



Rethink
Africa



Konrad
Adenauer
Stiftung



IJR
THE INSTITUTE
FOR JUSTICE AND
RECONCILIATION

ROUNDTABLE REPORT: RETHINKING SOCIAL DIALOGUE ON INCLUSIVE DEVELOPMENT

Compiled by Ayanda Nyoka

Rapporteurs: Tsholofelo Maphologela and Bhekumuzi Shabalala

ROUNDTABLE REPORT
POLICY AND ANALYSIS
PROGRAMME
NOVEMBER 2016

AKNOWLEDGEMENTS

This report is based on discussions at a roundtable held in Johannesburg at Constitution Hill on the 5 August 2016.

The IJR would like to thank **Rethink Africa** for partnering with us on the roundtable under the theme 'Rethinking Social Dialogue on Inclusive Development'.

The IJR would also like to express its gratitude to Professor Edward Webster and Mr Neil Coleman for their presentation inputs. Special thanks are due to the participants, too, for their invaluable contributions to the discussion.

The IJR is grateful for the generous support of the **Konrad-Adenauer-Stiftung**.



Rethink
Africa



Konrad
Adenauer
Stiftung



IJR
THE INSTITUTE
FOR JUSTICE AND
RECONCILIATION

Contents

<i>Acronyms and abbreviations</i>	3
<i>Executive summary</i>	4
1. Introduction	6
2. Background	6
3. Opening remarks	6
4. Overview: Transformation Audit Report	7
5. Session 1: Why reaching a broad social pact has remained elusive – Professor Edward Webster	8
6. Session 2: Driving forces behind the deadlock on the national minimum wage dialogue – Mr Neil Coleman	10
7. Recommendations to civil society on advocating for a national minimum wage	15
<i>References</i>	<i>16</i>

ACRONYMS AND ABBREVIATIONS

COSATU	Congress of South African Trade Unions
IJR	Institute for Justice and Reconciliation
NDP	National Development Plan
NEDLAC	National Economic Development and Labour Council
NMW	national minimum wage
SMMEs	small, medium and micro enterprises
TA	Transformation Audit

EXECUTIVE SUMMARY

A roundtable on the theme of 'Rethinking Social Dialogue on Inclusive Development' was convened by the Inclusive Economies project of the Institute for Justice and Reconciliation (IJR) in partnership with Rethink Africa and the Konrad-Adenauer-Stiftung (KAS), as part of the IJR's public engagement programme following its release of the 2015 Transformation Audit (TA) report. One of the key topics explored in the 2015 TA report was the introduction of a national minimum wage (NMW), including the role of institutionalised dialogue within the context of creating an inclusive economy.

Consequently, following a deadlock on the NMW, a roundtable was convened to discuss the underlying reasons for the deadlock and, more broadly, to consider why consensus building at the National Economic Development and Labour Council (NEDLAC) remains elusive and what the implications of this are for inclusive development. Stakeholders from business, government, labour and civil society were invited to take part; ultimately, however, most participants were civil society representatives. The two speakers were Professor Edward Webster, who is affiliated to the Society, Work and Development Institute (SWOP) at the University of the Witwatersrand, and Mr Neil Coleman, who is spokesperson on the Wage Inequality Task Team for the three trade union federations in NEDLAC.

Professor Webster presented on why a broad social pact for South Africa's development remains elusive. He attributed this to two main challenges. The first was lack of consensus on a macroeconomic framework, which has been a long-standing issue constraining the effectiveness of institutions such as NEDLAC. Despite the introduction of the National Development Plan (NDP), key inadequacies remain that need to be dealt with through social dialogue before any agreement could be reached (with labour constituencies, in particular). The second issue that he raised was poor negotiating tactics employed by the social partners – what he termed 'negative class compromise'.

