

Theme: Labour Market

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Inequality in the South African labour market: Navigating the South African minimum wage

Introduction

Over the past three years, starting in 2014, South Africa has embarked on the implementation of a national minimum wage (NMW) for the first time in the country's history. The process continues to raise very important political and economic questions, and this paper attempts to engage with these issues from a political economy perspective. Indeed, not only is the issue of a minimum wage an economically contested proposal in itself, but it intersects with a larger political contestation in South Africa about the role of the state, economic policy, and the institutional setting required to achieve progress on such matters.

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. The post-apartheid period has seen significant growth in wage inequality, in spite of a profusion of redistributive policies

About this brief

This brief was commissioned by the Mandela Initiative to help inform a synthesis report on its work since the 2012 national conference, *Strategies to Overcome Poverty and Inequality*, organised by the University of Cape Town. The MI provides a multi-sectoral platform to investigate and develop strategies to overcome poverty and reduce inequality in South Africa. While the Nelson Mandela Foundation is a key partner, the Initiative has relied on collaborations between academics and researchers, government, business leaders, civil society, the church and unions.

The synthesis report serves as a framework for reporting on the work of the MI at a national gathering on 12 – 14 February 2018 at the University of Cape Town. The MI *Think Tank* has identified the objectives for the gathering as:

- to anchor the contributions of the MI within an analysis of the current South African political and economic context;
- to share the recommendations emanating from the MI-related work streams at a policy/strategic level to advance the goal of eliminating poverty and reducing inequality;
- to critically engage with the potential impact of the recommendations on eliminating structural poverty and inequality; and
- to discuss ways of promoting popular conversations and debate about what needs to be done to eliminate poverty and reduce inequality, beyond the MI.

The synthesis report aims to assist participants to prepare for the national gathering. The report drew on findings from the sectoral research projects of Think Tank members; the MI's *Action Dialogues*; a report on an MI *Community of Practice workshop* with research chairs from different universities to identify cross-cutting themes emerging from the MI's *research programme*; and the work programmes of others who have expressed an interest in contributing to the goals of the MI.

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enacted by the state, and the policies in place to address vulnerable work.

As a response, the NMW has been conceived as an attempt to address poverty and the low-wage stratus of the labour market. While it is by no means a holistic response to the labour market challenges, it is the first step towards more equitable pay and a more equal society. It differs from some of the previous anti-poverty economic policy in that it is intended as a structural intervention to transform the nature of the labour market by setting a humane wage floor, while highlighting the larger issues that continue to reproduce inequality in the South African labour market. Anti-poverty measures in the post-apartheid period have, until the NMW, typically focused on those outside the labour market – children via the child support grant and the aged via the old age pensions.

The process to the adoption of the minimum wage required careful coordination with various key players, and the navigation of institutional arrangements, and offers an insight into the contemporary political economy of South Africa. However, this process occurred at a time of growing scepticism globally about the role of experts and data in the political process. This paper examines the implications of this trend for the adoption of the NMW, as well as discussing the role of the National Economic Development and Labour Council (NEDLAC), and social dialogue more generally, in securing the adoption of the NMW.

Understanding and assessing the evidence

Post-apartheid South Africa has a history of collecting excellent data on poverty and inequality, and these data are accessible and widely available. As part of their deliberations, the NMW Advisory Panel met with various research bodies that had conducted extensive research into the national minimum wage question; namely the National Treasury, the Development Policy Research Unit, University of Cape Town, and the Corporate Strategy and Industrial Development unit at Wits University. In addition, the Panel's approach was influenced by the vast literature on international experiences with the introduction of the NMW, assessing both the benefits and risks of such a policy. As the report notes:

“While minimum wage fixing is always the result of a political process, including in principle full consultation with social partners, setting the minimum wage should be evidence-based. This means that social dialogue and decision making should be informed by data and if possible a wide range of studies using different credible methodologies to ensure that conclusions are not driven by biases in the choice of methodologies.” (NMW Report, 2016, p.20).

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Minimum wage regulation and the labour market in South Africa

The current minimum wage system in South Africa is 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 LRA makes provision for collective bargaining for almost all employees, and it sets the legal framework within which this mechanism operates. The BCEA, on the other hand, sets out the basic rights and conditions of work for all employees, regardless of their bargaining council membership. It also makes provision for the introduction of sectoral determinations, that set minima for sectors where collective bargaining has no reach. The sectoral distribution of pay is outlined in Table 1. A wage level of R3,500 per month – the proposed NMW – falls above the pay of 6.2 million workers, or 47.3% of the workforce, including 90.7% of domestic workers and 84.5% of agricultural workers. Furthermore, 54.6% of construction workers, and 48.2% of wholesale and retail workers earn below R3,500 per month.

