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The National Minimum Wage
or
How to fight low pay in South Africa

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by Gordon Young

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Foreword

This is the first Economic Policy Paper to be published by the Labour Research Service. Others will follow dealing with policy issues that are important to trade unions.

It is not surprising that economic policy, as opposed to the daily practice of trade union work, has become so interesting to trade unionists. At last, the progressive trade union movement is being listened to with some respect by the most powerful institutions of State and Capital.

“Policy” is a word which means “the overall purposes and objectives which influence decision - making”. Thus a government may have a policy to fight low wages so as to assist workers, or it may have a policy to promote low wages to assist small businesses! This policy will influence all its daily decisions, its directives, and of course its legislative programme in parliament.

So if unions want a particular set of actions from the government, it must first influence that government's policy. In our case, we should probably do better to influence the policy of our future government! The Economic Policy Papers from the Labour Research Service aim to help unions to formulate good, working class policies, and provide facts and figures to support those policies.

Please write to us if you want us to cover a particular policy issue in a later paper. Please write to us if you have any comment on this paper.

Needless to say, the Economic Policy Papers argue a case. Some will agree and some will disagree with that case. We hope you will agree, however, that these papers will assist the debate in the unions.

By the way, a number of readings are listed on page 22. All of these are available at the Cape Town Trade Union Library, at least for readers in the Cape.

Cape Town, April 1991.

Introduction

The National Minimum Wage has been a part of our struggle since at least the Congress of the People in 1955. The Freedom Charter declared that, amongst the many other concrete demands of the oppressed people, "there shall be" a National Minimum Wage.

In 1985, Cosatu, the largest trade union federation in South African history, called, at its inaugural congress, for "a legally enforced national minimum living wage for all workers". And if confirmation was necessary of the popularity of the National Minimum Wage, the Conference for a Democratic Future held in December 1989 re-stated that there should be "legislation which establishes a National Minimum Wage covering all workers".

The trade union movement has agitated for a National Minimum Wage since the 1930s. A Bill to establish an enforceable National Minimum Wage was prepared and submitted to the government in 1935, but dropped after protests from employers' organisations. Numerous official inquiries were conducted into the advisability of a National Minimum Wage in the ensuing years. In all cases, the proposal was rejected, often on the advice of the Wage Board or the Department of Manpower. The most recent, a National Manpower Commission report in 1982, concluded that "in a developing community such as that in South Africa there was certainly room for a partial system of statutory minimum wage determination, [but] it could not find justification for either a general National Minimum Wage or a regional minimum wage system".¹

So much for the history. But it is not enough to rely on history. The National Minimum Wage must be justified economically too.

The trade union movement has a particular interest in fighting poverty, because many of its members are poor. It has a particular responsibility, too, for fighting poverty, because there is often no-one else who will assist the poor. As the representative bodies of the workers, including the low paid, trade unions in many countries have seized on the National Minimum Wage as a powerful weapon against low pay. This Paper puts the view for trade unions in South Africa doing the same.

¹ National Manpower Commission, *Report on the principle and application of a National Minimum Wage with specific reference to the Republic of South Africa*, Report 1/1983. RP 94/1982.

The direct causes of poverty

The National Minimum Wage is generally seen as a way of dealing with poverty. Let us look more closely at poverty.

People are poor, in general, because:

- They cannot find work; or
- They are unable to work by reason of illness, malnutrition, old age, pregnancy, or incapacity of one kind or another; or
- They earn low wages.

Different policy measures will be needed to deal with these three problems.

1. Unemployment can be reduced by job creation schemes, and in the longer term by the right kind of economic growth.
2. People who are unable to earn a living by reason of incapacity can be assisted by social welfare measures such as food stamps.
3. The low paid can be raised out of poverty by means of the National Minimum Wage.

Exaggerated expectations of the National Minimum Wage are therefore unwise: it can be expected to assist only those of the poor who are employed and earning exceptionally low wages. The campaign against poverty must employ a wide range of measures to ensure that all the poor are being reached; the National Minimum Wage is just one of those measures.

Is low pay really a cause of poverty?

The Wage Board estimates that its determinations cover 1,2 million workers. Add in the industrial councils, and it would seem that about 2,2 million workers are covered by wage regulating measures. The National Manpower Commission estimated that, in 1981, only 23% of the economically active population was covered by wage regulation. If agriculture is omitted, the coverage rises to 40%, and if mining and the public service are also omitted, to 50%.²

² Ibid., Page 40.

Of the 50% who are not covered by statutory measures, some are of course covered by private wage agreements between union and company. The Labour Research Service estimates very roughly that there are about 3 000 private wage agreements in existence. Many of these companies are also covered by wage determinations or industrial agreements, however. So the number of workers who can be added to the total of "protected" workers will be small. A large part of the 50% of economically active persons not covered statutorily, are also not covered by private agreements.

The conclusion is that a very large number of workers is not covered by statutory or private wage regulation.

A survey of the 52 wage determinations in force in 1988 found that 82% of wage rates for labourers fell below a level equal to half of the Supplemented Living Level.³

So even those workers who are covered by wage determinations enjoy a very low standard of protection indeed.

