

Towards a living wage

A living wage is about justice and equality. **Rudi Dicks** looks at different ways to measure wages, wage trends, bargaining councils, sectoral determinations and minimum wages.

Living wage is a term used to describe a minimum wage sufficient to cover a specific quality and quantity of housing, food, utilities, transport, health care and recreation. The concept differs from that of a minimum wage in that the minimum wage, whilst legislated, may not be sufficient to meet the requirements of a living wage.

The two concepts are however similar in the sense that they often mandate the increase in wages of certain sections of the economy by avoiding the necessary employment trade-offs commonly associated with minimum or decent employment standards. The concept of a living wage is a cornerstone of a just and equitable society. A huge determining factor in the levels of poverty and inequality in South Africa is the common low-paid work, often termed 'poverty wages'.

WHAT IS A LIVING WAGE?

In 2004, the University of South Africa (UNISA) Bureau of Market Research stopped publishing Minimum Living Levels (MLL) and Supplemented Living Levels (SLL) that were used to determine living standards, and wage benchmarks for various sectors, population groups and household sizes. It is important to note that MLL and SLL is just a form of measurement to determine living levels and may be a useful measurement.

The MLL determined the minimum money metric (depending on the size) of a household to meet basic food, health, clothing and other hygiene needs. SLL included more items than the MLL and was meant to set modest low-level of household standards above a minimum level.

In establishing a reasonable measurement of living standards we construct using both the MLL and SLL at the levels set in 2004 and adjust in constant prices using the consumer price index (CPI) as of March each year until 2011.

Before presenting some scenarios let's explore some of the more recent debates in developing a poverty line and why this will not always be helpful in determining a living wage standard. It would be crucial to take into consideration the subjective debates on a poverty line with much of the recommendations determined arbitrary as shown in a recent study conducted by the Development Policy Research Unit (DPRU). This study discusses three types of money-metric poverty lines; namely an absolute, relative and subjective poverty line, with recommendations for consideration.

In summary, Oosthuizen advocates for an absolute poverty line that considers the food energy intake approach and the cost of basic needs approach. The first approach determines a level of calorie intake. In the case of South

Africa it is set at an average 2,230 calories per day per person. This may of course vary depending on factors such as age and pregnancy.

While on the other hand, a cost of basic needs approach determines the food choices households make and not the specific food items required for a particular calorie level. The cost of basic needs approach observes household expenditure on food and then scales this up by including non-food consumption in a basket of goods and services.

DPRU estimates, using income and expenditure data and the minimum food nutrition intake of the Department of Health, a poverty line of between R173,93 and R227,22 per person per month when using the basic food energy intake approach. However, a different poverty line is reached when using a cost of basic needs approach and scaling up for other expenditure (arbitrary amount); then a food poverty line range between R230 to R281 per person per month is estimated.

In using Oosthuizen's estimations, we construct a data Table 1 by considering an average household size of four people and then estimate the poverty line per household required to meet, on the one hand, a certain food energy intake level and, on the other hand, a cost of basic needs approach (more than just food needs).

Table 1: Basic food

Consumption Aggregate Assumption (using average household size of 4)	Total Expenditure		Total Consumption	
	Original	Adjusted	Original	Adjusted
Monthly cost per person per month @ 2,230 calories (food)	R940.56	R1,123.36	R926.72	R1,105.00
% people not meeting the minimum calories (food) per day	24.9%	29.7%	31.4%	35.8%
Lower Bound Cost of Basic Needs Poverty Line per person per month	R1,545.20	R1,800.36	R1,487.00	R1,722.52
% poverty rate at lower bound	45.8%	50.1%	52.0%	55.4%
Upper Bound Cost of Basic Needs Poverty Line per person per month	R6,209.16	R6,275.12	R4,346.16	R4,531.84
% poverty rate at upper bound	82.7%	82.3%	80.7%	80.6%

Source: Naledi calculations

Again, the decision to consider which poverty line to use is an arbitrary matter depending on the interpretation of what one considers to be poor. By using the food poverty line, you are simply determining the minimum food intake requirements, while the lower and upper bound poverty line considers food and non-food items. It is argued that minimum or lower poverty lines may help in deciding a particular policy intervention.

For example, this may help in understanding what social security support may be required to ensure everyone meets the caloric intake per day, but may not be very helpful in establishing a living wage level.

