

Ever expanding wage gap

In the early 1990s trade unions were determined to reduce the apartheid wage gap. Over the past years this focus has fallen off the agenda. Over the next few *Labour Bulletins* **Simon Kimani Ndungu** presents articles which examine the different ways the wage gap shows itself. Here he investigates executive earnings in comparison with wages for ordinary workers and looks at the expanding wage gap between skilled and non-skilled workers in the public and private sectors.

While South Africa teeters on the brink of darkness, the revelation that Eskom's 16 executives are in line for a R10-million performance bonus has resulted in widespread anger. It has cast into sharp focus once again, the question of how much executives earn in comparison to ordinary workers.

South Africa has one of the highest wage gaps in the world. This is not new. As early as 1985, the wage gap between white and black workers stood at approximately 6:1, and by 1993, this gap had risen to 19:1. Given the racial underpinning of the apartheid economy and the labour market, the wage gap in South Africa has always been primarily inter-racial. However, the recent rapid growth of a black middle-class has seen the wage gap among the black population rise significantly.

Data used in this analysis has been drawn from the Quarterly Employment Statistics, the Income and Expenditure Survey and the Labour Force Survey, which are

published by Statistics South Africa. In addition six interviews were conducted with people from the corporate world (mining), trade unions (mining, manufacturing and public service), government and independent experts. To get a proper perspective of the history of the wage gap phenomenon in South Africa, available local literature has also been analysed.

GAP WITH A HISTORY

The wage gap occurs in all sectors of the South African economy and the coming of democracy in 1994 has seen the gap further widen. By the mid-1980s, the wage gap was significant since the apartheid labour market rested on job reservation for whites, inferior education and skills training for blacks, and a prohibition on black entry into skilled and professional occupations.

By 1995 when the ANC government began restructuring the labour market, the wage gap between managers and workers in the public sector stood at 16:1. By 1999, this gap had grown to 20:1.

By 2006, the gap had increased by about 87% to 30:1. Yet, when the ANC took power, one of its commitments was to close the 'apartheid wage gap' through measures such as employment equity, affirmative action and skills training for the historically disadvantaged.

The wage gap in the private sector has experienced an explosive expansion. No figures exist on the wage gap in the private sector in the mid-1990s, but recent studies suggest that its growth has been huge. In their book *Executive Pay in South Africa* (2006) journalists Ann Crotty and Renee Bonorchis, argued that by 2005, the wage gap stood at a staggering 700:1, and was still expanding.

They went on to observe that since 2002, there has been a sharp increase in remuneration for private sector executives accompanied by a "considerable downward pressure on wages for unskilled workers." The authors cited a study conducted by the trade union Solidarity, which had



Executives Bheki Mseleku and Patrice Motsepe. The huge wage gap occurs in all sectors of South Africa's economy and democracy has seen the gap widen further.

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found that remuneration for private sector executives in 2005 was 53 times higher than that of ordinary workers.

Fifteen years after the death of apartheid, the wage gap is based not just on skills, but also on race. Alan Fine, an AngloGold executive agrees that central to the understanding of the wage gap is the realisation that "there are still clear racial patterns in relative income, opportunity and everything else" in the country. Oupa Komane, deputy general secretary of the National Union of Mineworkers agrees and argues that white workers are still concentrated in jobs that need skills, especially of a technical nature due to apartheid's education policies.

Lael Bethlehem, chief executive officer of the Johannesburg Development Agency also believes that the wage gap is based strongly on race. Bethlehem locates this problem in education and training institutions and argues that the current curriculum is inadequate to equip black people with the necessary technical skills.

She tells that while at the JDA 80% of engineers are black, the majority come from private schools, or from previously white government 'Model C' schools. The result is that well educated, skilled black professionals are marginal in public institutions. Together with the high drop-out rate of black students at institutions of higher learning, the labour market remains as it was under apartheid: predominantly white at the top, and overwhelmingly black at the

bottom.

From the early 1990s, Cosatu (Congress of South African Trade Unions) unions were vocal on the need to close the apartheid wage gap. Much of that energy dissipated when government implemented Gear (Growth, Employment and Redistribution) between 1996-2001, and unions had to confront the devastating impact of job losses brought about by liberalisation and privatisation.

Thomas Mamuremi, a provincial secretary in the National Education, Health and Allied Workers Union argues, however, that the need to close the wage gap is still central to union struggles. He emphasises that in a modern capitalist economy, "bosses will always want to extract as much profit as they can from workers", and this means awarding themselves excessive increases from profits. Unions need to find ways of ending this 'expropriation', while at the same time finding strategies to increase ordinary workers' pay.

FROM A GAP TO GULF

The Star in May 2000, reported that the wage gap in South Africa was in fact not one of the highest in the world. The article cited a study that compared wages in South Africa with countries such as Zimbabwe and Malaysia where the wage gap was reportedly very high. The article also reported that the lowest-paid South African workers earned 46 times less than their highest-paid counterparts in the USA and UK.