A survey of industrial council agreements in 1988 found that not a single prescribed wage for the labourers' grade exceeded the Supplemented Living Level. The median labourers' rate was 62,4% of the Supplemented Living Level. It is noteworthy that industrial council agreements are negotiated by employers and trade union representatives in equal numbers.⁴

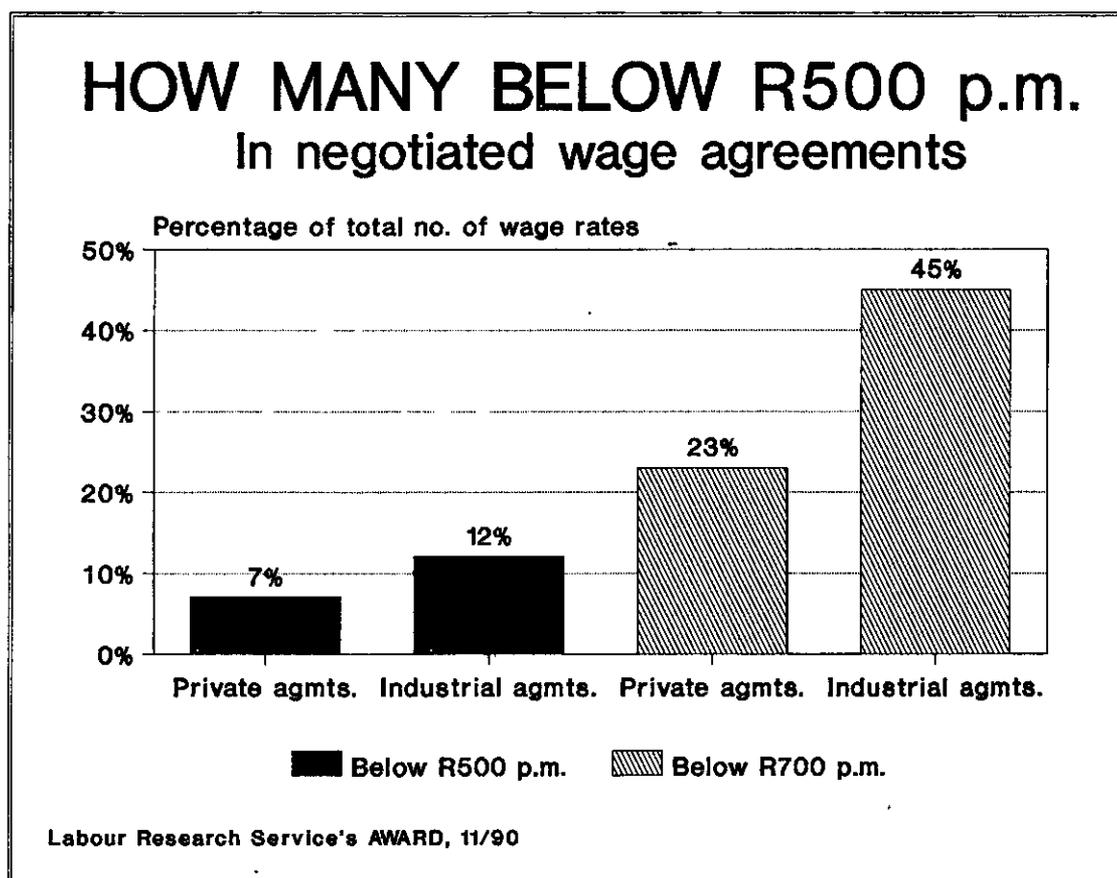
Even under statutory collective bargaining, low wages are the norm for unskilled workers.

Moreover, these very low wage rates applied to certain industries and geographical areas only. Only 10 wage determinations out of 52 surveyed in 1988 were national in scope. A commercial survey of 1 200 employers, who collectively employ 1,25 million workers, examined the wage setting practices in these companies in 1990. Twenty nine percent were not covered by industrial agreements or wage deter-

3 Saldru, *Wage determinations in South Africa Vol. II*, (1978 - 1988). University of Cape Town, 1989. Page 39 ff.

4 Saldru, *Industrial council wage rates in South Africa. Vol. I*, (1978 - 1988). University of Cape Town, 1990.

minations. As a matter of policy, 17% of companies paid no more than the minimum rate prescribed for their industry.⁵



This survey reported that the lowest-paid quarter of the African workforce in the labourers' grade received less than R631 per month - well below the Supplemented Living Level of R788,34 per month in August 1990.⁶ Half of all African workers in this grade received less than R783.

The lower quartile of 'coloured' labourers received less than R703 per month.

