Real wages and collective bargaining in SA

Real wages are not easy to define, but are sometimes linked to the Consumer Price Index (CPI). However, in the case of South Africa and because of apartheid, real wages should be linked to social protection, social benefits and the social wage, writes **Trenton Elsley**.

COLLECTIVE BARGAINING

Let us run the risk of generalising and say that collective bargaining in South Africa is sometimes described as horse-trading. Wage bargaining is the area where the most energy is expended in negotiations. Employers will come to the table with sub-inflation offers, while unions will arrive with wage demands that tend to be well above prevailing inflation rates. Both sides give themselves room to move in the bargaining process.

This would appear to be one of the dominant principles of bargaining in South Africa. Neither side wishes to give the appearance that it is unwilling to make concessions during the bargaining process. Each side will revise their position gradually on the way to a settlement. Neither side realistically expects to settle very close to their starting positions, although unions tend to make larger movements than employers during negotiations.

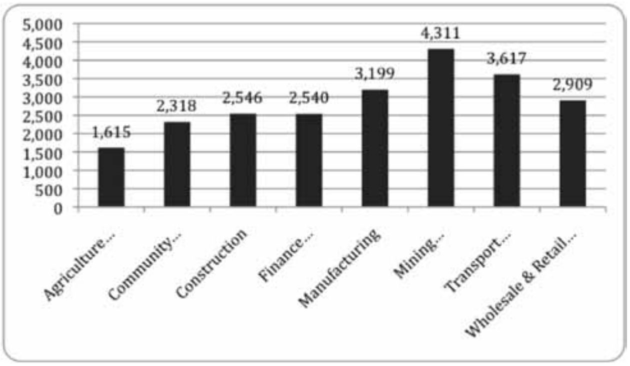
The other dominant principle in collective bargaining is inflation benchmarking. Wage settlements tend to track inflation. However, since inflation data are backward looking, telling us what happened to prices over the last 12 months, and wage bargaining is effectively forward looking, setting wages for the coming period, the two will sometimes appear out of sync. This is especially true if inflation increases or decreases rapidly as was the case around 2004 and 2008.

WAGES

Percentages are useful in allowing us to compare things that are different. But let us beware *the tyranny of percentages*. We can talk about a 10% wage increase, but we should remember that 10% of R1,000 and 10% of R10,000 are very different values, in fact they are R900 apart. We should always remind ourselves of the actual numbers which are sometimes hidden by percentage talk.

Figure 1 provides a sense of minimum or low wage work by sector in 2011. A lack of consensus on what constitutes a living wage is perhaps one of the reasons why there are no estimates of where a living wage would be situated in money terms. Even so, past studies suggest that few of the levels shown here would meet such a threshold, even if it were set at a level representing the basic material needs of the average household.

Figure 1: Average wages for minimum wage work by industry, 2011



Source: LRS Wage Rates Database (AWARD). The AWARD data is drawn from about 600 collective agreements in the formal economy, including bargaining council agreements and sectoral determinations. All wages have an equal weight, so it is fair to say that the unweighted estimates here may overstate the aggregate low wage level.

Entry-level minimums are one of the areas being contested by employers in the current economic climate and we are increasingly seeing employer demands to lower these minimums in the name of job creation. This is a highly undesirable outcome, which further reduces wage levels that are very low in the first place. It also widens the wage gap between workers entering employment and workers already in employment.

One example is provided by the clothing workers union, the Southern African Clothing and Textile Workers Union (Sactwu), which has entered into an agreement with employers. In this agreement there are clear counter demands to minimum wage concessions (i.e. how many jobs do employers commit to creating and in what time period) and consequences in the event that employers do not meet these targets.

While the agreement is open to criticism, such debate should be welcomed. There is further context in that few unions in South Africa have seen their industry devastated by globalisation in the way that the clothing industry has, and so it is not surprising that we might see experimentation in this industry. Where this agreement is commendable is that it goes further than many others. It stipulates clear and time-framed targets for job creation in return for entry-level wage concessions. This is not an agreement based on a kiss and a promise.