As discussed previously, MLL provide the basic minimum levels that should be obtained per household. By using the MLL on an average household size of four people for African, coloured and Indian households the inflation

adjusted MLLs amounts to R2,428,69 per month as at March 2010.

By using SLLs there is a significant difference to MLL monthly calculations. Inflation adjusted SLLs for an average black household of four people amounts to R3,200 per month in March 2010.

Lastly, a comparison is conducted between the MLL and SLL between the periods March 2005 and March 2010 to illustrate the variation in minimum/supplementary living standards.

WAGE TRENDS

In considering wage trends in a post-apartheid South Africa, Burger and Yu find that the 1995 October Household Surveys (OHS) and the September 2005 Labour Force Survey (LFS) suggest that workers on average experienced a substantial decrease in real wage earnings (using 2000 prices). The average real monthly wage

of workers declined by 23% from R3,558 to R2,744 per month or 2.6% per annum, by using the two data sets.

Some care should be given on the data sets used, however this provides a significant argument why real wages have been declining relative to gross domestic product (GDP) share and increasing productivity gains during our mid-2000's growth spurt. Secondly, these are average wage incomes and while this is useful it may distort the relative low-income base that most Cosatu members would receive, for example.

By using the Oosthuizen analysis and our price adjusted MLL and SLL, there is significant difference between what is required for a level of substance to meet both food and non-food items.

In the following section, we examine current wage levels at bargaining councils, wage levels set through sectoral determinations by the Employment Conditions

Commission (ECC) and union wage settlement levels using union wage agreements.

BARGAINING COUNCILS

Our bargaining council system (including Public Service) covers approximately 2,5 million workers. This is relatively low coverage given the size of our formal sector employment of nine million workers. Put differently our bargaining council system represents only 27% of formal sector employees. Low coverage is a result of many factors and has significantly impacted on the success on our demand for centralised bargaining and ultimately our living wage campaign.

Below we provide a breakdown of all bargaining council (excluding Public Sector) wage rates for unskilled, semi-skilled and skilled workers. On average, the wage level of unskilled workers amounts to R1,909. 80, with the lowest minimum found in the Hairdressing bargaining council.

Wage rates of unskilled workers significantly vary across bargaining councils with wage levels as high as R4,980, R3,529 and R3,278 in the Electrical, Metals and Engineering and Textile bargaining councils, respectively, in contrast to very low minimum wages in the Hairdressing, Motor and Contract Cleaning councils.

Wage levels within many bargaining councils continue to reflect the apartheid wage gap with significant difference between unskilled/semi-skilled and skilled workers. Notably, this exists in a few of the Building bargaining councils and the Motor bargaining council.

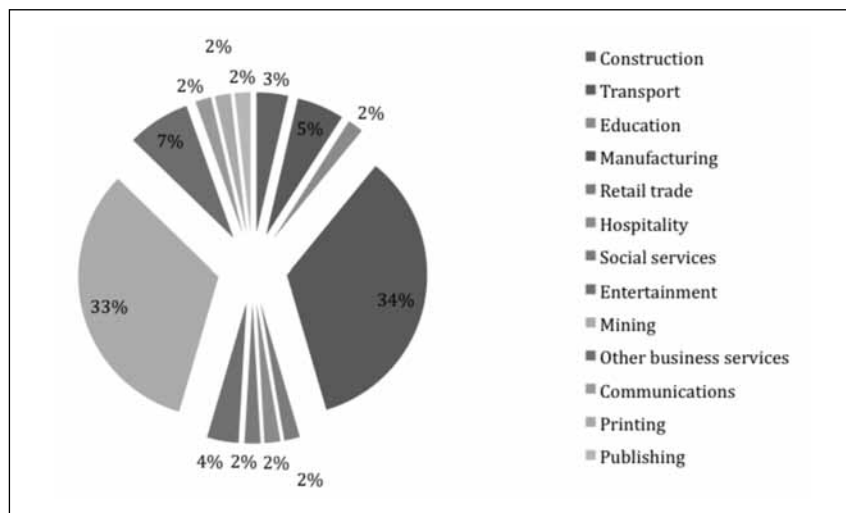
Considering our inflation adjusted MLL and SSL, the average unskilled wage rate is significantly below the

living levels, but even more sizeable when simply applying the inflation adjusted SSL at March 2010. Very few bargaining council unskilled wage rates meet this living level. These include only two councils, namely the MEIBC and NBCEI.