The Labour Research Service database of private wage agreements, AWARD, has up-to-date records of 1 674 wages for various grades in 439 bargaining units. The sources for this information are the wage agreements signed by unions and

5 P-E Corporate Services, *The South African Salary Survey. Personnel Practitioners' Handbook*. September 1990.

6 Bureau of Market Research, *The Minimum and Supplemented Living Levels of non-whites residing in the main and other selected urban areas of the Republic of South Africa*. UNISA, Pretoria. August 1990.

management. Of this sample, 23% of negotiated wages were below R700, and 7% were below R500 per month. By comparison, in a sample of 307 wages set by 32 industrial councils, 45% were below R700, and 12% were below R500. In a sample of 292 wages from 24 wage determinations, 87% were below R700 and 62% were below R500 per month.⁷

This information suggests that decentralised collective bargaining is able to protect most affected workers from low pay - but 7% of jobs are paid less than R500 even under collective bargaining! Under industrial councils, the proportion of jobs below R500 rises to 12%, and to 62% under wage determinations. These figures assume significance when it is realised that there are about 209 000 employers in South Africa,⁸ but probably not more than 3 000 negotiate directly with unions. Collective bargaining helps but its coverage is narrow.

AWARD's survey of negotiated wage settlements in the first six months of 1990 (covering 208 private agreements and industrial councils, but excluding wage determinations) gave a median wage for the labourer's grade of R779 per month. In other words, half of all negotiated labourers' rates fell below R779 per month. Ten percent of labourers' rates fell below R487 per month.⁹

Cosatu's Living Wage Committee estimated that a high National Minimum Wage of R700 per month would directly affect 58% of all labourers, 47% of low skilled operatives, 31% of semi-skilled operatives and 12% of skilled operatives (about 1,25 million workers in all and 22% of the workforce).¹⁰

If the National Minimum Wage were set at R550 per month, 34% of labourers would benefit directly, 27% of low-skilled operatives, 15% of semi-skilled operatives and 5% of high-skilled operatives (about 710 000 workers in all and 12% of the workforce).

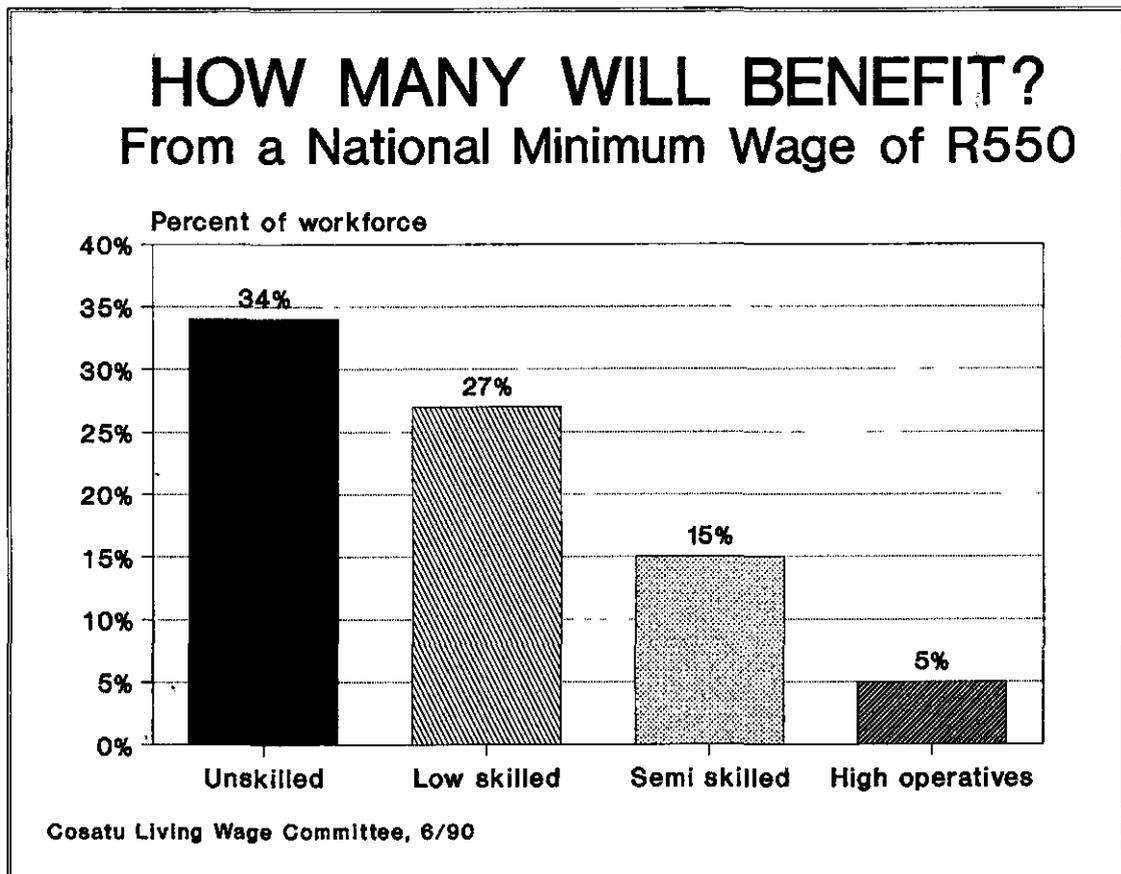
Low pay is widespread and many workers will benefit from a National Minimum Wage.

