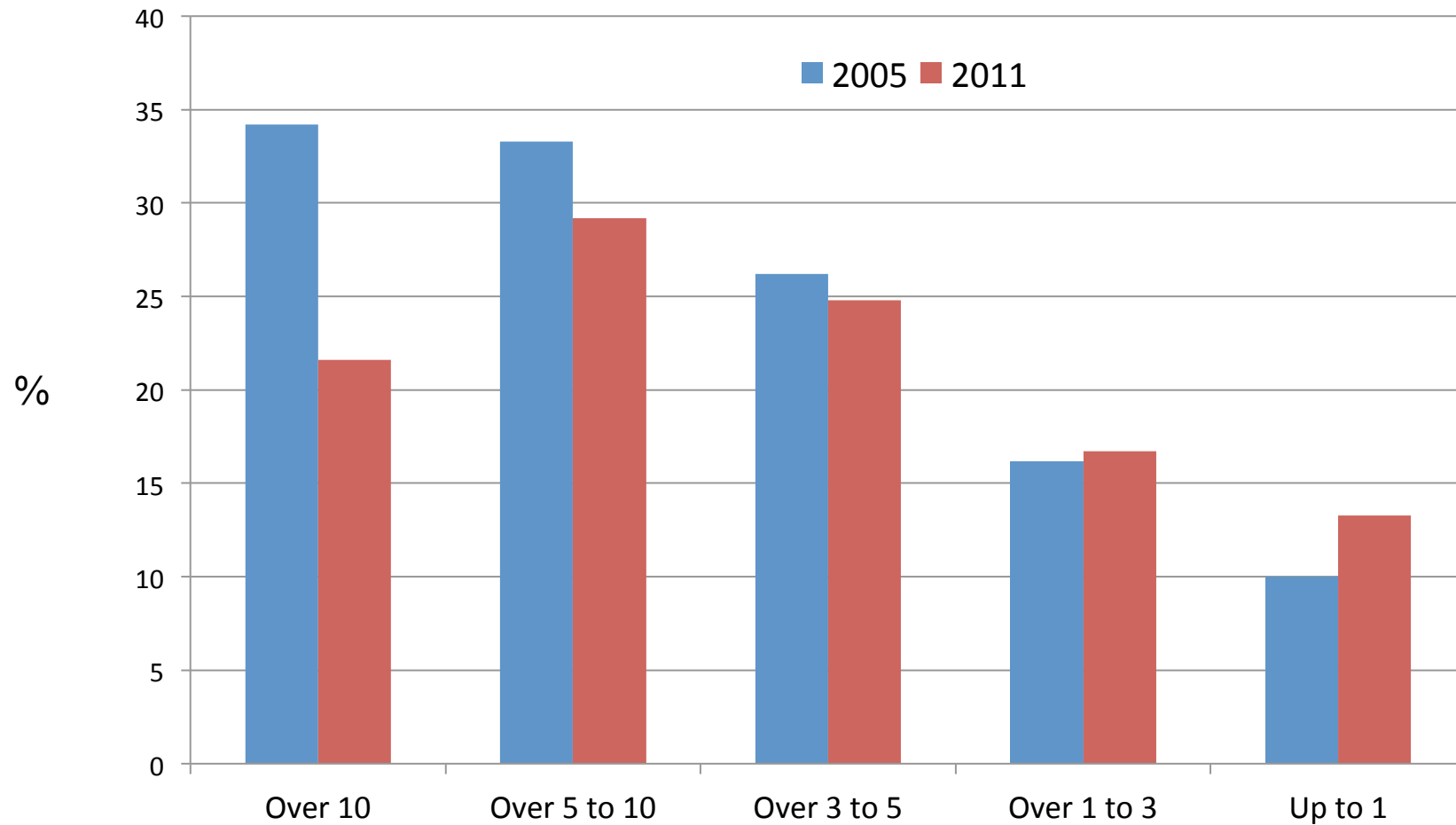


# NMW and collective bargaining

- The ILO for this reason supports a unified NMW, and warns against proliferation of government fixed sectoral minimum wages. There is place for the two key legs of the system of wage determination- CB and NMW. 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, or at the least promotion of comprehensive CB. 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.