Understanding the process

As highlighted above, despite the profusion of excellent data on the South African labour market, and a high-level political commitment to the implementation of a NMW, the process had deadlocked at NEDLACK, and there was little movement in the debate between 2014 and 2016, when the expert panel was appointed. Within four months of the appointment of the Panel, the recommendation of a minimum wage of R20 per hour, subject to various conditions, had been adopted at NEDLAC. Understanding this process, and the role played by the Advisory Panel, requires an examination of the global and local political and economic context, and the political economy of minimum wages.

Making sense of the National Minimum Wage process

The process to implement a minimum wage at a time of growing scepticism, both locally and internationally, about the role of data and expert knowledge in policy making and for shaping political discourse. The rise of Trump politics in the United States, and the apparent disregard for evidence and facts in the European referendum campaign in the United Kingdom are the two most striking examples of this new trend. These happenings in the global north have lead Du Toit (2017) to ask the question:

“Are we standing on the brink of a new kind of nihilistic governmentality, where politics is turned into perpetual theatre, disconnected from any kind of coherent government programming? ... Most fascinating and perplexing is the key role played in these new forms of populism of what is popularly called ‘post-truth’ politics...the erosion of the authority of experts, scientists and professionals in political life” (Du Toit, 2017, np).

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How, then, do we understand the adoption of the NMW in this context? The success of the Advisory Panel suggests that the prediction of “the erosion of the authority of experts, scientists and professionals in public life” might be somewhat premature. Indeed, the Panel was an explicitly advisory body, with a mandate to thoroughly investigate all the available evidence relating to the labour market and minimum wages. Du Toit (2012) has written about the consensus in South Africa of anti-poverty policy, albeit one that has led to interventions on the margin of the economic system, rather than any substantive structural changes. What marks the NMW process as different is that it has led to a far more substantive intervention in the labour market, one that constitutes a significant change in the share of income to labour, and fundamentally alters the lower end of the wage distribution.

Table 1: Distribution of low pay in South Africa

Sector	Number of Workers	Number of Workers within Industry Earning Below R3500	Share of Total Number of Workers Earning Below R3500	Workers Within Industry Earning Below R3500	Share of Total Number of Workers Earning Below R3500
Agriculture	657 286	555 193	4,2%	84,5%	8,9%
Mining and Quarrying	427 869	77 912	0,6%	18,2%	1,3%
Manufacturing	1 565 716	622 181	4,7%	39,7%	10,0%
Electricity, gas and water supply	117 118	27 982	0,2%	23,9%	0,5%
Construction	948 331	517 786	3,9%	54,6%	8,3%
Wholesale and Retail Trade	2 307 491	1 112 935	8,5%	48,2%	17,9%
Transport, storage and	810 423	319 453	2,4%	39,4%	5,1%
Financial Services	1 816 839	671 008	5,1%	36,9%	10,8%
CSP	3 261 921	1 190 986	9,1%	36,5%	19,2%
Private Households	1 235 770	1 120 636	8,5%	90,7%	18,0%
Other	3 933	2 021	0,0%	51,4%	0,0%
Total	13 152 697	6 218 092	47,3%		100,0%

Notes, Source: LMDS (2014); 2014 prices; used the monthly earnings variable ('s5earnings_employees'); Number of workers represents entire industry (no income cut-off; includes full-time and part-time workers).

The political moment in South Africa

Understanding the process of the NMW requires an examination of the contemporary political moment in South Africa. One of the main features is the prominence of issues of poverty, economic concentration and inequality in the national discourse. These debates manifest in various forms, most recently the rise of the term “White Monopoly Capital”, which, while a relatively fuzzy term in its own right, has come to signify a variety of economic woes from industrial concentration, to the slow pace of transformation across the economy. In addition to this, South Africa is witnessing the rather extraordinary historical weakness of traditional trade unions, chiefly the Congress of South African Trade Unions (COSATU) and the rise of newcomers the South African Federation of

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Trade Unions, (SAFTU) and the Association of Mineworkers and Construction Union (AMCU), which have disrupted organised labour to some extent. Another notable feature is that the NMW process at NEDLAC was driven by the Deputy President, and presidential hopeful, Cyril Ramaphosa. Given the deadlocked nature of the NMW process at the beginning of 2016, the task of resolving the impasse and delivering on the African National Congress (ANC) election manifesto was seen as a poisoned chalice, and possibly an attempt by President Zuma to permanently unseat his deputy. In addition, there is a widespread feeling that South African policy making is informed more by the political and personal ambitions of several politicians, and less by relevant evidence or a coherent overarching policy framework. An example of this can be seen in contemporary mining policy.

