Public Servants Association

Wages, Income Trends and Collective Bargaining

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Several labour market analysts and organised business representatives argue that wages in South Africa's labour market are too high. These policy actors attribute the country's low growth, weak investment, and inequality to rigid labour markets. This view proposes lowering wages and accelerating labour market flexibility as essential solutions for attaining higher economic growth and investment levels. It informs recent proposals, even before the Covid-19 crisis, to cut the public wage bill and introduce economy-wide flexibility in labour markets. The ongoing wage debates, in both public and private sectors must be pursued within this broader macro-economic policy context.[1] Debates on employee wages cannot be reduced to company level income flows or shop floor issues. Collective bargaining negotiators representing employers always use data or trends from the macro-economic policy environment when substantiating their proposals. It is, therefore, important for trade union representatives to understand the relationship between labour market trends (especially wages) and macro-economic policy debates. This strategy will definitely improve collective bargaining capacity and negotiating power.

Trade union wage negotiating capacity also requires fact checking and presenting credible evidence to refute employers' claims. The primary claim that needs to be challenged is the share of wages in the national income. The Department of Planning, Monitoring and Evaluation's (DPME) 25-Year Review details the decrease of wages in the national income since 1994. It points out that 'the share of wages in the national income declined from 55% in 1994 to 52% in 2012'.[2] This trend is highlighted in recent studies, which emphasize how the labour share in the economy continues to fall, and is low when compared with other middle income countries. The decline in employees' share explains the country's persistent income and wealth inequality. According to the World Bank, South Africa's wealth Gini-coefficient (a global measure for inequality) stood at 0.81 in 2018 and the country's income inequality is 0.63. It is evident that declining wages accelerate both income and wealth inequalities in society. Trade union leaders and organisers are advised to highlight this link when deliberating on wage trends in post-apartheid labour markets.

Another significant strategy is disaggregation in analysing wage and household income trends. This is important for distinguishing between low, middle, and high-income earners in South Africa's labour market. Furthermore, the Employment Equity Act includes provisions for employers to report on wage differences within companies. Section 27 of this legislation encourages stakeholders to set out strategies for

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[1] Institute for Economic Justice (IEJ). 2020. The 2020 austerity budget: politically reckless, economically illogical.

[2] The Department of Planning, Monitoring and Evaluation (DPME). Towards a Twenty-Five Year Review (1994-2019)

decreasing wage inequalities in workplaces. South Africa's national median wage rate reached R 3640 per month by the end of 2017, with the African figure standing at R3120 and the white employee median R11 441.[3] The legislated minimum wage figure of R20.76 per hour of is derived from these studies on wage trends. This rate is still significantly lower than the ILO recommendation of a minimum living level of 4500 a month in South Africa.

It is important to differentiate between this median income and the economy-wide average wage figure because it includes high earners i.e. executive payrolls. The median wage calculation is widely regarded as more accurate or neutral because it is not shifted by extreme pay gaps at either end of the pay scale. The widening wage gap is seen in studies on executive pay and pay ratio trends in post-apartheid South Africa. Francis' study on wage inequality in the post-apartheid labour market is very revealing. He found that wage differentials, in both private and public sectors between executives and the average employee pay scale, were significant.

But the public sector difference ratio was lower, with Transnet having the highest gap with a 21:1 ratio. This basically means that the Transnet CEO, according to 2017/18 financial year figures, earned twenty-one times the average salary of the employee in the public enterprise. The figure is minimal when compared with the Johannesburg Stock Exchange listed companies' data sets, which show how 'the ratio of a company's average CEO compensation to the average wage is 73: 1.' [4]There are outliers such as Shoprite Checkers, Naspers and Steinhoff which exceed a 200: 1 pay ratio. In summary, South Africa has a twofold wage problem: employees earning insufficient income and significant pay gaps between the executive and average employee pay scales.

The proposals to cut wages or employment in both private and public sectors must be debated within the trends described above. This includes the recent proposal to decrease the public wage bill by R160 billion. Treasury's proposition is flawed because it does not disaggregate wage trends in the public sector. It also ignores evidence from the World Bank (cited in a 2015 study) which illustrates that the country's public sector is small when compared with other middle-income countries. Another shortcoming in this approach is the failure to acknowledge the prevalence of outsourcing. Many low skilled jobs in the public sector have been outsourced to private service providers. This even applies to the public work programmes that are implemented through third party implementing agencies. The proposal also overlooks the vacant posts which constrain service delivery capacity within the state at different levels of governance. The National Treasury will table a revised budget soon, which considers the socio-economic impact of Covid-19. Trade union officials should study the budget allocation carefully, so they can test the wage bill proposal against the macro-economic fiscal indicators.

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[3] Isaacs, G. 2017. 'A National Minimum Wage for South Africa: Summary Report 1' National Minimum Wage Research Initiative.

[4] Francis. 2017. Tackling wage inequality in South Africa: Pay ratios and capping pay

The following recommendations are essential for approaching wage debates in South Africa's post-apartheid labour markets. First, trade union negotiators need to improve their knowledge of macro-economic policy trends. This will create more leverage in negotiations on sector wages, as employers always refer to external macro-economic environment trends. Second, disaggregation is important in wage debates because it reveals systemic pay gaps and allows trade unions to use section 27 of the Employment Equity Act more effectively. Third, South Africa has two-tiered wage problem: insufficient income and high wage differentials. The national minimum wage attempts to address the former, but it is not a comprehensive national income policy. It merely sets a nationally legislated floor for minimum pay in specific sectors. South Africa needs an economy-wide income policy aimed at reducing pay ratios in both private and public sectors.