# Brazil the NMW and unionisation

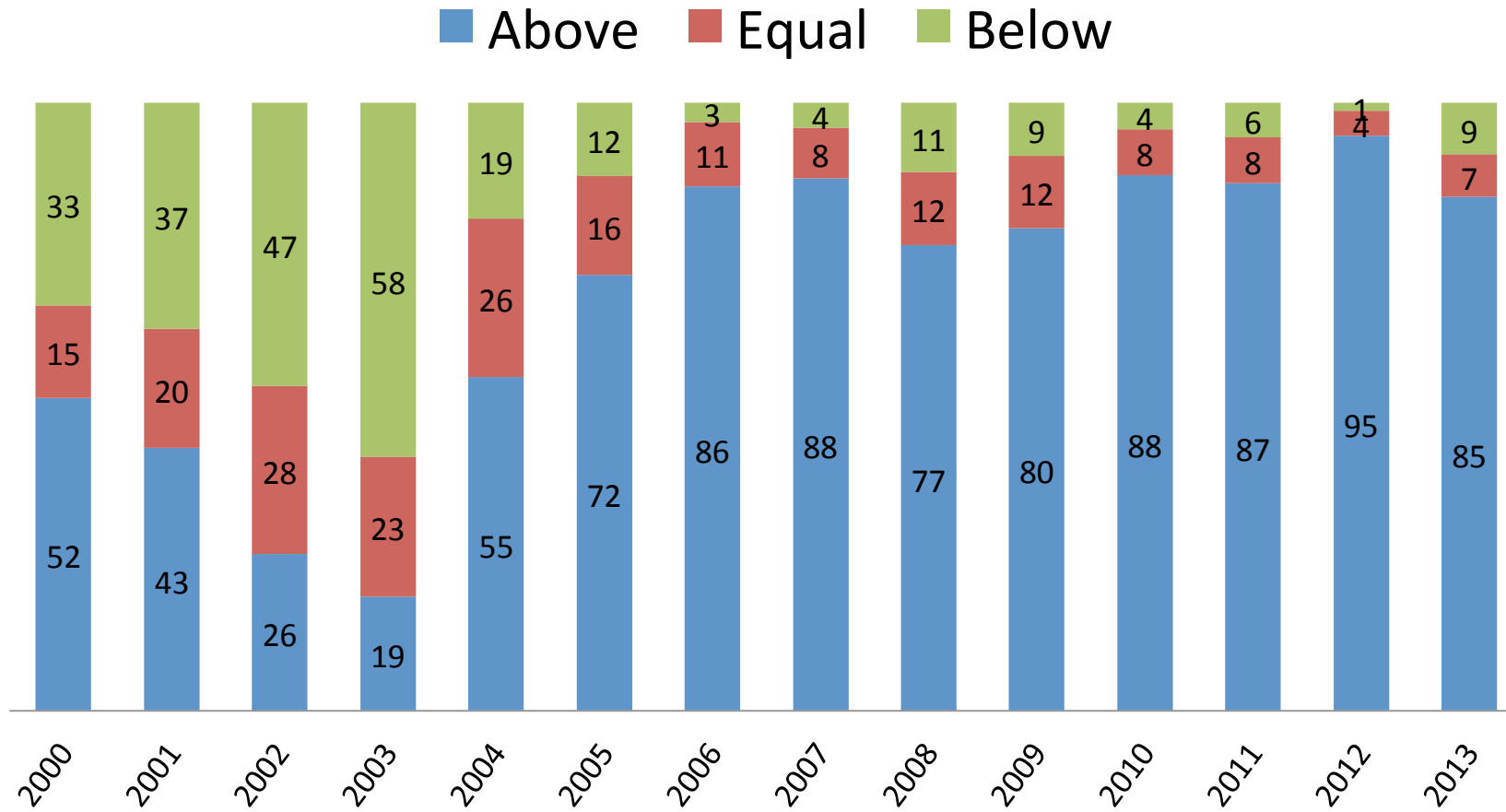
*Unionization increased for low wage workers*



(Union membership of workers with wages equivalent to multiples of 1-10 NMW)

# Brazil

Real rise in NMW coincides with favorable annual salary bargains compared to inflation



# Measures to combat wage inequality

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- Raising incomes of the working poor is linked to a reconfiguration of the wage structure, which progressively reduces extreme levels of wage inequality. This must reduce the gaps both between executive remuneration and the lowest paid, as well as other excessive gaps within the wage structure.
- A comprehensive package is needed, which sets concrete targets for the reduction of wage inequality, using a combination of policy instruments. Targets to progressively reduce wage gaps over specified time periods should be stipulated using the following measures, **in combination with a National Minimum Wage policy** which deliberately raises the income of the lowest paid :
  - ▣ Legal measures and policy frameworks requiring the achievement of agreed ratios between different levels of the occupational and wage structure, building on S27 of the Employment Equity Act (EEA)

# Measures to combat wage inequality

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- ▣ Developing a wage equity policy framework to guide collective bargaining
- ▣ Measures to regulate executive pay
- ▣ Attaching wage equity conditions to state procurement and incentives
- ▣ Promoting wage equity in retirement fund investment policies
- ▣ Ensuring that the public sector is a model wage equity employer
- ▣ Adapting private sector codes to include a wage equity requirement

# Transforming the Wage Structure: The PPC case

- The PPC experiment showed the dramatic difference reconfiguration of our highly unequal wage structure could make:
- PPC CEO Khetso Gordhan took a large pay cut (as did 60 top executives) to reduce the 1:120 ratio between his salary and those of the lowest-paid.
- 1 000 PPC workers at the lowest pay-grades got an increase of about R10 000 per year.
- This reduced the ratio to 1:40. Imagine if we generalised this approach to the economy as a whole- private and public sector- what a powerful impact this could make in transforming our society.

# Measures to combat wage inequality

- This wage equity policy should be treated as a second leg of the introduction of NMW. As provided in the EEA, the competent authority for overseeing regulation of the minimum wage architecture, should also oversee this together with the DOL. However we need to move from the current voluntarist approach, which is not working, to a properly regulated system.
- A first step could be to stipulate an economy wide wage ratio, incorporated in S27 of the EEA, which would need to be observed between the top 5% and bottom 5% of earners in all companies and institutions (more effective in leveraging reduction of wage inequality than only focusing on the CEO and the lowest paid). This could be initially set at say a modest level of twenty to thirty times (this is merely an example- above the OECD average), and progressively reduced over a period of 5 to 10 years.

# The elephant in the room: the level of the NMW

- The most difficult issue on which we need to reach agreement is the question of **the level at which the NMW will be set**, and the medium term targets.
- The critical test in this regard will be whether the NMW which is introduced entrenches the existing wage structure; or whether it is deliberately designed as part of an overall wage policy, to transform the inequitable character of the current wage structure. Would it significantly increase the income of the largest feasible numbers of the current working poor?