A negative class compromise is a strategy that results in complete victory or complete defeat, leaving no room for a give-and-take scenario. Professor Webster argued that what is required for the formation of successful pacts is an orientation towards positive class compromise, which results in give and take, and that this requires a fundamentally high-trust environment. Furthermore, he described three preconditions for a successful pact and argued that the dynamics at play between the social partners suggested that they were still well off the mark. This is not promising for institutionalised social dialogue. Remarking on the future role of NEDLAC, he argued that the making of pacts should be seen as an objective to be realised over time, by way of partnerships at the workplace and community levels. The first step should be to build consensus among labour, employers, communities and government around the idea of social or developmental pacts at the local level.

Mr Neil Coleman presented on the driving forces behind the deadlock in respect of the NMW. According to him, the deadlock is fundamentally about different interests, and different visions about how to get South Africa out of its socio-economic crisis. He argued that although business is not a homogenous group, it is dominated by the finance and mining nexus, supported by the Treasury, and presents a vision that advances a model of wage repression as a way to achieve growth. Labour, on the other hand, seeks to do away with cheap labour, and argues that the cheap labour route has been exhausted and will only exacerbate the economy's structural problems. Mr Coleman outlined proposals made by labour and supported by the community constituency. An important point addressed in the proposals is that the NMW needs to be part of a new wage policy alongside what he termed the 'correct' macroeconomic and industrial policies, in order fundamentally to address poverty and inequality. Labour envisions that a bold NMW would be incremental and phased in over the medium term, but would need to break

the ultra-low wage structure in a managed way. In his presentation, he drew on a range of evidence on earnings inequality to make a case for the vision that labour espouses for the NMW.

In conclusion, he argued that engagement with business representatives has been particularly difficult, because of the tendency of business to use consultants as professional negotiators who are not that interested in engaging on the issues, but appear to be mandated to block progress in certain areas. Mr Coleman argued that government negotiators, particularly those from the Treasury, have adopted a posture similar to that used by business. He concluded that there has been much talk about the need for a social accord in South Africa and that the NMW negotiations in many respects are a microcosm of issues that any social accord discussion would need to confront. The following recommendations were outlined by the participants for civil society to employ in advocating for a NMW:

- put pressure on everyone at the top to pronounce on the issue of the NMW;
- involve a more diverse range of stakeholders;
- do not limit discussion to the NMW, but extended it to encompass business ethics;
- increase awareness around the NMW discussion;
- put pressure on the government to re-prioritise;
- make an effort to find common ground;
- dialogue and conventional campaign methods are inaccessible – mass mobilisation is required; and
- ordinary members of our communities need to be educated on the benefits of the NMW.

INTRODUCTION

This roundtable dialogue convened by the IJR's Inclusive Economies desk, in partnership with Rethink Africa and the Konrad-Adenauer-Stiftung, was part of the IJR's public engagement programme following its release of the 2015 Transformation Audit (TA) report. Given the contentious nature of the topic and the plurality of views on the issue, the IJR aimed with this roundtable to engage a multi-stakeholder group in order to consider viable options for the implementation of a national minimum wage (NMW) following the release of the IJR's research report on the topic in early March 2016. However, following the news of a deadlock in the discussions at the National Economic Development and Labour Council (NEDLAC), the roundtable was held under the theme 'Rethinking Social Dialogue on Inclusive Development'. The deadlock in the NMW talks suggested that the roundtable should consider the underlying reasons for the deadlock and, more broadly, why consensus building at NEDLAC remains elusive, as well as what the implications of this are for inclusive development.

In line with the IJR's principle of creating inclusive dialogue platforms, stakeholders from business, government, labour and civil society were invited to participate in the roundtable. Ultimately, however, the majority of the participants able to attend were civil society representatives. This report aims to contribute to South Africa's public discourse on the role of social dialogue institutions such as NEDLAC, particularly in examining fundamental weaknesses that render consensus building on key policies unattainable. Furthermore, it seeks to reflect diverse perspectives on the ongoing NMW debate; in this regard, it draws on the insights of the labour constituency regarding the underlying factors behind the deadlock. The IJR, however, does not endorse particular views expressed by the speakers; nor do their views necessarily reflect those of the IJR.

