BEYOND TECHNICISM IN THE NATIONAL MINIMUM WAGE DEBATE

*Joel Netshitenzhe**

Complex issues have been put on the table in the gold mining wage negotiations. Employers call for a compact that includes a pay increase, job retention, accommodation, wellness, skills development, retirement savings and debt management. There have also been hints at profit-sharing and employee share ownership so as to ‘share the pain and the gain’ in the ebbs and flows of the commodity cycle. However, this has been rejected by the major unions. The gains were not shared during the ‘fat years’, they argue, and workers deserve their pound of flesh

There is a long road ahead. Along with this are looming layoffs and concerns about the disastrous effect of another prolonged strike on the economy.

Assessment of the pros and cons of either side’s arguments belongs in the negotiation chambers. However, these matters do relate to the broader debate at the National Economic Development and Labour Council (NEDLAC) on the advisability or otherwise of a national minimum wage, the level at which it should be set and the question whether money-metric measures and cash wages in particular should be the sole focus in dealing with income poverty.

In their paper published on the Econ3x3 web forum, Frederick Fourie and Pippa Green summarise the three main approaches to the debate on a national minimum wage as follows:

Some economists express concern about the negative employment effects of too high a national minimum wage. Arising from this, Jeremy Seekings and Nicole Nattrass propose a differentiated system of minimum wages which, though at a somewhat higher threshold, would effectively retain the status quo.

Others, such as Gilad Isaacs and Ben Fine reject the argument that wages are the key factor in determining employment levels. Required, rather, is a high minimum wage that is combined with structural reforms that promote investment, output growth, efficient production techniques and better enterprise management.

A variant of the above is the argument put forward by Neil Coleman of COSATU, which borrows from the success of Brazil in the past decade in reducing income inequality at the same time as employment opportunities were expanded. This was possible because Brazil combined the introduction of a minimum wage with an industrial policy that took advantage of growing consumer demand as well as an expanded social grants system.

Fourie and Green try to identify a possible synthesis: firstly, that the negative impact of too high a minimum wage cannot be ignored, whether it shows up in the form of job losses, noncompliance or shorter working hours. Secondly, the argument that a rising floor of minim wages should be combined with economy-wide structural reforms is a logical one. Thirdly, a national minimum wage would need to be phased in over time, starting with a variegated approach and with appropriate sequencing of the policy actions.

And so, proceeding from this kind of consensus, technicians can calculate the actual figures, informed by the minimum living level or upper-bound poverty line, which takes into account broader needs of households. Such calculations would also have to take into account the dependency ratio (the number of people who rely on a single employed individual) ultimately to determine the magic number – which COSATU estimates to be about R4 500 per month.

But is the actual challenge this neat and simple? Won't the negotiations in NEDLAC lead us to a technical solution that misses critical dynamics? Shall we not end up, years down the line, with another cycle of recriminations?

In other words, the work of calculating appropriate figures can continue, but this should not substitute for reflections that grasp the nettle of a philosophical challenge. Simply put, that challenge is: what is the most critical thing to do in a specific phase of economic development and macrosocial crisis, and how should country-specific realities be factored in!

For instance, the size of Brazil's consumer market and the favourable global environment in the 2000s afforded it a unique opportunity to pursue the strategy that reduced income inequality. The question now comes out in bold relief whether under different circumstances, as now, that approach can be sustained for long.

China and most of East Asia, in the early years of their industrialisation, had a single-minded focus on mass absorption into economic activity, often at the expense of worker rights. Over time, there was a gradual rise in sophistication, with wages and complexity of manufacturing ramping up.

Germany has over the past decade been envied as a 'jobwunder' with low unemployment rates. This was in part a result of expanded youth training programmes combined with labour market flexibility introduced after reunification. Given that this resulted in the country having the highest ratio of low-wage workers in relation to median income in Western Europe, it was unavoidable that a national minimum wage would be introduced as happened after the 2013 elections.

What is South Africa's approach to these strategic questions, and what are some of our country-specifics? The issue of market size can perhaps be addressed through the implementation of the strategy for integration in sub-Saharan Africa. It may as well be that the youth employment incentive and addressing entry wages may allow for mass absorption at the lower end.

But the primary bind in South Africa resides at a different level, deep in the recesses of uncomfortable truths. This is about the existence of two economies, where, cheek by jowl, an advanced economy affords a section of workers decent work, while swathes of poor workers and the unemployed live a desperate existence. This is the colonial inheritance that we should acknowledge and plan around.

The East Asian approach of a phase of mass absorption cannot be applied holus bolus in South Africa. This would simply mean reducing the rights already enjoyed by workers in sections of the economy. On the other hand, decent work for everyone all at once is not attainable.

Therefore, in the immediate, South Africa has to devise an approach that combines mass absorption and sector-based minimum wages; at the same time as it protects and enhances the decent work already enjoyed by a section of its working class. One effect of such a nuanced approach would be to reduce the dependency ratio and enhance collective household income. Over time, and as a deliberate act of policy, there would be convergence.

Another element of our colonial inheritance that increases pressure on cash wages is the urban sprawl in which the poor stay far away from areas of economic activity. While, in the medium- to long-term, this can be addressed through new spatial arrangements, the state and the private sector can surely, in the immediate, find creative ways of massively reducing the cost of transport for workers which whittles away up to 40% of disposable income and which effectively is a form of apartheid tax?

While it is a matter of common sense that a minimum wage would have to be pegged to inflation, this issue also needs to be addressed at a structural level. As various pieces of research have demonstrated, South Africa's product market reflects inordinately high mark-ups above cost. A comprehensive strategy to address this challenge would also help reduce pressure on cash wages.

One of the motivations behind a national minimum wage is the need to reduce income inequality. As such, a comprehensive approach should include properly structured and managed employee share-ownership schemes and profit-sharing.

In other words, a narrow focus on the quantum of a minimum wage may not be entirely helpful in addressing the challenge of income poverty and inequality. It may douse the fires of dissatisfaction for a while. But if it is not combined with measures that alleviate workers' cost of living, reduce the dependency ratio, visibly narrow the wage gap at enterprise level and engender genuine inclusivity by sharing the gain and the pain, it will not result in sustainable social stability. New pressures and periodic flare-ups will be a permanent certainty; aggravated by the race-based colonial inheritance.

Some theorists used to characterise South Africa's pre-1994 system as racial capitalism, and thus argued that national oppression could not be eliminated without ripping the capitalist system asunder. Twenty-one years on, we dare pose the question whether non-racial capitalism is attainable! Put differently, what are the injections of humanity required to make the system benefit all of society?

To come back to negotiations in the gold mining sector: after the dust has settled on current wage negotiations, unions will need seriously to reflect on employers' comprehensive proposals beyond cash wages. For, contained within this is the possibility of a sectoral pact that can enrich efforts at national social compacting.

With regard to the broader political economy, a combination of measures (both economic and social) is required to ensure a decent quality of life for all. A phased approach to a 'living' national minimum wage would constitute part of the package. But, beyond a technicist approach, special attention should be paid to specifics of our colonial inheritance, particularly the many factors that place inordinate pressure on cash wages.

Joel Netshitenzhe is Executive Director of the Mapungubwe Institute (MISTRA): www.mistra.org.za.