The role of NEDLACK and social dialogue

At the heart of the discussion of the NMW process is a discussion about the role of NEDLAC - a statutory body established in 1995 in order for social partners to engage on key policy issues – particularly around the labour market. However, there are criticisms from some quarters that NEDLAC is no longer able to function as effectively as it was originally intended to, largely as a result of the political developments discussed above.

In the late 1980s, the trade union movement in South Africa began venturing into broader economic policy questions. Shifting from a focus on plant-level bargaining, COSATU and the National Council of Trade Unions (NACTU) began to bargain and set wages and conditions of work across firms in a sector or industry. This marked a major shift in strategy. From this, the unions began to engage business and the government (then the apartheid government) on national economic policy issues. One particular event in this regard was the introduction in South Africa of value-added tax (VAT). COSATU, using the muscle of its now significant membership, demanded and won the right to have a say on the modality and the level of VAT. Similarly, COSATU played a significant role in shaping policy and ownership when mobile telephony was first introduced in South Africa. At the time, the government proposed amendments to the Labour Relations Act which proposed significant changes to the law to push back on rights that COSATU and other union federations had won. Through massive national and international campaigns, the trade unions not fought off the proposed amendments, but also won the right to be centrally involved in shaping labour legislations. All of these developments led to the emergence of fora such as the National Economic Forum (NEF) where government and business engaged the trade union movement on range of policy matters.

As the political transition unfolded, the trade unions played a critical role in shaping both the politics of the transition but also discussions about the structure of the post-apartheid economy. The vision, drawing extensively on the experiences of the Scandinavian and German models, was for a post-apartheid premised on co-determination where both national economic policy matters and plant-level work organisation would be jointly determined by government, management and workers.

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It is within these debates and visions that NEDLAC was established. Webster and Joynt (2014) argue that NEDLAC is “distinctive as a peak-level social dialogue institution in that it includes not just labour market issues but also trade and industrial policy, monetary and fiscal policy as well as developmental issues” (Webster and Joynt, 2014, p.1). The authors note that, historically, NEDLAC has had an important impact on economic reform in three broad areas – the restructuring of the labour market, trade liberalisation, and competition policy. However, they also argue that the idea and functioning of NEDLAC was severely undermined in 1996, when the government bypassed the institution and unilaterally imposed a new economic policy called GEAR (Growth, Employment and Redistribution) (Ibid.). In this article, from 2014, they highlight the concern about whether the costs of NEDLAC outweigh its benefits, and note three main issues facing NEDLAC. The first is the instrumental use of NEDLAC. Secondly, the emergence of an insider–outsider divide, and thirdly, the “juniorisation” of the social dialogue process. They argue that in the current climate of heightened conflict, social dialogue may have lost its meaning. It is not clear that this is true. NEDLAC has already facilitated the large policy issues in South Africa, and now focus has turned to the smaller technical issues, which while very important, do not necessarily attract the political attention, and input from political figures, that the larger policy issues draw. This is set against a potential structural change in the nature of policy making in South Africa in the post-Mbeki era, as highlighted by Du Toit. In a 2017 article he states, regarding the role of techno-politics in policy making:

“What is at the bottom of this, of course, is how to imagine and frame the role of states and state-like structures in the context of late capitalism. If the interests of ‘society’ are not immediately and transparently available as a kind of luminously evident plenitude – if government requires a process of adjudicating and judging between competing demands, interests and definitions of the common good – deliberative spaces are needed where the answers to questions of social allocation and the design of distributive regimes are not simply ideologically or politically overdetermined.” (Du Toit, 2017, np)

From this, he argues, arises the question as to the limits of techno-political deliberation as a form of political reasoning (Ibid.), and the role of NEDLAC as a forum for the “process of adjudicating and judging between competing demands, interests and definitions of the common good” (Ibid.). This leads to the important question: was the NMW process an example of the intended functioning of NEDLAC, or was its success contingent on the particular alchemy of a range of factors exogenous to NEDLAC? While there is little doubt that NEDLAC, and more broadly the idea of social dialogue, is clearly less influential than the heady days of 1995, the NMW process does suggest that social dialogue remains an important institution for addressing inequality and, we would venture, there may be good reasons for optimism about the potential for NEDLAC to play a more instrumental role in addressing the economic challenges South Africa is grappling with. We say this for a number of reasons.

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First, although the NMW Advisory Panel played a critical role in resolving the impasse on the NMW, by itself the Panel could not have achieved anything. An important lesson in this regard is the combination and interaction of the formal NEDLAC processes, such as the Ekurhuleni Declaration and the Panel's ability to deliver a technical solution that was not only based on an extensive and sound interrogation of the evidence but also palatable to the key parties involved. In other words, it is precisely the interaction of the formal processes in NEDLAC and the technical processes of the Panel that made for a viable solution that will now be finalised in the formal processes of the legislature.