7 The number of workers in each of these jobs is not known. It is likely, however, that more than 7% of employees are covered by the bottom 7% of wages.

8 Estimated number of contributors to the Accident Fund, given in a letter from the Workmen's Compensation Commissioner to the National Manpower Commission. 17 July 1990.

9 Labour Research Service, *Wage Review No. 5. Wage settlements in the first half of 1990*. Salt River. 1990.

10 Cosatu Living Wage Committee, *The National Minimum Wage Reader*. Cosatu, Johannesburg. June 1990.



What are the consequences of low pay?

The human ill-effects of low pay are obvious. They lead to a diminution of life in every way. Ill-health, low life expectancy and social problems of all kinds will haunt the low paid.

These have economic consequences. Ill-health causes higher absenteeism, inefficiency and higher labour turnover. Low productivity of labour should rightly be regarded as a consequence of low pay, not its cause as managers like to think. Inefficient use of manpower, arising from its undue cheapness, has a retarding effect on the economy.

Where does low pay occur?

Low pay will be common in the following circumstances:

- Industries containing many small companies in strong competition with each other.
- In certain occupations which the employer is able to separate from the rest of the workforce, for example, cleaners and security guards.
- In industries where the employers have monopsonistic power over the supply of labour, for example, the mining industry. ("Monopsonistic" means that the employer does not have to compete for labour with other employers. In the mining industry, this control over the supply of labour is exercised through TEBA.)
- In non-unionised companies, industries and regions.
- Amongst sub-contractors, casual labour, part-time workers, temporary workers and homeworkers.

Low wages give employers no incentive to invest in new and better methods of manufacture. South African companies invest far less money in training than other industrialised countries (2% against 5%).¹¹ The continued availability of labour at low wages gives no incentive to companies to invest in training.

Moreover, low wages present unfair competition to those employers who are progressive. The "good" employer is unable to plan for long-term investments in more productive methods or training if he is unable, by reason of competition, to pay the higher wages needed to attract better quality staff.

Low wages permit inefficient companies to remain in business. They give employers no spur to make the adjustments that are necessary to give the company long-term viability. The low paid workers effectively subsidise the incompetence of the employer, while he undercuts the better-paying employer through wage competition.

11 Human Sciences Research Council and National Training Board, Skills training in South Africa, quoted in Bird, A., "Numsa's vocational project" in South African Labour Bulletin, Vol. 15 No. 1, June 1990. Seifsa have said that engineering companies spend only 0,5% of total expenditure on education and training, and that only 10% of their workforces get training.

Many employers are aware of the advantages of wage regulation. A survey of 1 200 employers reported that 65% of employers believe that minimum wages are necessary to protect workers from exploitation by the employer.¹²

Aren't there other ways of dealing with low pay?

Attempts have been made in South Africa and other countries to deal with low pay by means other than the National Minimum Wage. Generally, the trade union movement has concluded that there is no effective alternative to the National Minimum Wage.¹³ Supposed alternatives to the National Minimum Wage are examined below:

Social welfare:

The government could make social welfare payments to the low paid. This is fraught with difficulties. Firstly, it is difficult to imagine any South African government using scarce tax revenues for this purpose on sufficient scale. Secondly, a "poverty trap" is commonly created when people achieve a wage increase which takes them out of entitlement to social welfare. Thirdly, it creates a dependence on welfare payments. Workers do not want welfare, but a fair wage for their labour.

Collective bargaining:

Trade unionists have traditionally argued against a National Minimum Wage in the belief that strong trade unionism combined with collective bargaining are enough to eliminate low wages. Except in a handful of European countries where trade unionism embraces practically the entire workforce, this has proved to be an illusion. Even in many advanced countries, trade union membership remains stubbornly at low levels. Many workers are therefore unable to benefit from collective bargaining. And even where trade unions are strong, it has been found that large pockets remain of low paid workers whom unions have found it impossible to assist in practice. If this is the case in advanced countries like Britain, France and the United States, then it is even more true in South Africa.

By the conventional measure of trade union density (trade union membership as a percentage of the economically active population), South Africa has a very low level indeed. Taking Department of Manpower statistics for

12 P-E Corporate Services, *op. cit.*

13 See for example MacLennan, E. et al, *Low pay: Labour's response*. Fabian Tract 488, London, 1983, and Trades Union Congress, *Fair wages strategy: National minimum wage*. London, 1986.

1989 with an estimate for unregistered union membership, there are about 2,5 million union members in South Africa.¹⁴ The economically active population (including the TBVC countries), less students, the voluntarily unemployed and an estimate for subsistence employment, was about 15 million in 1990. This gives a trade union density ratio of only 16,6%.

Even if trade union membership is expressed as a percentage of formal sector employment (about 7,5 million in 1990), the proportion is only 33,3%. Collective bargaining, which by definition requires representative trade union participation, cannot be sufficient, then, to eliminate low pay.