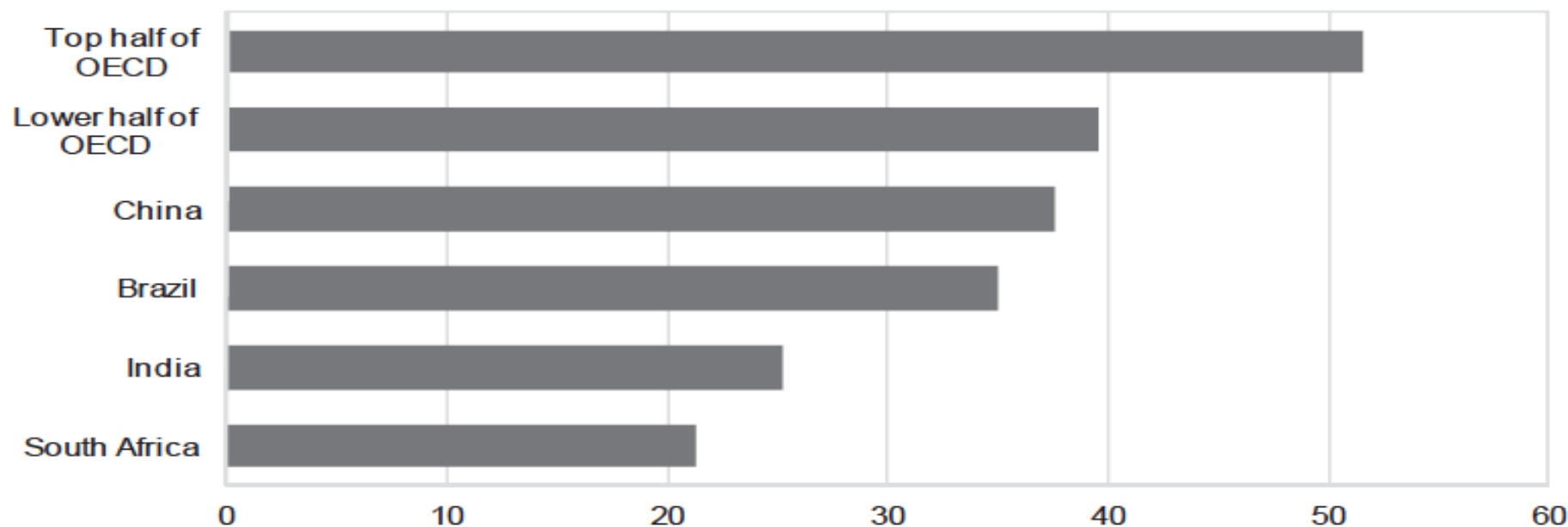
# Possible benchmarks for the Level

- Labour has argued that in developing this wage policy, two important benchmarks which need to be considered are the ratio of the NMW to the national average wage; and some type of generally accepted minimum living level.
- The international benchmark which OECD (2015) identifies as a common point for the NMW, is a ratio of *40-50% of the average national wage*. The international average for the NMW in both developed and developing countries is around 40% of the average or mean wage.
- According to a 2010 OECD report, South Africa, at less than 25%, is “considerably below the OECD average”.

# Minimum: average wage ratio extremely low in SA

Figure 6.4. Ratio of minimum to average wages<sup>a</sup>

In percentage



StatLink  <http://dx.doi.org/10.1787/888932332398>

a) Ratio of minimum to average wages in 2006 for BCIS; Ratio of minimum to average wage of full-time workers in 2008 for OECD countries.

Source: ILO Global Wage Database and OECD Database on Minimum Wages.

# The NMW: average wage ratio

- Like the OECD, the ILO (2008) reports an average ratio for all countries NMWs of 39% of the average wage (**40% for developing and 39% for developed**). They conclude: “The actual levels of minimum wages will, of course, vary according to national perceptions of a decent wage floor. The term “decent wage floor” implies that the level of a minimum wage should be set high enough to be considered as decent but low enough to remain a wage floor... the levels of minimum wages relative to average wages vary widely across countries, but that there is a **relatively high frequency at around 40 per cent of average wages**. This may serve as a useful reference point when considering the ideal level for a minimum wage.”
- The labour constituency at Nedlac has proposed that we use the common international range for setting a NMW at **40% - 50% of the average wage**, perhaps starting at a lower point in the range and gradually targeting an increasing proportion of the average wage. The average wage is simply the total wage bill in the economy divided by the number of employees. There is some controversy as to what the actual level of the average (as well as median) wage is in South Africa. Nevertheless, there are indicators which can be used as a basis to calculate what this proportion of the average wage would entail, if fixing the NMW within the range of 40-50%.

# Indexing the NMW

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- The NMW level cannot be set at an arbitrary amount, but needs to be formulated in relation to some objective yardsticks. Writing a discussion paper for the ILO Herr et al (2011) argue that the best approach in setting a NMW is to combine a form of wage indexation, such as a proportion of the average wage, with a calculation of the minimum required to meet workers needs. This is a useful basis for engaging on the indexation of a National Minimum Wage:
- “...there are two main methods for setting the initial rate... The first method is based on cost of living and aims to determine a rate that will cover the basic needs of workers. This appears to be the most clear-cut method but it does give rise to some problems... If wages are to cover the needs of the workers and their families, one needs to establish how many children should be taken into the equation...” “The second method is to take wage statistics into consideration, basing the minimum wage rate on the lowest and average wage rates... However, it ...is also based on the premise that actual wages paid, in particular the lowest wages, are a true reflection of workers' basic needs and the needs of their dependants. This is not necessarily the case, in particular in sectors where workers enjoy little protection. If the pros and cons of both methods are taken into account, **it is clear that the best solution is to use a combination of the two**, taking the statistics available concerning the needs of workers and wages as the technical basis to be used as a starting point for bargaining...” (Herr et al 2011)

