Levels and notches work against wage parity

In our third and last article on the wage gap **Simon Kimani Ndungu** examines the wage gap between workers. He also explores possible ways of reducing South Africa's marked wage differentials.

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In July 2008, the Presidency released the second report on South African Development Indicators which showed that income inequality as measured by the Gini coefficient dropped slightly from 0.685 in 2006 to 0.660 in 2007.

While government has lauded this drop as a sign that the "income of all sectors has improved", it is significant that South Africa is still one of the most unequal societies on earth. Income inequality is linked to a number of factors including unemployment and wide income differentials in the labour market.

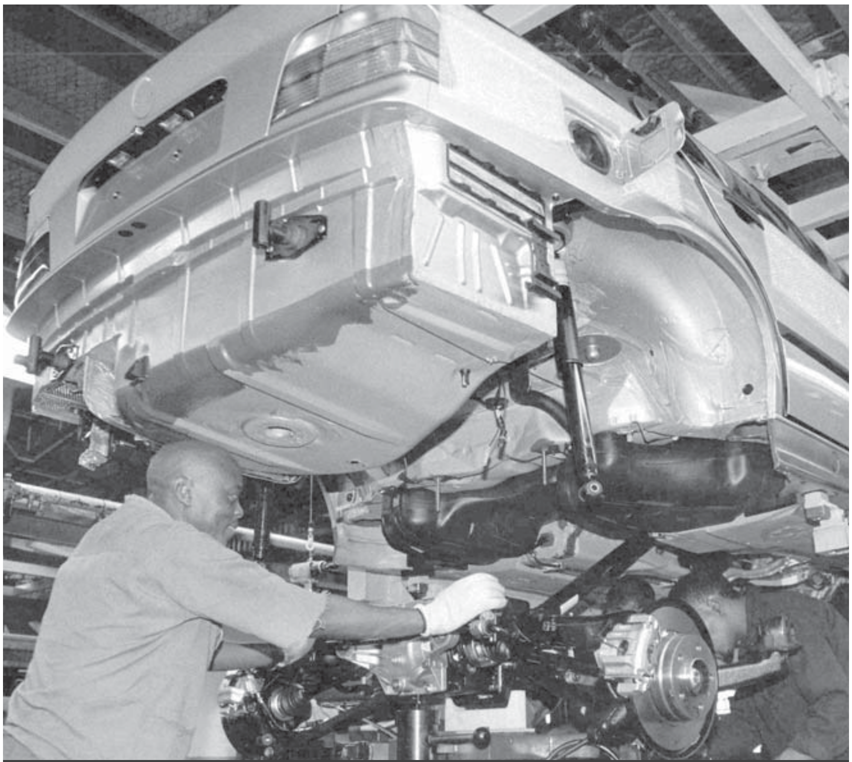
Historically, the wage gap has been defined on the basis of race, but the recent past has also seen skills become an important contributor to its expansion. The scarcity of skills in sectors like manufacturing has seen artisans commanding higher salaries and benefits in comparison with semi-skilled and general workers. It is the same case with the public sector, which, faced by increasing competition from the private sector, has adopted a market-oriented strategy for recruiting and retaining scarce skills.

PUBLIC SERVICE: CASCADE OF WAGES

While the private sector highlights the wage gap phenomenon between workers and executives, the public sector gives more visibility to the wage gap problem between workers themselves. This is because not only does the sector have a considerable hierarchy of levels (12), it also has a horizontal array of notches which may be as many as 16 in one level. These levels and notches appear to serve no other purpose but to maintain the wage gap between different categories of workers.

To illustrate: the gap between a level 1 (entry level into the public service) worker and his or her counterpart in level 12 is almost 1:10. Apart from the difference in levels, this gap could also be explained by level 1 having 12 notches and level 12 having 16. The wage gap in the public sector expands relatively steadily between the notches but accelerates enormously between the levels.

Employees whose wages are negotiated through the Public Service Co-ordinating Bargaining Council (PSCBC) are structured in levels which range from 1 to 8. Levels 9 to 12 are directorships and related managerial positions and their wages are also covered by the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PSCBC, but not negotiated by most unions. Anything above level 12 falls under 'Management Echelons', which is divided into Middle Management Services and Senior Management Services. These two levels are further graded from 'A' to 'D' each.

In the Management Echelon, Grade A is a director position while Grade D is a director general.

Based on these grades, Nehawu's (National Health and Allied Workers Union) 7.5% wage settlement for public servants in 2007 indicates a ratio of 1:26 between ordinary workers whose annual salary is R38 000 per annum, and directors-general, who earn R991 000 a year. The majority of ordinary workers, including teachers, who are in levels 6 to 8 depending on the seniority of their positions, are in the 1:12 wage gap ratio when compared with their directors-general.

COMPARING SECTORS

Comparing salaries in the public and private sectors shows the enormity of wage differences in the way workers are remunerated. A worker with one year experience in automobile manufacturing, for example, earns about R1 600 a month, while a similar worker in the private health-care sector earns around R750 per month. The reason for this gap is not only the difference in industries, but also that most private health-care organisations are small, are owned by individuals and depend on donations and charities for their work.