Economic growth:

There is no evidence that economic growth on its own will eliminate low pay except in a long term which is so long as to be meaningless. Low pay remains a problem in many European countries which have experienced rapid growth in the post war years. In Britain the low paid have not improved their position relative to average wages in the past 100 years.¹⁵

Voluntary targets:

The setting of voluntary targets for collective bargaining is sometimes put forward as an alternative to a legislated National Minimum Wage. Thus the trade union federations would seek agreement with the employers' organisations on a voluntary minimum wage at all companies. This measure is flawed in the same way as unfettered collective bargaining: large parts of the working population will not benefit from it. Non-unionised companies would not be compelled to adopt the minimum wage and would exert competitive pressure on the unionised companies.

Much of the opposition to the National Minimum Wage mixes up two questions: whether it is desirable in principle, and what the level should be. Naturally, there can be a wide difference of opinion about the level at which the National Minimum Wage should be set; the unsuitability of any particular level, however, does not invalidate the principle that there should be a National Minimum Wage to assure all workers of a basic minimum living standard.

14 Department of Manpower, *Annual Report 1989*, RP 58 - 1990.

15 Pond, C. and Winyard, S., *The case for a National Minimum Wage*. Low Pay Unit Pamphlet No. 23, London, n.d.

How the National Minimum Wage will help reduce poverty

The National Minimum Wage is generally used to assist the weakest, most vulnerable sections of the working class. By setting a single minimum wage for all workers in all industries and all geographical areas, it aims to:

- ensure that all workers earn the **basic minimum** needed to sustain civilised life;
- **abolish “sweating”** by which employers squeeze excess profits from hard-driven low paid workers;
- give the employer a spur to make **more efficient use of their manpower**, and force employers to **raise the productivity of their labour** through better management methods; and
- **eliminate unfair competition**: companies should not be permitted to compete with each other by driving down the wages of their workers. Competition should be restricted to price, quality, variety, service, etc.

It is important to understand that the National Minimum Wage must be national. It is sometimes suggested that sectoral minimum wages would be preferable, as they take account of the different economic strengths and weaknesses of sectors.

But sectoral minimum wages have a different role to play. The National Minimum Wage is deliberately not concerned with differences between sectors: it is primarily based on the **worker’s** human needs, “the basic minimum needed to sustain civilised life”. This does not differ from sector to sector or from region to region. Hence the National Minimum Wage sets a national standard of minimum pay.

Economic effects of a National Minimum Wage

National Minimum Wages that aim to raise wage levels in general throughout the economy have normally not been successful policy measures. Much greater success has been achieved when the National Minimum Wage is restricted to assisting the most vulnerable sections of the workforce. A National Minimum Wage which aims to assist the lowest-paid 10% to 20% of the workforce is more likely to meet its objectives, than a National Minimum Wage which aims to raise the wages of a much larger part of the workforce.

The effects of such a National Minimum Wage would therefore be much smaller than under a measure which aimed to raise the general wage level. Nevertheless, the economic effects must be examined.

Inflation:

Calculations made in other countries show that the National Minimum Wage generally added less than 1% to the inflation rate.¹⁶ Even when the National Minimum Wage leads to a big increase in wages for many workers, the inflationary effects are at least partly neutralised by the following factors:

- a) Wages are only one part of costs. The percentage increase in costs will be proportionately lower than the percentage increase in wages.
- b) Employers always have ways of reducing non-labour costs and improving efficiency, thus avoiding retrenchments. The higher wage costs need not all be passed on to the consumer.
- c) It need not be assumed that profits will remain as they were. Some of the extra costs could be absorbed by the shareholders.
- d) The macro-economic consequences of an increase in disposable income of the low paid might actually reduce average costs as production runs increase to meet higher demand.
- e) A National Minimum Wage can be expected to improve workers' health, reduce labour turnover, absenteeism and illness, and generally improve personal efficiency.

A survey of 1 200 employers showed that 33% believed that minimum wages were inflationary, as workers' productivity did not rise with wages. It is possibly more significant that 67% of employers did **not** think minimum wages were inflationary.¹⁷

Employment:

Studies in countries which have a National Minimum Wage have shown fairly uniformly that it has little if any effect on employment, except in some cases youth employment, though this is disputed.¹⁸

16 See for example, Trades Union Congress, *op. cit.* Page 10, and Starr, G. *Minimum wage fixing*. International Labour Office, Geneva, 1981.

17 P-E Corporate Services, *op. cit.*

18 See for example, Starr, G., *op. cit.*

Those who argue that the unemployment problem is the priority, and that the low wage problem must wait until unemployment is substantially reduced, have made the mistake of assuming that low pay reduces unemployment. As so many workers have found out, low pay has not saved workers from retrenchment.

It would seem to be a poor policy to use low wages as an employment-creating measure (the policy of the present government). There are many employment-creating measures available to governments which do not require workers to subsidise their own jobs by accepting low pay.

Those who adopt this argument should answer this question: how low should wages be allowed to fall so as to increase employment? Is there no wage which is too low, as long as “jobs” are created thereby?

The flaw in this argument is simply that labour is treated as a cost of production like any other cost. But it isn't. Labour is a cost, but at the same time it is the buyer of its own production. Reduced costs can be achieved by reducing wages: but who will now buy the worker's output?

Low pay is the **cause** of unemployment in these circumstances!

Reduction of wages is self-defeating. By the same token, increased buying power in the hands of workers actually increases the demand for goods and services, and hence for labour. A National Minimum Wage will raise overall demand particularly for consumer goods and housing and building materials. This will stimulate a sector of the economy which is presently under-utilised - and grossly under-utilised in parts.¹⁹

Even in neo-classical theory, there are circumstances (monopsony) where a National Minimum Wage will increase wages and employment.

In any case, special measures can be adopted to minimise the employment effect and these are discussed later.

A survey of 1 200 employers reported that only 4% believed that minimum wages created unemployment.²⁰

Savings and investment:

To the extent that the National Minimum Wage results in a redistribution of income from the owners of capital to the low paid, one might expect

19 The percentage utilization of production capacity in May 1990 was:: Manufacturing average, 81,3%; wearing apparel, 85,2%; food, 81,7%; non-metallic products, 79,8%; furniture, 79,7%; textiles, 77,1%; and beverages, 72,0%. Central Statistical Service, *Statistical News Release P3043: Utilization of production capacity - manufacturing*. 24 September, 1990.

20 P-E Corporate Services, op. cit.

saving and hence investment to fall. The low paid are likely to spend their new income, not save it.

But the rich in this country have a very poor record of saving and investment. Much of their wealth has been transferred overseas. Much of their consumption spending, moreover, is on imported luxuries.

By comparison, the spending of the low paid will have a very low import content.

The poor:

Will a National Minimum Wage help the poor? It has been found elsewhere that a National Minimum Wage cannot by any means deal with all aspects of poverty. This is because many of the low paid are technically not poor (there may be other wage earners in the household); many of the poor are not employed; and many of the low paid work too few hours to benefit greatly from a National Minimum Wage (part time workers).

The National Minimum Wage must be seen as one of a range of measures which is necessary but not sufficient to end poverty.

Institutional mechanisms of a National Minimum Wage

South Africa already has a system for the statutory regulation of wages outside collective bargaining. The Wage Act provides for the setting of minimum wages and conditions of employment by the Wage Board, in industries in which unions and employers are not associated in industrial councils.

The Wage Board is made up solely of government-appointed officials. Trade unions and employers have no rights except the right to be heard by the Wage Board. Wage determinations made by the Wage Board cover a particular sector in specific parts of the country.

The Wage Board is constrained by the Wage Act, when setting wages, to take into consideration "the ability of employers in the trade to carry on their businesses successfully should any recommendation proposed to be made by the board be carried into effect . . ."21 This clause is conservatively interpreted, but nevertheless represents a barrier to the setting of acceptable wage standards. The Wage Board is not permitted to take workers' needs into account, only the cost of living.

21 Wage Act, section 7 (d).

A great many workers are not covered by wage determinations, either because they are not employed in the covered industries or because their workplace is situated outside a covered area. Workers who are not covered by the Wage Board may be covered by an industrial council; many are not. The recent cancellation of many wage determinations has further reduced the number of workers covered.

South Africa is a signatory to International Labour Convention No. 26 which requires signatory nations to provide minimum wage protection for all workers whose wages are exceptionally low and for whom no other suitable arrangements exist. It also requires that trade unions and employers be associated together in minimum wage machinery. In both respects South Africa appears to be in contravention of the Convention. Moreover, South Africa has not signed the other two conventions which the ILO has adopted for the protection of the low paid.

The National Minimum Wage could be introduced in South Africa only by a thorough reform of the Wage Board. The following reforms would be part of a programme to introduce a meaningful measure of protection for low paid, vulnerable workers without damaging the prospects of viable companies or the economy as a whole:

New Structure

- A National Wage Board to be established, with the duty to set a National Minimum Wage, applicable to all workers.
- Membership of the National Wage Board to be tripartite, that is, equal representation from trade unions, employers and “independent” members appointed by the government to represent the national interest and, say, consumers.

Sectoral Minimum Wages

- Sectoral Wage Boards to be established for every industry where unions, and hence collective bargaining, are weak. Representation would be tripartite, like the National Wage Board, but representatives would have a strong connection with the sector in question.
- The sectoral Wage Boards would not be permitted to set wages lower than the National Minimum Wage, but would be able, in the circumstances of their

own sector, to set higher wages. They would also have the duty to set other minimum conditions of employment, such as working hours.

- Sectoral Wage Boards would be encouraged to turn themselves into industrial councils (that is, drop their independent, government-appointed members) as soon as the trade unions were sufficiently strong and representative of the workforce.