# The NMW: Average wage

- An indication of the average wages of SA workers is the average wage for formal sector workers (excluding agricultural and domestic workers), which is R10 274 according to the latest available information, based on the QLFS surveys. A NMW set at 40-50% of this estimated average would be (at least) in the range of **R4 110- R5 137**.
- Importantly this depends on how the average wage is calculated- see concern about issue of possible underreporting of wage levels in the QLFS
- This figure of full time formal sector wages (excluding domestic and farm workers) is used as a 'proxy' / broad indication, because significant evidence suggests that wages reported by Stats SA in the Quarterly Labour Force Survey underestimate the true level of wages. More research is being done on this matter. It is also useful because the package proposes to initially include farm and domestic workers, at lower tiers of the NMW.

# Why indexing to the Median wage is not advised in SA

While the NMW is indexed to the **median wage** in some countries, this is not appropriate in the SA context. The median wage is defined as the *mid-point* in the wage structure- ie the point at which half of workers earn below the identified median wage, and half above. This is because:

- The median wage is particularly low in South Africa, in relation to the average wage, resulting from the apartheid legacy of cheap labour, and the suppression particularly of the wages of black workers, trapping the majority of workers in low paid work;
- Conversely, the inherited privileges of management, professionals, and highly skilled workers, have involved a large premium for the high paid which is out of sync with the international experience
- These high levels of inequality are combined with high levels of working poverty
- Outsourcing, casualization, labour broking etc have continued to trap the majority of black workers in poverty, despite progressive labour laws
- As a result the wages of low paid workers in SA have stagnated in real terms over the last two decades, while the real wages of the high paid have risen at a rapid rate
- Combined, these factors mean that there is a huge gap between the average wage (pushed up by the high paid), and the median wage (suppressed by the low paid).

# GDP per Capita

- While there is no international consensus on whether to index the minimum wage to the mean or median, there is however an understanding that *GDP per capita* is a bad indicator to tie a NMW to especially for countries with high unemployment (Herr and Kazandziska 2011). The OECD policy document seems to be in accordance with Herr and Kazandziska and states that in OECD countries, the indexing level does not correlate with GDP per capita, which they also argue means that an appropriate indexing method is the result of a policy choice (OECD 2010).

# Indexing the NMW to the MLL

- “Millions of South African workers remain super-exploited, stuck in the cheap labour system, and are **part of the working poor**. That is, although they work full time, they and their families continue to live in poverty, and still cannot afford basic necessities.” COSATU Congress Declaration 2015
- The basic needs **poverty line** (the Upper Bound Poverty Line) produced by Stats SA has been revised by SALDRU at UCT in 2015 and is calculated at R1319 per person or **R5276** for a household of four (three being roughly the average number of dependents in poor households).
- The purpose of using the Minimum Living Level is as a significant reference point- even if is not mechanically used as a direct index for the NMW, it needs to be seriously taken into account in arriving at a NMW figure.



# Understanding the minimum living level

- *A minimum living level* measure is particularly important where low wage earners are *single breadwinners* in households, and where adult unemployed lack income support- in that situation a *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.
- There should be a needs-based approach to determining minimum living levels, driven partly by the assertion by **workers themselves** as to what their basic needs are, combined with objective scientific surveys.
- The process of determining the MLL should be led by a competent department, (such as DSD or EDD) which is able to look at wage policy as a component of economic and social development.

# Choice of indexing method is a contextual political decision

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- ILO reports and analysis by ILO experts seem to agree that the choice of an indexation method is not ultimately a technical one, but is a political decision based on the countries realities.
- “(T)he Convention does not contain any quantified assessment of what a decent minimum wage level might be, for instance by reference to the benchmarks of the average wage or the median wage... (M)any countries among those reviewed in the present survey follow closely the evolution of the minimum wage in comparison with that of the average wage, or even set medium- or long-term targets in terms of the minimum wage gradually reaching a certain proportion of the national average wage. The Committee recognizes that the average wage in most cases offers a tangible and uniform yardstick for measuring minimum wage levels, especially when drawing up comparative data at the regional or global levels, but it considers that the absence of any express correlation between the minimum and the average or median wage in the Convention allows the Convention to cover different systems and approaches to minimum wage fixing in a much more comprehensive manner.” *ILO Minimum Wage Systems 2014*