Although in both sectors the wage gap is more visible between sectors, it is also becoming pronounced within the sector. The private health-care sector is a case in point where institutional sectoral bargaining shows a gap of R800 for the same category of workers.

Similarly, in a company like Eskom, which generates and supplies electricity, an entry level employee can earn up to R6 000 a month while another worker on the same level in a private company like Alstom, a leading manufacturer of electrical equipment, can earn around R4 500 a month.

While the wage gap between executives and ordinary workers is widening, some observes feel, surprisingly, that the gap between workers themselves is actually narrowing.

Oupa Komane of the National Union of Mineworkers (NUM) believes that salary parity among workers in the mining sector is slowly reducing the wage gap. This is a sentiment echoed by Jenny Grice of the National Union of Metalworkers of South Africa (Numsa) who says skills-based differences seems relatively small because salary levels among workers are not too far removed from each other.

Besides, as some union officials claim, the disparity between artisans and ordinary workers stems mainly from bonuses rather than salaries, and this means when bonuses are removed as a factor, the wage gap begins to lose its significance.

Ben Fine argues that the wage gap between artisans and 'low-level' semi-skilled workers has narrowed considerably in the last 20 years due to the introduction of 'black unionism'. He further points out that in 2007, ordinary workers in the mining industry received a 10% wage increase while artisans got only 8% and this goes to show that the sliding scale method can actually narrow down the wage gap.

HOW TO REDUCE THE WAGE GAP?

What should be done to reduce the wage gap in South Africa? Unfortunately, this question throws up more problems than answers, not least among them the question of how the problem should be approached. Should the gap be reduced by cutting down executive wages, should the wages of ordinary workers be raised to match those of executives, or should high income earners be penalised through high taxation?

A number of unionists believe that the most effective approach is to use a 'sliding scale' rather than an 'across the board' method when negotiating wages. As Jane Barrett observes, "one mistake we did as the trade union movement in the last ten years or so is to negotiate percentage increases across the board year after year". She goes on to caution that this has "contributed to increasing divisions in society… and it is a major contributing factor to social instability".

The sliding scale method was used in some industries in the 1990s before being abandoned in 2000. Komane emphasises that the flaw with this method is that "… once you convert the percentage into rand value, higher-earning workers still get more increases than lower-paid employees".

Another approach to the problem would be to accelerate the deracialisation of wages in the labour market as suggested by Sahra Ryklief, formerly of the Labour Research Service. Writing for *Amandla!* in 2007, Ryklief stressed that the challenge facing unions "is how to develop mechanisms that will ensure equitable distribution and prevent the income gap [between races] from expanding".

An approach that allows salaries to be restructured to ensure that wages of the lowest-paid workers gradually move closer to the salaries and packages of managers and executives is also a potential solution. This approach has been endorsed by a number of unions although there is no consensus on the actual modalities to be followed. Numsa has called for the lowest grades in the manufacturing sector to be collapsed into those above them while Nehawu has proposed that the multitude of levels in the public service be reduced, and that the notches be cut back considerably.

Collective bargaining is another mechanism for dealing with the wage gap phenomenon and a move away from plant bargaining to sectoral bargaining could do a lot to standardise workers' wages. Sectors such as retail that have weak centralised bargaining have a multiplicity of bargaining forums which has resulted in a wide variety of wage levels. It is the same case with the security and agriculture sectors, although in this instance the problem has a lot to do with low union density.

Standard remuneration for executives in the private and public sectors has also been mooted as a possible answer to the wage gap problem. A salary cap will ensure a single ceiling for executive pay and this will allow the state to penalise employers who pay executives above the agreed level.

Establishment of a national minimum wage could be a good start in the long road to reducing South Africa's wage gap. However, it is only possible to determine such a wage if there is a national poverty datum line, something that does not exist presently. In his budget speech in February 2007, Finance Minister Trevor Manual promised that Statistics South Africa would "pilot a poverty line for an initial period to allow for public comments and consultations". In addition, Manual said government would publish "a discussion document that sets out our proposal for a national poverty line". Eighteen months later, there is no visible movement in this area.

Education and skills training is another way of dealing with the wage gap problem. In the previous article ('Ever expanding wage gap', *SALB* 32.2 June/July 2008), we cited official statistics from the Labour Force Survey to show that there is a strong correlation between education and skills on the one hand and wages on the other. Much will be needed however to create a sufficiently skilled work force that can negotiate its own pay, so to speak.

One of the most revolutionary approaches to the wage gap problem is to penalise companies which pay executives exorbitant salaries, as well as executives who receive them. If excessive remuneration is met with exorbitant tax, companies and executives will gradually be deterred from engaging in an exercise that sees much of the remuneration ending up in state hands.

Unfortunately, no solution is realistic without taking into account the economic system which underpins wage labour. Capitalism aims at the maximisation of profit, not equity. However, there is a marked difference for instance in the way different versions of capitalist social democracy in Western Europe have dealt with the wage gap problem. These societies, as Ben Fine argues, are built largely on the idea of development, equality and egalitarianism. On the other hand, Anglo-Saxon, African, Asian and South American countries have embraced a system which shows little interest in tempering the harsh excesses of free market capitalism.

But given South Africa's long history of worker super-exploitation, it is something that workers, the labour movement and government might want to think deeply about. LB

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