Implementation

- Under a reformed Wage Act, trade unions would have the power to institute legal proceedings against employers who paid less than the National Minimum Wage or the sectoral wage determinations. At present, enforcement is ineffectively carried out by the Department of Manpower.
- The new Wage Act would require every employer to negotiate the implementation of the National Minimum Wage with his employees or trade union. For example, there might be a phasing-in period for the National Minimum Wage. Financially weak companies would be able to negotiate longer phasing-in periods than profitable companies. A maximum period of between two and five years could be stipulated. Sectoral Wage Boards might also be empowered to regulate the phasing-in. This provision would enable employers and trade unions to minimise the effect of the National Minimum Wage on employment and costs.
- Existing collective bargaining between trade unions and employers at plant and industrial level would remain untouched by this scheme. The National Minimum Wage provides only a floor to bargaining, a “safety net”, and not a ceiling. Trade unions would have the security of knowing, however, that even where they were weak, the employer would not be able to force wages below the National Minimum Wage. (And sectoral Wage Boards could in time be turned into industrial councils.)
- The National Wage Board would be required to review the National Minimum Wage at regular intervals to take account of inflation and increases in the average wage in the economy as a whole.
- The Wage Act would be amended to give Wage Boards the duty to set wages which assured workers of a basic, decent standard of living. At present, the

Board may take account only of the cost of living and the payability of companies.

Fixing a level for the National Minimum Wage

If it is agreed that the National Minimum Wage should not aim for a general rise in wages, but to protect the weakest sections of the workforce from gross exploitation, then the following factors might be used by the National Wage Board in the setting of a figure:

- 1) the minimum basic wage needed to sustain a civilised life;
- 2) current wage levels in the economy, including regional and industrial differentials;
- 3) the payability of companies; and
- 4) the effect of the National Minimum Wage on inflation, employment and other macro-economic indicators, and the part that wages can play in the country's national economic development plan.

None of these alone would be sufficient to guide the National Wage Board to a sensible decision. Obviously, different parties present on the Board will have divergent interests. The Board's decisions will reflect the conciliation of these interests. Representation by worker and employer representatives, as well as government representation, ought to ensure that divergent interests are reconciled.

The **minimum basic wage** is a concept fraught with methodological difficulties.²² These should not deter the National Wage Board. Settling on a level which satisfies the criterion cannot be avoided. If it cannot be done with scientific precision, a widely accepted approximation should not be impossible to establish.

Current wage levels are important because the National Minimum Wage should aim to benefit a large number of workers (say 10% to 20% of the workforce). The National Wage Board would need to know how many workers would be affected by any given level of the National Minimum Wage. Moreover, as the economy grows and wages rise, the low paid should be helped to a share in that growth. So

22 See for example Budlender, D., *A critique of poverty datum lines*. Saldru Working Paper No. 63, University of Cape Town.

it would be sensible to relate the National Minimum Wage in some way to average wages. In most countries, the average wage is used as a benchmark, and the National Minimum Wage is set roughly at some proportion of it. British unions, for example, demand that the National Minimum Wage should be half of average earnings. Trade union representatives on the National Wage Board would ensure that workers' views on the appropriate level are heard.

Evidence of **company payability** would have to be taken into account in setting a National Minimum Wage. That is why the presence of employers on the National Wage Board is necessary. But the terms of reference of the National Wage Board should clearly set out that companies which are unable to pay a basic minimum wage should not be permitted to exist, beyond a phasing-in period, at the expense of their workers.

The government of the day will undoubtedly have a **national economic plan** which the National Wage Board would have to take into account in setting a National Minimum Wage. While a large degree of independence from government is desirable - indeed, essential, so as to increase the authority and widen the acceptance of the National Wage Board - the National Wage Board and sectoral wage boards should nonetheless not determine wages at variance with the overall economic plan.

Coverage and exemptions

In some countries, all workers are covered practically without exception. In other countries, certain categories of workers are exempted altogether, or different wage rates are applied to them.

The categories which are most frequently exempted or receive different treatment are domestic workers, agricultural workers and teenagers.

Agriculture is a good example of a sector which might require special treatment. A National Minimum Wage which assisted many urban workers, but was also extended to agriculture, might well lead to considerable retrenchments amongst farm workers. An uncontrollable stream to the cities might result. It might be better policy to set a National Minimum Wage at the level already paid by the better farmers. This would equalise farm wages at the level of those farms which already paid the best wages.

It is not necessary to make any judgments on this issue here, except to note that one of the biggest advantages of the National Minimum Wage when it applies to

all workers is ease of enforcement. All workers and employers would know what the National Minimum Wage was and evasion would be extraordinarily difficult.

Common objections to the National Minimum Wage

Many of those who argue against the National Minimum Wage nevertheless support the present system of **partial minimum wage regulation**. Since, for the company, the economic consequences of the National Minimum Wage and the sectoral minimum wage must be the same, it is impossible on this argument to oppose the National Minimum Wage on economic grounds. It would moreover be necessary to explain why some workers in some areas and in some industries merited protection, and why others didn't. The scheme presented in this paper, for a National Minimum Wage supplemented by sectoral regulations covering the full range of working conditions as well as a higher minimum wage where possible, cannot be rejected unless very wide differences in living standards are accepted.

Will the National Minimum Wage drive companies out of business? Companies will be protected against an unduly high National Minimum Wage by the participation of their representatives on the National Wage Board. But, leaving that aside, if a company is unable to pay the National Minimum Wage, should it be allowed to continue in existence?