Second, a number of commentators have highlighted the role that the Deputy President played both appointing the Panel and steering the NMW through the NEDLAC processes. The Deputy President clearly played a decisive role and his leadership made it possible for an agreement to emerge. However, focusing only on his role ignores the fact that the social partners had already agreed on the idea of a NMW and that concessions had been made by all the parties. Leadership matters, but so do institutions and while it is important to recognise the role of agents, it is also important to recognise that structures make it possible for agents to act.

Third, and probably most important, a number of political developments made it possible for a solution to the NMW issue to emerge in NEDLAC. Various relationships between the social partners made it possible for NEDLAC to become 'juniorised'. First, COSATU was in an alliance with the ANC and was able to, or believed that it was able to, influence economic policy matters within the ANC more effectively than it could within NEDLAC. Second, Business had, following President Mbeki's famous 'reprimand' of Anglo-American's Tony Trahar in 2004, increasingly been withdrawing from the socio-economic arena and left 'politics' to the ANC and COSATU. Government itself has, in the Zuma era, lost any significant ability to coordinate economic policy. In this context of 'policy impasse', it is hardly surprising that questions began to emerge about the efficacy of social dialogue in South Africa.

In the period leading up to the NMW, significant changes had occurred to break the impasse. COSATU is now significantly weaker than it has been and, though still in an alliance with the ANC, its ability to shape policy inside the ANC is significantly weakened. Equally important, following the firing of Finance Minister Nhlanhla Nene, Business, under the leadership of a new brand of Black business leaders – Jabu Mabuza and Bonang Mohale among others – has taken on a more active 'political role' engaging for the first time with the socio-economic and political challenges that South Africa faces. Government too, in the absence of any other significant policy to address poverty and inequality in the labour market, cohered around the NMW issue. These developments created the possibility for serious engagement within the NEDLAC process.

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In summary, there may be good grounds for optimism for the future of social dialogue in South Africa. The political configurations that somewhat 'side-lined' social dialogue in favour of bilateral deal making have changed in South Africa and the fact that the NMW was agreed to within NEDLAC and is now being implemented bodes very well for the future of social dialogue and NEDLAC. No doubt weaknesses remain but there are grounds for optimism and the NMW provides some basis for this optimism.

Conclusion

Was the Advisory Panel merely a political device? Were their recommendations material? If they had proposed something outlandish, would it have been accepted? And was this an example of the proper functioning of NEDLAC, or was it an aberration as a result of a confluence of internal and external factors? What is notable about this process is that, despite the general political malaise in South Africa, policy incoherence, and a backdrop of growing scepticism about the role of evidence and experts in policy making, a policy intervention as important and impactful as the NMW was steered through NEDLAC by the Deputy President. In trying to understand this, there are several things to consider. The first, as Du Toit states, is that there is a strong anti-poverty policy consensus (if not an agreement on how to address poverty) in South Africa. The post-apartheid period has seen widespread support for anti-poverty interventions. The NMW process has to be seen in this historical context. While it arguably differs from previous policy interventions in that it is a more structural intervention, it is not an anomaly in the poverty policy trajectory of South Africa.

Secondly, the process shows that it is possibly not the use of experts *per se*, but their role that is contested. In the case of the NMW, the Advisory Panel's central mandate was to make sense of the plethora of data and information available, and to suggest a coherent policy. Thus, a notable factor was the general acceptance, both within NEDLAC and from the general public, and in the press, of the legitimacy of the Advisory Panel in itself. In general, it appears that the Panel enjoyed a high level of political and economic legitimacy. Furthermore, and perhaps related to their success, the Panel was given a very specific mandate, as outlined in detail above, to recommend an introductory level for the NMW and to make recommendations for appropriate institutional arrangements. They were not tasked with deciding whether or not to implement a minimum wage, and perhaps this limited the political exposure of the Panel. Thirdly, public buy-in was central to the acceptance of the recommendations of the Advisory Panel. The evidence itself was used to create the argument for the minimum wage rather than being deployed only to strengthen the recommendations of the Panel.

Finally, the process calls for a reflection on the role of NEDLAC itself, the place of social dialogue in policy making. The NMW process shows that perhaps institutionalised social dialogue continues to be a central part of our policy-making process, but it cannot be taken

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for granted. The NMW process has shown that the particular configuration of the social dialogue process, and the roles assigned to each player, matter. The policy-making process shouldn't be viewed in the narrow confines of the institutional process. The role of outside players, such as experts and the media, if part of a coherent and considered strategy, can play an important role in moving policy forward.

For more information on the Mandela Initiative:

