

Bargaining Indicators 2014

Twenty Years - A Labour Perspective



LRS

LABOUR RESEARCH SERVICE

An Overview of the Living Wage and the National Minimum Wage in South Africa

By Eddie Cottle

INTRODUCTION

The demand for a living wage has been part of the labour movement for a long time and the earliest reference to a “living wage” was made by the radical writer, Lloyd Jones in 1874:¹

The first thing that those who manage trade societies should settle is a minimum which they should regard as a point below they should never go ... Such a one as will secure sufficiency of food, and some degree of personal and home comfort to the worker; not a miserable allowance to starve on, but living wages.

It was in 1924 in Britain that the Independent Labour Party took up the living wage demand as central to its programme of “Socialism in our time” and as the most important affiliate of the Labour Party it advocated that a future labour government should have as its main achievement a minimum living income for all. At this time the living wage was defined as a national minimum wage sufficient to meet all basic needs which is to be supplemented by social services including family allowances.²

As early as 1919, the Industrial and Commercial Workers’ Union (ICU) organised African workers to demand a living minimum wage of ten shillings and by 1928 the ICU called for a minimum wage of five pounds per month (plus food and housing) and negotiated with the wage boards established under the 1925 Wage Act to investigate and implement minimum wages. During the 1930s and 1940s various unions led struggles and negotiated with the wage boards to set minimum wages through wage determinations. By 1955, when the Freedom Charter was adopted by the Congress Alliance there was a clause calling for a national minimum wage and a 40 hour working week. In the same year the South African Congress of Trade Unions (SACTU) a non-racial trade union was formed and launched a pound a day campaign and in 1957 sent a memorandum to the South African Federation Chamber of Industries demanding a minimum wage of a pound a day for all so-called unskilled labour. In 1973 as a result of the higher costs of living over 100 000 workers participated in industrial strikes, mainly in Natal and workers won several increases in wages. By 1977 SACTU called for a national minimum wage of R50 per week for all workers and this was later increased to R75 a week in 1980. In 1979 the Food and Canning Workers’ Unions (FCWU), historic Fatti’s and Moni’s strike also demanded an increase of the minimum wage of R40 a week and the management’s refusal created strong community support for the striking workers. Again in 1980 it was the South African Allied Workers’ Union that called for a national minimum wage of R50 a week for all workers.³

It was in 1981 that the Federation of South African Trade Unions (FOSATU) became the first in the history of the South African labour movement to make a call for a national living wage of R2 per hour for all workers. Before this trade unions had put forward substantial increases but none were bold enough to put forward increases as affording a decent standard of living.

¹ Jack, A. Towards a “living wage”, Workers demands over 60 years. Labour Research Service, Cape Town. (undated)

² Ibid.

³ Ibid.

It was against the backdrop of greater worker strength and confidence that it was possible to launch a living wage campaign in 1981 which led directly to the Congress of South African Trade Unions' (COSATU) campaign of 1987. The labour movement at this time attempted to win the demand for a living wage not by government measures but in the streets.⁴

WHAT IS A LIVING WAGE?

In 1968 the International Labour Organisation (ILO) defined a living wage as the "amount necessary to meet the reasonable needs (or basic needs) of an unskilled labourer with a family of average size". The idea of a living wage remains a vague concept. It was in India where a tribunal drew a distinction between subsistence or minimum wages, fair wages and a living wage. These distinctions are important as the manner in which these concepts are used are sometimes overlapping and confusing. For employers, basic needs refer to a subsistence/minimum wage where workers and their families can physically reproduce themselves at a meagre standard. Workers find it difficult to live decently on their present wages because they cannot afford decent health care, education and recreational needs for their children. For trade unions, satisfying basic needs through a living wage is a much higher standard. A living wage would allow families to enjoy goods and services above the essentials and such needs would increase as the economy expanded through greater future productivity. The living wage is therefore often viewed as a long-term demand. The tribunal however viewed the position of a 'fair wage' as something achievable in the short-term in countries that were considered 'developing' countries and would be above subsistence and yet below a living wage.⁵

Economists have worked out subsistence measures which are not always accurate as they do not represent the actual living standards of workers. It is only workers who know and who can determine their living standards. But here is a list of measures these economists have put forward as a subsistence measure for an average family:⁶

1. To buy the minimum amount of the proper food which they need to stay healthy;
2. To buy enough clothes to keep them warm in the winter and cool in summer;
3. To buy fuel for cooking and soap for cleaning;
4. To pay rent for a proper home and
5. To pay the fares they need to travel to work or school.

These subsistence measures are not always accurate and can be subjectively interpreted as the needs of workers rather than workers determining their own needs. As we can see the items listed above as constituting subsistence or minimum wages are barely enough for workers and their families to reproduce themselves.

Now, in order to determine what a living wage is we should first define what basic needs are. In 1977 the ILO defined basic needs as including certain minimum elements for a family for private consumption, including adequate food, shelter and clothing as well household equipment and furniture. This also implies that essential services are provided such as safe water and sanitation, public healthcare, education and public transport. Making employment more humane and satisfying is also part of the basic needs concept and is universally applicable. Basic needs for health and nutrition can be set quite scientifically but for housing and education the fields can be quite subjective which also depend on climatic conditions.⁷

4 Young, RG. 1987. Introduction. The Living Wage Reader. Labour Research Service. Cape Town

5 International Labour Organisation, Wages: A workers educational manual, ILO Office: Geneva, 1982, p16-18

6 Jack, A. 1987. History of wage demands in South Africa. The Living Wage Reader. Labour Research Service. Cape Town, p9.

7 International Labour Organisation, Employment, Growth and basic needs, ILO Office: Geneva, 1977, p32-34

Investigations can be conducted to tabulate the quantities of food required for a healthy family of young and old and even in terms of those who do more manual and light manual and desk work. The foods normally consumed can be analysed and quantified in terms of bread, milk, fruit, and meat and so on for adequate health and energy for work. The total costs can thus be tabulated when one purchases the quantities of food at the supermarket and determines the amount workers and their families need to have available to spend on food. We then add costs for clothing, housing, furniture and other necessities to determine what constitutes a living wage.⁸

There are numerous difficulties in measuring a living wage. The notion of a “shopping basket” would be the subject of endless controversy as to which items constitute luxury items as the subjective issue of taste would naturally arise. Secondly, the costing of such a list would be difficult in practice as wages rise to a living wage, prices for goods would also rise due to increased demand thus raising the level of the living wage. Also, where do we cost the “shopping basket”? Is it at hypermarkets or corner shops? Thirdly, the living wage would also be an average for some families and too much for smaller families.

If the living wage is not set scientifically it would come under attack from capital and government as being arbitrary and hence not credible. It is for this reason that Labour Research Service (LRS) developed a living wage model in 1987 based on housing costs called a housing-based living wage.

HOUSING BASED LIVING WAGE

According to LRS a housing-based living wage is premised on important assumptions, namely:

1. That housing is the largest item for expenditure in household income and
2. That a living wage can be derived from the monthly cost of housing if this is set at a particular percentage of total income.

In 1982 the Council for Scientific and Industrial Research (CSIR) defined an acceptable low-cost house as having 55m² with three living rooms with a separate kitchen and bathroom; with electricity and water-borne sanitation. These houses also had ceilings and the floor finishes should be relatively maintenance free.⁹ At this time such a house would cost around R25, 000. LRS at the time opted to utilise the figure (often disputed) used by building societies and the department of community development that housing or rental should not be more than 25% of a worker’s income. LRS then determined that the cost of a bond repayment of 25% would be R285 per month and thus a living wage should thus be R1, 140 (R285x4). The housing based living wage is also directly linked to interest rate increases related to bonds and rentals and thus raising the level of the living wage estimate.

The Development Action Group (DAG) reports that in 2011 about 90% of South Africa’s population cannot afford a house of more than R190, 000 and that 79% of all households fall into the fully subsidised housing market (households with an income of less than R3, 500 per month). Furthermore, about 70% of South Africans earn less than R2, 500 per month.

The Socio-Economic Rights Institute of South Africa (SERI) uses the figure of 30% of income for housing and rental as property values and expenditure of households have changed. The cheapest rental for social housing in Johannesburg was found to be only a one bedroom unit at R1, 036 per month and a two roomed unit at around R2800-R5500 per month.¹⁰

⁸ International Labour Organisation, Wages: A workers educational manual, ILO Office: Geneva, 1982, p18-23

⁹ The RDP set the size of social housing at 36-40 square meters.

¹⁰ Socio-Economic Rights Institute of South Africa, 2013. Minding the Gap: An Analysis of the Supply of and demand for Low-Income Rental Accommodation in Inner City Johannesburg.