WAGES AND PRICES

Figure 2 illustrates how out of sync wage increases and inflation rates can appear. This graph tracks the increase in average minimum wages against average CPI between 1998 and 2011. Wage settlements are sometimes above and sometimes below the inflation line. But if you consider that the bargaining parties can only look back at the previous settlement in relation to inflation, then there is an emerging pattern of wage settlements reacting to past settlements and inflation levels. The global financial crisis is likely to have interfered with union efforts to reverse the losses of 2007/2008, although settlements appear to begin to outstrip inflation in 2011.

Figure 2: Minimum wage increases and inflation, 1998-2011

Source: Statistics South Africa and LRS Wage Rates Database (AWARD).

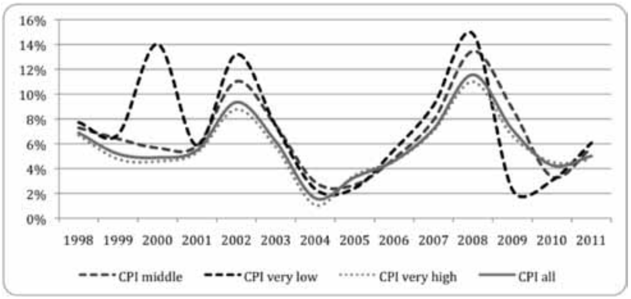
Figure 3 introduces new characters in the story of real wages. While the most commonly used measure of inflation is average CPI, *there is more than one inflation rate*. In fact, there is an inflation rate for each of five expenditure groups or quintiles. Households are split into five equal sized groups depending on their ability to consume goods and services, or according to how much money they are able to spend.

The reason Statistics South Africa does this is that households spend differently depending on how much they have to spend. For example, poor households will spend a far greater percentage of all their income on food than will rich households. This means that if food prices rise significantly, it is the poorer household who will be most affected.

Figure 3 below shows that the poorest households experienced the highest rate of inflation between 1998 and 2011. The difference between inflation for the poorest households and average inflation is sometimes very significant. The graph shows that average inflation is closer to the inflation rate for the very high expenditure group than any other group.

The middle expenditure group (quintile 3) is arguably the best representation of the inflation rate faced by the households with an average minimum wage earner. The inflation rate for the middle expenditure group has tended to be higher than average inflation and also tended to go higher at its peaks than does average inflation, although not as high as inflation for the poorest households.

Figure 3: CPI by expenditure quintiles



Source: Statistics South Africa.

WAGES, PRICES AND PROFITS

Of course low wage work receives the most attention when it comes to assessments of whether or not wages are too high or too low in South Africa. This is probably a function of their visibility. Trade unions in South Africa have historically organised lower wage workers and are the most visible form of resistance to the distribution of wealth away from the working class.

One of few studies to break up earnings by Rulof Burger and Derek Yu suggests that, '… the earnings of unskilled and semi-skilled workers were slightly lower in 2005 than they were in 1995, whereas skilled earnings increased substantially over the same period.' Other work by the Organisation for Economic Cooperation and Development suggests that real wage increases (for all employees including high wage earners) have accelerated in the last few years and that real wages in South Africa have increased at 2% per annum on average between 1995 and 2009.

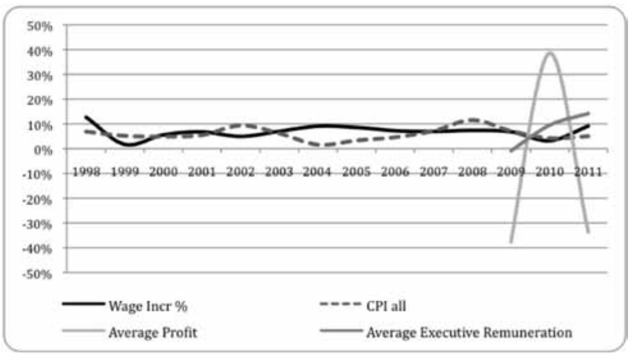
Bear in mind that where wages increase to track inflation, workers would experience an unchanged standard of living in that they would not be able to purchase anything more than they did previously. The only thing they could do is switch expenditure between different goods and services. It is impossible to justify such a policy in the face of an apartheid legacy of systematic socio-economic marginalisation impacting on education, employment, wages and geographical location.