When considering the DPRU poverty line study, using the lower bound there are larger numbers of bargaining council unskilled wage rates that meet the modest poverty line.

Again a word of caution about averages, even though it provides a good sense of comparative wage levels between different bargaining arrangements.

The analysis shows that on average, increases in the adjustment of sectoral determinations minimums were set at CPI plus 2%. At face value the wage adjustments may seem reasonable and provides wage increases above inflation; however



SECTORAL DETERMINATIONS

There are currently 11 sectoral determinations governing vulnerable workers across a number of sectors. Here we examine nine of the determinations and exclude learnerships and children in performing arts from our analysis. The lowest minimum wage is for domestic workers and is set at R1,190 per month amongst the nine sectoral determinations, in contrast to civil engineering minimum set just above R3,000 per month.

The mean minimum wage for sectoral determinations is set at just more than R1,700 per month.

it is done on a very low-wage base making any wage increase insignificant. In addition, when compared to minimum living standards using MLL and SSL, by far most (seven) sectoral determinations do not meet those minimum or supplementary living standards.

WAGE SETTLEMENT IN 2010

The continued recessionary pressures did not dampen union demands for real wage increases. Table 2 summarises the wage increment agreements reported in 2010 by the Bargain Monitor of June 2010. A total number of 56 agreements were reported.

Table 2: Average 2010 wage increases by Cosatu affiliates

Sector	No of agreements reported	Average wage increase
Construction	2	11.0
Transport	3	10.2
Education	1	9.5
Manufacturing	19	9.2
Retail trade	1	9.2
Hospitality	1	8.8
Social services	1	8.4
Entertainment	2	8.3
Mining	18	8.2
Other business services	4	7.9
Communications	1	7.5
Printing	1	7.0
Publishing	1	7.0
PSCBC	1	7.6
Average		8.6%

From Table 2, it can be seen that the average wage increase settlements in 2010 thus far was 8.6%. Whilst this figure seems significant especially since it is higher than the CPI set in March 2010; unions have over the years consistently settled at rates not very much more than the CPI. For example in 2007 the average that unions settled at was 7.5% whilst inflation was at 7.1%, which meant that in real terms workers only settled for 0.4%. Taking our limited sample, wage increases on average settled at 3.5% above March 2010 CPI, one of the highest real wage increases recently.

The largest average wage settlement agreement was reported in the construction sector where employers and employees settled on an increase

of 11%. The lowest was in the communications sector where an agreement of 7.5% was reached. However, this may be low because only one agreement was reported in the communications sector meaning that the only reported agreement was hence the average agreement of the sector. This may be misleading as adding other agreements that have not been reported may result in a lower or indeed higher average increase.

Table 2 provides wage settlements versus annualised inflation (except for March 2010) trends of wage agreements provided by affiliates from 2006 to 2010. Settlement trends confirm, in most part, that Congress of South African Trade Unions (Cosatu) affiliates have been able to settle well above

inflation (CPI), except for 2008. In 2008 annualised CPI jumped to 11.5%, largely due to oil price hikes and consequently rising food prices. In addition, the global crisis and subsequent mass job losses placed pressure on unions as many battled retrenchments while at the same time trying to improve workers' wages and working conditions. Settlements in 2008, based on our sample of 107 wage agreements, shows we settled at 7.7%, well below annualised inflation.

MINIMUM WAGE COMPARISONS

Minimum wages at bargaining council, sectoral determinations and wage agreements provides considerable differentiation between wage setting institutions. The widening minimum wage gap is an area of concern; as unions with higher union density are able to achieve better minimum wage-agreements than those who are at the mercy of tripartite wage institutions, such as the ECC.

In comparing minimum wages between the three levels, it is not surprising that sectoral determinations continue to come out as having the lowest average minimum wage, amongst domestic and farm workers. According to Andrew Levy wage analysis based on wage reports, suggest a minimum wage of R4,200 per month. This could skewer real minimums since it may include middle and low level managers. ¹⁸

Rudi Dicks is the director at National Labour and Economic Development Institute (Naledi). This article is adapted from the 'Towards a living wage' report.