An affordable housing project in the northwest of Johannesburg, financed by First National Bank have two-and three-bedrooms, ranging from 40m² to 55m² in size and costing between R170, 000 and R250, 000.¹¹ However, using the FNB bond calculator the monthly bond costing of R170, 000 is R1, 666 or 30% of the minimum gross salary of R 5, 553 per month is required. A bond of R250, 000 is R 2,342 per month or 30% of a minimum gross salary of R7, 996.24 is required.¹²

Thus if we take a 55m² house that costs around R250, 000 as a more acceptable standard for South Africa's social and cultural needs then a *housing based living wage is rounded off as R8,000 per month in 2014*. The housing based living wage should however be reviewed annually taking into account inflationary pressures.

We have thus now set a more scientific basis for calculating a living wage, based on how banks calculate housing bonds using 30% as a reasonable measure of total income. But the housing based living wage of R8, 000 is merely a minimum and should not be misconstrued for a maximum setting of a living wage. Workers in sectors or industries that are highly productive may fix their own living wage depending on their own needs.

A housing based living wage is but one scientific measure of a living wage and others are socially determined and are set by the working class in struggle. We take here the example of the recent five month-long strike of platinum mineworkers led by Association of Mineworkers and Construction Union (AMCU) now the longest in the history of South Africa's mines. The 70 000 workers were demanding a living wage, and ultimately won their demand for a living wage of R12, 500 per month.¹³

Similarly, in the Western Cape 2012 - 2013 Farmworkers' strike where workers demanded an increase of the minimum wage (not to be confused with a national minimum wage) from R65 to R150 per day and which was accompanied by considerable police violence, was also settled in struggle. The new minimum wage became R105 per day or R2, 275 per month, a 62% increase.¹⁴

Thus, the more scientific calculation as per the LRS housing based living wage is R8,000 which is 64% of the living wage value of the R12,500 set by the mine workers themselves. Furthermore the R2, 275 minimum wage for farmworkers is only 28% of the housing-based living wage. Different minimum and living wages can thus be set by workers in different economic sectors and even within the same sector depending on the organised strength of the workers and their trade unions. The importance here is the centrality of workers defining their own requirements of what they need to live on.

11 See, <http://mg.co.za/article/2013-11-15-00-homeowners-unlock-new-wealth-in-affordable-housing> and <http://mg.co.za/article/2013-08-02-where-the-heart-is-south-africas-post-apartheid-housing-failure> (accessed 18 October 2014)

12 See, <https://www.fnb.co.za/calculators/homeloan/BondCalculator.html> (accessed 18 October 2014)

13 Stoddard, E. 2014. South Africa miners return to work after longest platinum strike. Reuters. <http://www.reuters.com/article/2014/06/25/us-safrica-mining-idUSKBN0F00DC20140625> (accessed 18 October 2014).

14 Staff writer. 2013. Minister reveals new minimum wage for farm workers. Balive. 4 February. <http://www.balive.co.za/national/labour/2013/02/04/minister-reveals-new-minimum-wage-for-farm-workers>

THE DISTINCTION BETWEEN A NATIONAL MINIMUM WAGE AND A LIVING WAGE

The National Minimum Wage (NMW) and the Living Wage (LW) have both found their place as demands in the struggle against socio-economic inequality and exploitation in South African history and sometimes they have come to be used interchangeably or confused with each other. These are distinct concepts which have complimentary uses in the campaigns of trade unions. At the outset the distinction between minimum wages (MW) and the NMW has to be made. The ILO defines a MW as,¹⁵

Minimum wage may be understood to mean the minimum sum payable to a worker for work performed or services rendered, within a given period, whether calculated on the basis of time or output, which may not be reduced either by individual or collective agreement, which is guaranteed by law and which may be fixed in such a way as to cover the minimum needs of the worker and his or her family, in the light of national economic and social conditions.

First we can deduce that not all agreements on minimum wages are official MW unless they are enshrined in law and legally enforceable.¹⁶ Secondly, a minimum wage should be able to “to cover the minimum needs of the worker and his or her family”. Thirdly the minimum wage concept has been used differently in many countries but all referring to minimum needs of workers and their families. Thus, in several countries during the 1960s legislation refers to the minimum wage as a;¹⁷

“minimum living wage” (Argentina), a “basic minimum wage” (Botswana), a “basic wage” (Gambia), a “minimum regulatory remuneration” (Myanmar), or “guaranteed personal income” (Yugoslavia). Other designations refer to the social aspect of the minimum wage; this is the case of the “minimum income” (Chile), and the “minimum social wage” (Luxembourg). Or the designation may even refer to the objective of extending participation in the benefits of economic growth, as in the “minimum growth wage” (France).