BACKGROUND

In its 2014 general election manifesto, the African National Congress made a commitment to the effect that the government would undertake co-ordinated research into the possibility of introducing an NMW, and the range of modalities available in this regard. This commitment was made against the backdrop of South Africa's extreme income inequalities and the urgent need to secure a living wage for all workers.

To this end, a committee presided over by Deputy President Cyril Ramaphosa was established. Almost two years later, little headway has been made towards the introduction of an NMW. This is largely due to the inability of the constituent members of NEDLAC to reach agreement on the amount at which the NMW should be pegged – with the labour federation, the Congress of South African Trade Unions (COSATU) suggesting R4 500 per month, business proposing R2 000 per month and the government favouring R2 200 per month.

The slow progress referred to above has spawned a deadlock in the negotiations at NEDLAC and, to that extent, the introduction of an NMW hangs in the balance. Against this background, the roundtable discussion on 5 August 2016 at Constitution Hill, Johannesburg was convened by the IJR, Rethink Africa, and the Konrad-Adenauer-Stiftung to discuss the reasons for the deadlock and, more broadly, to consider why consensus building at NEDLAC remains elusive and what the implications of this are for inclusive development.

Representatives of civil society attended the roundtable. The formal programme started at 08:30 a.m. with the registration of participants.

OPENING REMARKS

Mr Tilmann Feltes welcomed everyone in attendance and, in particular, acknowledged the two main speakers for the day, Professor Edward Webster and Mr Neil Coleman. He introduced the Konrad-Adenauer-Stiftung, explaining that it was a German political foundation and has been involved

internationally for more than 50 years and was now operational in 120 countries, including South Africa. The foundation's aim, he said, was to promote democracy across different jurisdictions by funding and facilitating programmes concerned with the ideals of the rule of law, good governance and decentralisation, among others. He proceeded to explain that the foundation was value-based, sharing political ideals similar to those of the Christian Democratic Party, to which it was affiliated but independent from both politically and financially, with its funding coming directly from the coffers of the German parliament.

Mr Tilmann mentioned that the present gathering was part of a continuous engagement with the TA report produced by the IJR, and that he hoped the discussions to be had would deliberate thoroughly on the thematic areas of social dialogue and inclusive development. He concluded by extending thanks to the IJR and Rethink Africa for their role in co-hosting the event and tapping into their network resources.

OVERVIEW: TRANSFORMATION AUDIT REPORT

Ms Ayanda Nyoka from the IJR, in her capacity as the commissioning editor of the TA report, gave a brief overview of the report.

She started off by explaining that the TA began in 2004 as part of the IJR's Inclusive Economies project, and that from 2004 until 2014 it traditionally focused on four thematic areas – education and skills, the labour market, economic governance, and poverty and inequality. In 2015, however, a new format was piloted by way of focusing on a single thematic issue – economic justice, the scope of which included discussions around the potential role an NMW could play in addressing the issue of income inequality. She added that the strikes at Marikana and elsewhere in the country, during which workers decried low wages,

had been catalytic in facilitating a paradigm shift and a particularised interest in the issue of an NMW.

Ms Nyoka acknowledged that substantial research on addressing poverty and inequality in South Africa already exists; however, an underlying reason for the country's economic impasse appears to be the inability of the social partners to reach consensus on policy positions. In this regard, she said that it was both deliberate and timely to focus on the idea of social pacts in the last part of the TA report, which includes a comparative analysis of how Germany and the United States of America brokered social pacts during critical times in their economic histories, and the lessons that South Africa could learn from this. Furthermore, she said, the TA report zoned in on the importance of social dialogue at a time when South Africa seems to be at a political and economic crossroads. She highlighted the facilitative role of social dialogue mechanisms (as considered in the report) against the prospect of communities taking recourse to violent means to register their concerns, especially at local government level.