The Swedish trade unions have answered this question as follows:

"[Wage flexibility] reduces the losses of unprofitable firms and permits them to stay in business longer. They are subsidized by their employees accepting low wages. The solidarity wages policy [by contrast] forces them earlier to restructure or go out of business. . . . this is a much more efficient way to move labour from unprofitable to profitable production. This means that labour market policy [which includes wage policy] is substituted for wage differentials as a prime mover of labour in the restructuring of business."²³

Some trade unions object that the National Minimum Wage is an **unwarranted interference in collective bargaining**. This cannot be so if the National Minimum Wage is set in the manner proposed here, with effective trade union participation. Indeed, the National Minimum Wage would be an extension of collective bargaining rather than a contraction.

23 *Solidaristic incomes policy and industrial relations*. Mimeo, LO Sweden, 1990.

SUMMARY

A National Minimum Wage implemented in this way would:

- Ensure a minimum basic standard of living for all workers regardless of industry or geographical area.
- It would thereby comply with all relevant ILO Conventions.
- It would satisfy the demands of the Freedom Charter and a Cosatu Congress resolution.
- It would be doing so in a way that did not undermine collective bargaining, but actually extended collective bargaining.
- Trade unions, under this scheme, would not have less influence in wage-setting, but more, through their equal representation on the National and sectoral Wage Boards.
- Possible negative side-effects of the National Minimum Wage would be minimised or even eliminated by building negotiations on its implementation into the scheme.
- Enforcement of minimum wages would be greatly improved, firstly because a single National Minimum Wage would be more commonly known than the present bewildering number of Wage Board minima, and secondly because trade unions would be able to institute proceedings.

Moreover, the aim of the National Minimum Wage is to provide cover for those workers who are not well represented by trade unions. Sectoral wage boards would have the right to convert to industrial councils when the trade unions became sufficiently representative.

If trade unions in some African countries have found their role diminished by the existence of a National Minimum Wage, it is more probably a reflection of those trade unions' weakness than anything else. Trade unions which are unable to persuade an employer to exceed the National Minimum Wage are not likely to be any more successful in the absence of a National Minimum Wage.

It has been argued by some trade unionists that a National Minimum Wage would **undermine the South African export effort**.²⁴ By this argument, a National Minimum Wage would raise wages and hence costs in the export sector to the extent that South African companies would not be able to compete on world markets.

It has already been suggested that a National Minimum Wage need not raise total costs if companies improve their management and production methods. The notion that low wages are necessary for exports must also be questioned.

Firstly, many of the low paid are in certain particularly vulnerable occupations in such sectors as cleaning, security services, domestic work and so forth. Higher wages here would have no effect on exports.

Secondly, in the manufacturing sector, the workers who would benefit from a National Minimum Wage are very often not those engaged in the export sector of that industry. In the clothing industry, for example, the biggest exporters are based in the large cities like Cape Town where wages are relatively high. The lowest wages in the clothing industry are found in the rural areas where the companies are unable, because of the low level of skills of the workforce, to produce clothing suitable for export. They concentrate on low value-added items, like overalls, for the local market. Clearly, a condition for participation in the export market is . . . higher wages!

The best-paid agricultural workers are in . . . the export sector! Admittedly, even the fruit export sector of agriculture pays very poor wages, but they are generally much higher than in sectors cultivating crops for the local market. These higher wages do not come into being because of a National Minimum Wage, but because the export trade needs higher-skilled labour and hence must pay higher wages.

Finally, it would be a striking departure from the normal rules of trade union solidarity if South African trade unionists were to call for lower wages in the export sector in order to undercut workers' wages elsewhere in the world!

24 See for example Sactwu Collective Bargaining Unit, *The National Minimum Wage. A contribution to the debate. The case for sectoral minimum wages*. June 1990. Page 8.

Conclusion

A National Minimum Wage is an essential weapon - one of many needed - in the fight against poverty. Aimed at assisting the lowest-paid and most vulnerable sections of the workforce, it will also underpin the wages of all workers.

A thorough reform of the Wage Act to create a National Wage Board and sectoral wage boards will be needed to give effect to the National Minimum Wage. Trade union and employer participation in these bodies will ensure that the National Minimum Wage has wide support and credibility. Enforcement of the National Minimum Wage will be easy by comparison with the present system.

The National Minimum Wage aims to assure all workers - whatever the occupation, industry or area - of a basic minimum standard of living. Unwanted economic side effects can be minimised by a negotiated phasing-in period. At company level, management will be spurred to improvements in the use of labour and higher productivity.

The National Minimum Wage can significantly reduce poverty for a large number of the South African poor. Trade unions can use it as an organising weapon amongst the unorganised, and as a "safety net" for unionised workers in vulnerable sectors of industry. Only a legislated National Minimum Wage can give minimum wage protection to all employed workers.

It is a powerful weapon of the trade union movement in the fight to end low pay. It will not only help all low paid workers - it will greatly strengthen the unions themselves.

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