# How do we factor in the current wage structure in determining the NMW level?

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- In determining an appropriate level and architecture for the National Minimum Wage, we need to develop an approach allowing us to boldly break away from the ultra-low wage structure, while setting achievable targets which transform existing realities. This requires that our proposals address how we move away from the current wage structure.
- Labours proposals accommodate this in a number of ways, including through proposing a **medium term target** allowing for an incremental but bold improvement in the NMW over a period of time; secondly by proposing the **usage of tiers** for certain ultra low wage sectors, which would see these tiers being set at a specified proportion of the NMW, and phased into the full NMW level over time.
- Thirdly where there is coherent evidence that a particularly vulnerable sector, or sub-sector, is unable to immediately make the leap to the new NMW, consideration should be given to a **phased in approach**, which could take various forms. The possibility of an upfront agreement to include a phasing in arrangement is contained in the Task Team agreed definition of the NMW.

# Policy options: three scenarios

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Labour has argued that there are essentially 3 scenarios which can be adopted in relation to the level of the NMW:

- The **minimalist** or lowest common denominator approach, which would tend to have support from business, proposes the NMW is set around the lowest level of the current wage structure. This of course would have no impact, and it is regarded internationally as being of no value to set a NMW too low. We have therefore rejected it.
- The **maximalist** approach, which would have support of many workers, is to set the NMW immediately at a level which meets the criteria above. The danger of this maximalist approach is that it would deadlock negotiations, as it has no real prospect of being agreed to. Secondly it would not be feasible to make such a massive jump from the current low wage structure, no matter how much we may desire it. If the NMW was set at say R6000-7000, this would need almost a tripling of the wages of millions of low paid workers.

# A medium term strategy

- Therefore labour has argued in Nedlac for a **third scenario: a medium term strategy**, or road map, for transforming the wage structure in a managed way- this would, starting with a level of the NMW which significantly improves the income of low paid workers, progressively increase the value of the NMW in line with achieving the average wage, and MLL targets within a reasonable time.
- This would be a bold but managed approach, in line with the Latin American experience, of systematically increasing the value of the NMW at a significantly faster rate than other wages in the economy.
- It would also deliberately aim to transform the wage structure, in combination with other strategies to reduce wage differentials. We are seeking advice from progressive economists on how best to structure this package.

# The NMW range being proposed by Labour and Community

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- Based on the factors outlined above, the joint mandate of the Labour and Community constituencies in Nedlac, as a basis for negotiating a NMW figure, is that we should advance a range of R4500-R5300 for the NMW which incorporates consideration of these benchmarks.

# The NMW package and the level

A number of elements of the National Minimum Wage package are related to the level at which it is set

- It is preferable to **minimise exclusions and exemptions** from the NMW. International evidence, supported by the ILO, supports this view. The agreement in Nedlac is that the National Minimum Wage must set an economy wide wage floor below which no worker should fall, unless exclusions/ exemptions are agreed to upfront. Apart from upfront exclusions agreed in the legislation, downward variation of wages and employment conditions will not be allowed by the NMW legislation, and SDs, collective bargaining, and employment contracts will only be able to improve on the NMW floor. The most vulnerable workers must benefit from the NMW.
- We recognise that there are certain **ultra low wage sectors**, such as domestics and agriculture, which are excluded from the NMW in some countries. However we support the view that the exclusion of such sectors from the NMW is a harmful practice leading to growth in the wage gap between sectors which further entrenches inequality. As a compromise (*to avoid the NMW being pitched at an excessively low level*), labour is prepared to consider **a tiered system** whereby domestic, public works, and farm workers start off with a slightly lower NMW at for example 70- 80% of the general NMW, and then phase in to one rate over a set timeframe. However, this is only acceptable if the NMW is set at least within the range stipulated above (R41 25-R5276).