Gender dynamics and how they played out in terms of labour market outcomes, she noted, were also extensively looked at in Part 1 of the TA report. This was especially necessary given the lower priority accorded to the topic (and to the persistence of wage gaps along the axis of gender) in the public discourse relative to other issues. She mentioned that another important and sometimes emotive issue dealt with in the TA report was land reform in the context of economic justice. This, she observed, was important in the larger scheme of things as part of the effort towards the alleviation of inequality.

All of the areas covered in the TA report, she said, were intended to provide insight on the context of working towards social and economic inclusion. Ms Nyoka concluded by introducing Mr Jan Hofmeyr and Mr Bandile Ngidi, from the IJR and Rethink Africa,

respectively, thanking the latter organisation for its strategic role in the partnership.

Mr Jan Hofmeyr, Programme Manager of the Policy and Analysis programme at the IJR, facilitated the discussion and opened with some key findings from the IJR's South African Reconciliation Barometer on perceptions of inequality among ordinary South Africans as a way of contextualising the present dialogue.

SESSION 1: WHY REACHING A BROAD SOCIAL PACT HAS REMAINED ELUSIVE – PROFESSOR EDWARD WEBSTER

Professor Edward Webster was introduced as an affiliate of the Society, Work and Development Institute at the University of the Witwatersrand.

Professor Webster started off his presentation – aptly titled 'Searching for the Elusive Social Pact' – by acknowledging the need for the present dialogue because of the socioeconomic crossroads at which South Africa finds itself, which was made all the more important and urgent by the unprecedented element of uncertainty that had been introduced into South African politics after the recent local government elections. He added that achieving economic justice is going to be more difficult than achieving political justice.

His presentation centred on the underlying reasons as to why reaching a broad social pact between the social partners has proved elusive. Before getting to the crux of his presentation, he discussed the historical origins of pacts in South Africa's public discourse, to the extent that this was relevant for the present dialogue. His full paper is featured in the 2015 TA report and is available for a free download at www.transformationaudit.org.

The section below summaries key points from his presentation – why reaching a broad social pact has remained elusive; the preconditions for a successful social pact; and the future role of social dialogue institutions such as NEDLAC.

NO CONSENSUS OVER MACROECONOMIC POLICY

- Although some agreements have been reached at NEDLAC since its establishment in 1996, with some positive spin-offs, particularly in the areas of labour law reform and employment policy, for a long time South Africa has lacked a broad social pact setting out a common economic vision. This issue was formally tabled at NEDLAC in March 1996, and the social partners agreed then that a macroeconomic policy framework would be agreed upon through social dialogue.
- However, the good faith and trust between the social partners that had been established during the early years was quickly eroded when the government decided unilaterally on the Growth, Employment and Redistribution (GEAR) policy framework because they assumed that consensus would not be achieved. The negative posture taken by the government in the implementation of GEAR, including its implications for service delivery, rendered consensus on macroeconomic policy an even more distant goal, especially for labour and community constituencies.
- The idea of a broad social pact re-emerged in the National Development Plan (NDP) of 2012, but the plan has some key inadequacies that would need to be dealt with through social dialogue before consensus could be reached.

NEGATIVE CLASS COMPROMISE

- The orientation towards negative class compromise on the part of all the key stakeholders has rendered a broad social pact unachievable.
- According to Erik Olin Wright (2012: 2) negative class compromise refers to:

"A situation in which there is a kind of balance of opposing class forces each capable of inflicting considerable costs on the other, but neither capable of decisively defeating the opponent. In such a situation it may be possible for the contending forces to accept a compromise in which each makes concessions in exchange for refraining from imposing damage on the other. 'Compromise' in this case means that the outcome of struggles for each party falls somewhere between complete victory and complete defeat."