So while the low wage worker earning less than R200 a month is asked to tighten his or her belt beyond the point at which there is a notch to fasten it, there is little mainstream talk of what is happening to the wages and remuneration of the administrative, managerial and executive classes.

The next figure draws executive remuneration and company performance into the conversation and the data is drawn for the LRS Company Database (MaNiaC). It covers on average 68 companies listed on the JSE for the period 2009 to 2011, which is the only data we have. It is the same graph of wages and inflation which we introduced earlier, but now someone appears to have scribbled a capital A on the end of it.

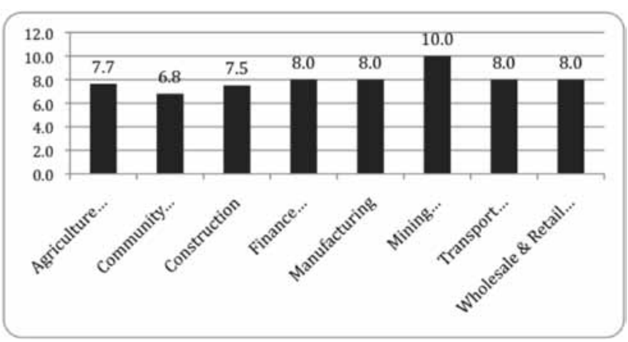
We see net profit before tax fluctuate wildly between 2009 and 2011. We see average remuneration to executive directors' increase steadily to 14.21% in the 2011 financial year. The data for executive remuneration excludes long-term incentives like share options, which can be much larger values than annual salary, bonuses or remuneration.

Figure 4: Minimum wage increases and inflation 1998-2011 with net profit before tax and average executive remuneration 2009-2011



Wage settlements across industries tend to cluster in a fairly narrow range. So it raises the question of why so much time and energy is spent on wage bargaining when the outcome is so predictable. Wage bargaining is symbolic of the struggle to represent the interests of workers. It is also the most readily understood aspect of collective bargaining and translates into cash in hand.

Figure 5: Median settlement levels by industry in 2011



Source: LRS Wage Rates Database (AWARD)

The stress put on wage bargaining is perhaps also a sign of the weaknesses of both employers and trade unions. There are often severe information and skill differences between union and employer negotiators, and they tend to favour employers. Both parties come to the table with narrow agendas and do not always have a fully developed strategic framework for collective bargaining. In this sense, wage bargaining is something of a comfort zone.

There is an argument for making *automatic cost of living adjustments* to wages and to reserve collective bargaining for additional settlements that might open space for tackling a broader range of issues as they relate to the workplace. Part of the challenge here is to popularise debate and negotiation on other important issues such as productivity, social benefits and women in the workplace and in society.

MAKING THE LINKS

We should not allow a narrowing of any debate about economic efficiency to the lowering of wage costs only. Questions need to be asked about executive remuneration, management fees, productivity and investment. In short, does the company have a real plan to grow employment or is its strategy limited to depressing the wages and conditions of workers? The call for a social pact in South Africa rings hollow until these kinds of issues along with social protection, social benefits and the social wage broadly speaking are mainstreamed. Education remains a fundamental challenge, it is a long term one and politically unattractive. The fact is that the basic social footing to support development remains profoundly unsteady.

There are also structural questions. The magnitude of economic growth required to push the economy towards anything like full employment were unlikely even before the global crisis and the results under conditions of modest, but sustained, growth were hardly breath-taking.

The fact is that attacks on unions, workers, minimum wages and conditions of employment will continue, be it in the form of public speeches, labour broking or more diluted policy interventions like wage subsidies to employers. The challenge for unions and for workers is to tackle the issue which underlies the threats which they face and this challenge is primarily one of organisation. The challenge is to rethink about the workplace and include all those workers who have been pushed out or who have been structured into an impoverished peripheral workforce.

The work of the union is to make linkages visible between workers in the same workplace, in different workplaces and companies, in different industries and ultimately between our national economy and the world economy. The same applies within the union. By making the links between key processes such as collective bargaining, organising, education and research there is the possibility of creating mutually reinforcing dynamics, which go beyond more traditional ways of doing things. LB

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