# The NMW package and the level

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- We support the approach in Nedlac to only exclude **very limited categories**, such as the intelligence services, and some others excluded from the BCEA, such as unpaid volunteers.
- We **oppose the notion of exclusion**, or setting a lower NMW, for young workers, workers in small businesses, workers in certain regions, or workers being trained. International evidence suggests that such exclusions do not meet their claimed objectives, & undermine the effectiveness of a NMW.
- Labour proposes that the NMW be calculated though a **combination of hourly, weekly and monthly reference periods**, with a **guaranteed payment** for minimum hours worked, and a **premium** paid for those working under a stipulated number of hours. This approach prevents abuse of a purely hourly denominated NMW, whereby employers reduce pay through cutting the number of hours worked.
- A **system of regulation and incentives** can ensure that businesses co-operate in implementation of the NMW. Proper systems of enforcement and penalties should be combined with compliance certificates, and only businesses complying with NMW and other labour legislation, would qualify for state incentives and support. Specific state incentives, eg access to affordable credit, can be given to support compliant small businesses, provided the necessary safeguards are put in place.

The pitching of the level, however, will affect the elements of the package which labour proposes



# Emerging agreements on the NMW

Despite many disagreements and difficulties, we achieved a degree of agreement in mid 2015 on elements of the NMW architecture, and on the principle of a National Minimum Wage, including the following:

- The national minimum wage shall be the legal floor for a defined period of time, guaranteed by law, below which no employee may be paid in South Africa.
- A national minimum wage will apply to all employees, both in the public and private sectors, unless provided for otherwise by an exclusion, phase-in or phase-out in an upfront agreement.

# Emerging agreements on the NMW II

- Collective agreements, including bargaining council agreements, sectoral determinations and contracts of employment, may not make provision for a wage that is lower than the national minimum wage, but may only vary wages upwards.
- Depending on the minimum wage level, however, certain exceptions may be needed. Nevertheless, it is generally agreed that comprehensive coverage is desirable and that a patchwork approach should be avoided
- The body that will be responsible for determining a national minimum wage will be a body similar to the Employment Conditions Commission, which currently recommends minimum wages and conditions of employment on a sector basis to the Minister of Labour.
- But little progress has been made since this was agreed in June last year

# Process and timeframes

- We have agreed in Nedlac that our deliberations will be informed by evidence based research, and we continue to examine the best international and local evidence on how to structure our NMW.
- However, this will not be an open ended process, as international experience suggests that research can only take us so far. In the end we have to take some bold decisions which will move us forward.
- We therefore, together with our allies in the community constituency, are insistent that we need to move with the necessary urgency to deliver on the commitment to our people. We therefore welcome the commitment by the Deputy President to conclude the negotiations with the necessary speed, but are alarmed by current delaying tactics and refusal to engage with the evidence.

# Design & implementation of a new Wage Policy

Further matters to be considered include:

- Development of a national wage policy which transforms the whole wage & income structure
- Development of a National Minimum Living Level
- 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

# APPENDICES

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# PACSA INCOME & EXPENDITURE

TABLE 6: Income and expenditure for households of various socio-economic scenarios

Household socio-economic scenarios	Household A	Household B	Household C	Household D	Household E
Total household income	R 1 410.00	R 2 362.00	R 3 200.00	R 4 660.00	R 8 000.00
Number of household members	5	5	5	5	5
<b>MINUS</b> MINIMUM NUTRITIONAL food basket	R 2 713.34	R 2 713.34	R 2 713.34	R 2 713.34	R 2 713.34
Monies left over AFTER FOOD to buy some essential household requirements*	<b>R -1 303.34</b>	<b>R -351.34</b>	R 486.66	R 1 946.66	R 5 286.66
<b>MINUS</b> Burial insurance	R 200.00	R 200.00	R 200.00	R 200.00	R 200.00
<b>MINUS</b> Electricity and water	R 589.95	R 589.95	R 589.95	R 589.95	R 589.95
<b>MINUS</b> Transport	R 660.00	R 660.00	R 660.00	R 660.00	R 660.00
<b>MINUS</b> Education	R 500.00	R 500.00	R 500.00	R 500.00	R 500.00
<b>MINUS</b> Communication and media	R 150.00	R 150.00	R 150.00	R 150.00	R 150.00
<b>MINUS</b> Clothing and footwear	R 416.66	R 416.66	R 416.66	R 416.66	R 416.66
<b>MINUS</b> Domestic & household hygiene items	R 555.48	R 555.48	R 555.48	R 555.48	R 555.48
<b>MINUS</b> Cultural obligations	R 350.00	R 350.00	R 350.00	R 350.00	R 350.00
Monies left over AFTER FOOD & SOME ESSENTIAL HOUSEHOLD REQUIREMENTS secured	<b>R -4 725.43</b>	<b>R -3 773.43</b>	<b>R -2 935.43</b>	<b>R -1 475.43</b>	R 1 864.57

\* Please note expenditures in Table above exclude monies for debt repayments, health care, education, rent, emergencies, amongst others.