- The negative class compromise, thus, leads to a zero-sum game.
- In South Africa's current socioeconomic climate, what is needed in place of the compromise type referred to above, is a positive class compromise:

"In a positive compromise, in spite of their opposing interests, the contending forces find a way to actively cooperate in ways that open up some space for non-zero-sum gains. Active forms of mutual co-operation help both workers and capitalists to better realise their interests than is possible by simply extracting concessions through confrontation. (Wright 2012: 2,3)"

- A positive class compromise approach, thus, promotes optimal militancy, in that labour can use its power efficiently without driving out capital.

PRECONDITIONS FOR A SUCCESSFUL PACT

- At least three preconditions must be met for a successful pact:
 - o the parties concerned would have to be in a situation of stalemate, in which each party is unable to achieve its objectives;
 - o the stalemate must lead to a situation in which the costs of compromise outweigh the

perceived gains of standing firm (such as increasing levels of disorder); and

- o the parties must be able to mobilise and restrain their followers on the basis of strategic vision.

- The indications are that the first condition has not been met, as neither capital nor labour nor the government show any signs of willingness to compromise. In the same vein, the widespread unrest raises doubt as to whether the last condition has been met, which is particularly relevant for labour stakeholders who seem unable to restrain their followers.

FUTURE ROLE OF SOCIAL DIALOGUE

- The rise in strike activity and the violence that often accompanies protest action suggest that the institutionalisation of industrial conflict is being undermined and the labour market is fragmenting society along new fault lines. The responses of key stakeholders to industrial conflict have been far from effective. One response has been to defend and strengthen the existing labour market institutions with the ultimate aim of achieving a pact on wages and workplace culture and productivity. On the other hand, responses predominantly from business and some sections of the government include appeals to clamp down on trade unions. A third response is scepticism as to the possibility of institutionalising industrial conflict and community-based conflict in the face of such widespread inequality. These responses raise important questions about the future of social dialogue and of NEDLAC, in particular, in a context where labour has been seen to be playing a 'spoiler role'.

- The making of pacts should be seen as an objective to be realised over time by way of partnerships at the workplace and community levels. The first step should be to build consensus among labour, employers, communities and government around the idea of social or developmental pacts at the local level. The challenge will be the management of the trade-offs between the social partners. This

requires patient negotiation with the innovative actors and organisations emerging at workplaces and in communities throughout the country.

QUESTION-AND-ANSWER SESSION

Question 1: Given the trajectory of most former trade union leaders becoming capitalists after serving their tenure in their organisations, are South African workers poor at discerning their leaders?

Answer: The establishment of investment wings by unions unwittingly compromised the ethics of most trade union leaders and this has grown to become a global phenomenon.

Question 2: How do we create equal opportunities for everyone to stem inequality?

Answer: It is important to create equal opportunities, but that has to be prefigured by efforts to level the playing field, since the fault lines of our democracy (inequality, in particular) run so deep that people from different social and racial backgrounds do not as a general rule start off on an equal footing. There will always be inequality – the focus should be to secure equal opportunities not to defeat inequality! Our struggle should be about how to provide equal opportunity to everyone in society. The problem now is wealth inequality, not so much income inequality. We need to think about a different kind of economy that would create jobs.

Question 3: Why does the government usually tend to identify public leaders and representative organisations instead of community members whenever it embarks on consultative processes?

Answer: This is because public leaders or organisations are readily identifiable and are easier to talk to. However, that does not vindicate the fault in this approach.

Question 4: How correct is it to refer to labour as a stakeholder?

Answer: In one sense, labour may seem to represent sectoral interests, but an understanding of the spatial, financial and familial arrangements of most low-income African families shows that the wage of a single person is depended on for subsistence by

many other persons. To that extent labour is an important stakeholder.

SESSION 2: DRIVING FORCES BEHIND THE DEADLOCK ON THE NATIONAL MINIMUM WAGE DIALOGUE – MR NEIL COLEMAN

Mr Neil Coleman was introduced as spokesperson on the Wage Inequality Task Team for the three trade union federations in NEDLAC.