Thus when COSATU, at its Inaugural Congress in 1985, called for “a legally enforced national minimum living wage” the federation was calling for a NMW. Fourthly, a MW is applicable to selective sectors/ industries or a combination of the two on a national basis and regional basis. This means that not all sectors, industries or regions need to be included. The most extensive official minimum wage setting in South Africa are sectoral determinations covering nine economic sectors/ industries. On the other hand a NMW is a wage that is fixed by law across all sectors and industries on a national level.¹⁸ There are several countries where all workers are covered on a national level and in other countries, certain categories of workers are exempted completely or a different wage rate is fixed for them. Since all workers and employers would more readily know what the NMW is, the more difficult it would be for non-compliance.¹⁹

15 ILO. 1992. Minimum wages: wage-fixing machinery, application and supervision, Report III (Part 4B), International Labour Conference, 79th Session, Geneva, 1992.

16 South Africa (Republic). 1983. Report on the Principle and application of a National Minimum Wage with Specific Reference to the Republic of South Africa. National Manpower Commission. Department of Manpower. South Africa. P3

17 ILO. 1992. Minimum wages: wage-fixing machinery, application and supervision, Report III (Part 4B), p11-12

18 South Africa (Republic). 1983. Report on the Principle and application of a National Minimum Wage with Specific Reference to the Republic of South Africa. P4

19 Young, G. 1991. The National Minimum Wage or How to fight low wages in South Africa. Labour Research Service. P17

The long standing call by the labour movement including the African National Congress (ANC) for a NMW had been rooted in the deep levels of exploitation of black people and the dependence of white capital on a low wage capitalist system. The motivation for a NMW or subsistence wage is therefore a campaign tool against poverty in addressing the needs of the most atomised, weakest sections of the workers who are at the lowest end of the income chain and find themselves battling with poverty – hence the term poverty wages. The NMW is thus a basic minimum needed to sustain the life of a working class household and is thus an important instrument to fight against poverty wages and to ensure that all the poor are reached. The NMW is just one of those measures.²⁰ Others are social welfare provisions.

Approximately 46% (23 million) of South Africans are living in poverty – when applying the upper-bound poverty line (R620 per capita per month).²¹ This translates into an average household income of R2, 108 i.e. R620 multiplied by the average household size of 3.4 people. In 2013 Statistics South Africa reported that the monthly median earnings in South Africa was R3, 300 per month.²²

The NMW must therefore be national so that it is able to assist the lowest paid 10% to 30% of the workforce who are currently earning around R2, 000 per month regardless of the economic sector or industry.

The issue of an appropriate scientific fixing of a NMW is quite different to that of fixing the LW and is fraught with methodological difficulties.

In many countries the NMW is set using the figure of the 35 - 45% of the national average wage or 40 - 60% of the median wage. According to Statistics South Africa, Quarterly Employment Statistics (QES), the average monthly income for the formal non-agricultural sector was R14, 731 in February 2014. In South Africa, the average minimum wage based on the average wage level would therefore be somewhere between R5, 156 and R6, 629. If the minimum wage would be based as 50 - 60% of the median wage of R3, 300, it would result in a wage of R1, 650 - R1, 980. Clearly, using the median wage in a low wage economy would leave workers in the poverty trap.

Another suggestion could be to set the NMW in relation to the current minimum wages using the Labour Research Service's Actual Wage Rates Database (AWARD). In 2013, 523 collective agreements including the sectoral determinations were processed. For bargaining councils, the real average minimum wage in 2013 was R3, 460 per month and for sectoral determinations the average minimum wage was R2, 100 per month. The NMW could therefore be set as an average of the R6, 629, R3, 460 and R2, 100 = R4, 063 per month or half of the housing based living wage. The NMW should not be set too high so that it is confused with a living wage.