Studies show that even on a comparative basis, the wage gap in

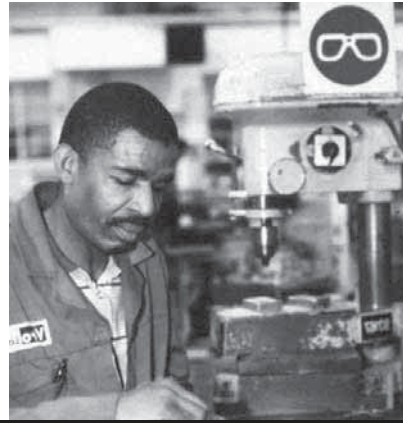
South Africa is still amongst the highest in the world. Nicoli Natrass and Jeremy Seekings found that in comparison with Brazil and Chile, which are similar to South Africa, South African executives earn almost three times the global amount earned by ordinary workers. They also argue that income inequality measured by the Gini coefficient has increased. Miriam Altman suggests in her study of low wage work in South Africa, that the majority of workers are in the R1 000 a month category, while just over 60 000 workers earn above R25 000 per annum.

The Economist reported in 2007 that a government school teacher earns about R4 000 per month while a school principal earns only R6 500. Prior to the massive public service strike in June 2007, a Level 1, public servant earned around R2 900 a month which translated into a mere R35 000 a year. At the time, a director-general was earning over R66 000 per month or R800 000 a year.

Much has been made of the wage gap being primarily a function of apartheid. While this is correct, it does not explain why since 1994, intra-racial wage differences between black workers has widened. Natrass and Seekings point out, that the government continued with a system that had little scope for the redistribution of wealth. So it is mainly wage disparities that lead to income inequality in South Africa. The latest findings of the income and expenditure survey in households (March 2008) shows that white households earn on average



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There are significant wage differentials between sectors. Utilities pays the highest, followed by transport, finance and the public sector. Mining and manufacturing are next, while retail and construction (excluding agriculture and domestic) pays the lowest.

R280 870 a year, Indians earn slightly above R134 000, Coloureds slightly above R79 000 while Africans earn a mere R37 711.

One way of benchmarking the significant expansion of the wage gap post-1994 is to look at income and employment data published by Statistics SA. The March 2008 Labour Force Survey (LFS) shows that of the 13.2 million workers officially recorded in the South African labour market, about 59% (7 million) of them were earning R2 500 or less per month, approximately 27% (3.6 million) were earning between R25 001-R8 000, while only 11% (1.5 million) were earning above R8 000. Importantly, 2.4% of all workers (314 000) reported earning no income at all.

In the same report, the majority of African workers (6 million) were reported to be earning R2 500 or less per month while only slightly above 0.5 million were earning more than R8 000 per month. Significantly, almost 300 000 African workers reported having no income at all. It is worth noting that this percentage makes up around 94% of all workers earning no income in the economy.

Further, the report shows a correlation between education and skills on the one hand, and remuneration on the other. The higher the skills a worker has, the higher the wages that s/he earns. Of those earning less than R2 500 per month, 94% had up to grade 12 education, while only 4.1% had a

diploma or degree. In contrast, of those earning above R8 000 per month, about 64% had a diploma or higher qualification while only 33% had up to a grade 12 qualification. Reflecting the increasing demand for technical skills in the economy, 50% of all those in the R8 000 per month and above bracket were professionals with mathematical, science and engineering skills.

There are also significant wage differentials between and within various sectors. According to the March 2008 Quarterly Employment Survey (QES) which collects data on wages in the formal sector (excluding agriculture), the utilities (water, gas, electricity suppliers) sector pays on average the highest salaries per month, R16 000. This is followed by transport (R11 000) and finance and the public service (R10 000). Mining and manufacturing pay respectively R8 000 and R7 000 per month, while retail and construction pay the lowest wages at R5 000 per month.

A comparison between earnings in the formal and informal sectors provided by the March 2008 LFS shows that while only 44% of workers in the formal sector earn R2 500 per month or less, almost 86% of workers in the informal sector earn the same amount. Interestingly, 50% of workers in the formal sector earn above R2 500 while only 11% of workers in the informal sector earn an equivalent amount.

Given that the figures presented

in the QES depend heavily on information provided by employers, they need to be treated with caution. On the one hand, companies tend to group together employee training and other costs with salaries which inflates wages and creates a misleading picture. On the other hand, if wage data is obtained from workers, it may result in inaccuracies because some workers are only familiar with their net salaries after all deductions have been made. Workers do not necessarily understand concepts such as 'gross salary' or what their 'total package' is. In some instances, workers do not include a 13th cheque or bonuses when asked about their annual wages.

It is clear that the wage gap problem in South Africa has a long history though it has accelerated from the mid-1990s. Historically, this gap was created by apartheid's policy of excluding blacks from participating in the mainstream economy. Since 1994 however, skills have also become a major determinant of wage differentials between white and black workers, and also between black workers themselves. LB

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