# PACSA INCOME & EXPENDITURE

- Note: the above table assumes a family of five members. If we adjust this for a family of four, we can roughly calculate the deficit/ surplus in the different scenarios as follows:
- Household A      Income R 1410                      Deficit - R3781
- Household B      Income R 2632                      Deficit - R3019
- Household C      Income R 3200                      Deficit - R2349
- Household D      Income R 4660                      Deficit - R1181
- Household E      Income R 8000                      Surplus + R2235

# Median earnings- whole economy

The median wage in 2014 fell by more than 10% in real terms from 2012. *Source Stats SA 2014 Labour Market Dynamics*

**Table 4.11: Median monthly earnings by status in employment, 2010–2014**

	2010	2011	2012	2013	2014	Change 2010– 2014
	Rand					
Employees	2 900	3 000	3 115	3 033	3 033	133
Employer	7 916	9 100	7 583	6 066	6 500	1 416
Own-account workers	2 000	2 166	2 166	2 166	2 500	500
<b>Total</b>	<b>3 000</b>	<b>3 033</b>	<b>3 100</b>	<b>3 033</b>	<b>3 120</b>	<b>120</b>



# Median earnings and race

Stats SA 2014

**Figure 4.26: Median monthly earnings by population group, 2010–2014**



# Median earnings and gender

Stats SA 2014

**Table 4.12 Monthly earnings of employees by sex, 2010 and 2014**

	Number of employees	Bottom 5%	Bottom 10%	Bottom 25%	Median	Top25%	Top10%	Top5%
		Rand						
Men	6 545	780	1 083	1 733	3 200	7 000	14 000	20 000
Women	5 094	500	700	1 200	2 400	6 500	12 000	15 000
<b>Both sexes 2010</b>	<b>11 638</b>	<b>600</b>	<b>866</b>	<b>1 500</b>	<b>2 900</b>	<b>6 900</b>	<b>12 885</b>	<b>17 106</b>
Men	6 375	500	820	1 950	3 500	8 233	18 000	26 000
Women	5 316	500	600	1 365	2 600	7 000	15 060	20 700
<b>Both sexes 2014</b>	<b>11 692</b>	<b>500</b>	<b>700</b>	<b>1 574</b>	<b>3 033</b>	<b>8 000</b>	<b>17 000</b>	<b>24 000</b>

# Wage Inequality Task Team Terms of Reference

- The modalities of introducing a national minimum wage in South Africa, including consideration of:
  - Relevant international experience in the introduction of a national minimum wage
  - Maximising the beneficial impact of a national minimum wage in the context of poverty, inequality and unemployment and to understand the impact it may have in order to manage potential risks
  - The existing legal and institutional arrangement for minimum wage setting (BCEA, bargaining councils, other bargaining fora); what new legislative, and other institutional arrangements would be required to introduce a national minimum wage; and what impact the introduction of a national minimum wage will have on existing sectoral determinations and collective wage agreements

# Task Team Terms of Reference

- The architecture of a national minimum wage including possible exclusions, while recognising the need for a national minimum wage to be as comprehensive as possible
- Ensuring that the impact of introducing a national minimum wage is not undermined, or delayed unnecessarily and to consider whether any phase-in processes would be appropriate
- The body that will be responsible for determining a national minimum wage
- The mechanism for setting and determining increases to the national minimum wage
- Enforcement of the national minimum wage and measures to ensure compliance and monitor the impact
- Innovative measures to promote employer cooperation in the implementation of a national minimum wage

# Task Team Terms of Reference

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- Measures to reduce pay differentials, including between the highest and lowest paid, while maximising job creation efforts
- Measures to achieve the elimination of poverty and inequality
- Support the urgent finalisation of a policy on a comprehensive social security system