The Brazilian model of a NMW which is supported by COSATU is currently fixed at R\$724 or R3, 265 per month, which is similar to the South African low median wage of R3, 300. However, in February 2009, the Brazilian minimum wage was R\$ 465 or R1, 883, almost twice what it was in February 2002, when it stood at R\$ 264 or R1, 069 per month.²³ Despite the fact that cost

20 Ibid. P2

21 South Africa (Republic). 2014. Poverty Trends in South Africa. Statistics South Africa. <http://beta2.statssa.gov.za/?p=2591> (accessed 21 October 2014)

22 South Africa (Republic). 2013. Labour Market Dynamics in South Africa. Statistics South Africa. Pretoria.

23 Berg, J. 2009. Notes on the Crisis. ILO. Geneva. http://www.ilo.org/wcmsp5/groups/public/---americas/---ro-lima/documents/article/wcms_limd3_11_en.pdf

of consumer prices is 20% higher in Brazil than in South Africa the fixing of the NMW helped reduce the Gini-index from 0.56 in 2000 to 0.52 in 2012. Unemployment also came down from 12% in 2003 to 6% in 2010.²⁴

According to Gordon Young, the then director of LRS in a letter advising COSATU's Living Wage Committee on a NMW in 1990;²⁵

The National Living Wage should be set at a level which every union and every sector will find useful in its wage campaigns. Unions will use it differently, however. In high-wage industries, unions will use the National Minimum Wage as a floor or safety net to wages; in low-wage industries, unions will use it as a goal.

At the current moment Bargaining Councils only cover about 2.4 million workers, and Sectoral Determinations about 3.5 million, accounting for 5.9 million of the approximately 10.2 million formal sector workers. Thus about 4.3 million workers are not covered. The biggest advantage of setting a NMW is the ease of enforcement covering all workers regardless of whether they are covered in some form of collective bargaining agreement or sectoral determination.

Currently COSATU has opted for a "two-tier solution". In some countries it means that certain age-groups, often young people, are excluded from the agreement. In the South African case it has rather been discussed to exclude domestic and farmworkers in order to raise the minimum wages for other sectors (COSATU, 2013). An alternative, for example, to ensure that there are not the extensive evictions of farmworkers from farms as a response to the setting on a NMW is to equalise farmworkers' wages using those farms where the best wages have been set. Whatever is decided, the victory will not come from government measures but from a decisive campaigning to challenge poverty wages in South Africa.

WHERE TO WITH THE LIVING WAGE CAMPAIGN?

It was at the 1985 launch of COSATU that a resolution was passed for "a legally enforced national minimum living wage". Three years after its formal launch in 1987 the Living Wage Campaign (LWC) slipped to the back of most unions' agendas. COSATU's third National Congress held in 1989 did not even mention a living wage and failed to even mention or review its capacity in building campaign structures. Furthermore, affiliates did not have a clear conception of where the campaign was going.²⁶

In 2002 the living wage received dedicated attention from the COSATU CEC, the 9th National Congress in September 2006, the National Congress held in September 2009²⁷ and the National Congress in September 2012 but did not find a practical expression at a federation level or that of the affiliates. Indeed, it appears that the notion of a living wage has given way completely to a National Minimum Wage. Even in the more recent COSATU Collective Bargaining, Organising and Campaigns Conference Declaration of 15 March 2013 there is no mention of campaigning for a Living Wage. Indeed, as it did in 1985 it has called for a "legislated National Minimum Wage" but until today, the only resemblance of a campaign is the anti e-tolls campaign centred in Johannesburg. It has been 27 and 29 years respectively since COSATU has called for a "legislated National Minimum Wage" and a "Living Wage".

24 Coleman, N. A National Minimum Wage for South Africa. PowerPoint presentation for the 27th Annual Labour Law Conference. 5-7 August 2014. http://www.cosatu.org.za/docs/misc/2014/neilcoleman_llcnmw.pdf (accessed 21 October 2014)

25 Young, G. 1990. Letter to COSATU Living Wage Committee. Labour Research Service, p1. This paper was initially drafted at the request of the ANC's department of Economics.

26 Roux, R. 1990. Reviving the living wage campaign: but what about the minimum wage. South African Labour Bulletin. Vol. 14, No.7. p14

27 Naledi. 2011. Towards a COSATU Living Wage Conference: A NALEDI Research Report. June. Johannesburg.

The most important challenge for the labour movement is to build an effective campaign which seeks to:

Unite workers across the country with a single common demand for both a NMW and a LW and mobilise both workers in lower wage sectors and industries and higher wage sector and industries in a common struggle. To use the NMW as a stepping stone to a living wage as is commonly held is to ignore the fact that workers in higher paid industries will only use “the National Minimum Wage as a floor or safety net to wages; [and] in low-wage industries, unions will use it as a goal”.



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