1. A fundamental difference has manifested itself in the NMW negotiations between those proposing an NMW at the bottom of the current minimum wage structure (i.e. one which entrenches ultra-low wages) versus proposals for a bold, meaningful NMW that breaks with the current wage structure, while favouring an incremental transformation over the medium term.
2. Labour and community constituencies in NEDLAC have sought to promote the interests of working class communities by advancing a vision of transforming an economy based on cheap labour. On the other side, business representatives, together with those in the state, particularly the Treasury, believe that a model of wage repression is the route to growth. However, this backward approach is neither in the interests of the state, and the developmental view it espouses, nor even in the interests of business as a whole. The cheap labour road has been exhausted and would only exacerbate the economy's structural problems (and the social contradictions that are deepening by the day). Developments at our universities are but one indication that the status quo is untenable.
3. Labour's strategy on the NMW, supported by the community constituency, has been to seek to forge a compromise, which:

- proposes an incremental but bold approach to phasing in a meaningful NMW over the medium term (this incremental strategy aims to break with the current ultra-low wage structure in a managed way);
- sees the NMW as being part of a new wage policy aimed at addressing wage inequality and working poverty in a holistic manner, including through addressing issues of excessive executive and management pay;
- links the NMW to a broader social protection package, which takes some of the pressure off the wage, particularly by extending income support to the unemployed (thereby raising the real value of the wage to the household);
- recognises that the NMW is a wage floor, which is not intended to substitute for collective bargaining, or to set actual wages throughout the economy, but which needs to be complemented by stronger collective bargaining that sets wages above the NMW floor at a sectoral level;
- recognises that the main aim of the NMW is to assist in dealing with working poverty, and wage inequality; and
- recognises that the NMW is not a silver bullet for all issues (e.g. employment), but if this new wage policy is combined with the correct macroeconomic and industrial policies, it can provide a major boost for development (including through the stimulus effect of putting more income in the hands of the working poor).

4. Compelling evidence suggests that 22 years after democracy, the cheap labour basis of our economy has not been transformed. Despite recognition of formal rights in labour legislation, and some gains for unionised workers, the position of low-paid South African workers has been worsened by labour market restructuring, including casualisation and atypical work, labour broking, contracting out, and so on. The earnings of black and women workers at the bottom of the wage structure have either stagnated or been driven down in real terms. For example, in 2010, 50 per cent of workers earned below R2 900; by 2015, the median wage had

declined in real terms – 50 per cent of workers earned below R3 100 (to maintain pace with an inflation rate of 6 per cent per annum, the median should have risen above R3 800) (Stats SA 2016). For women workers it was even worse, their median wage being R2 400 in 2010 and R2 700 in 2015. These ultra-low wages are around half the income needed to meet the poverty line: a basic poverty line was R5 544 in Feb 2016 for a household of four (three being the average number of dependants for poor workers).

5. At the same time, the wage gap between the low-paid in the workforce and management has grown at an alarming rate: in 2010, the top 5 per cent of employees on average earned around 30 times more than the bottom 5 per cent employees. By 2014, this had increased to almost 50 times more (Coleman 2015). In the space of four years!

6. Are wages high in South Africa? According to the World Bank, 'high wages in South Africa appear to be mainly due to high wages for managers and professionals and not to high wages at the bottom of the income distribution' (Clarke et al. 2007). 'A premium is paid for professional and managerial skills in the South African economy...the median monthly wage for a manager in South Africa was more than double that of Poland and three times that in Brazil' (Philip, Tsedu & Zwane 2014).

7. Therefore, a new wage policy must include not only an NMW, but also a package to reconfigure the wage structure, with the main aim of reducing excessive wage differentials, including through systematically raising the wages of those in the bottom half of the wage structure, and capping wages at the top end. We need to implement our own wage solidarity alternative, drawing from experiences as diverse as Scandinavia, Germany, Japan, the Asian Tigers and Latin America.

8. Section 27 of the Employment Equity Act 55 of 1998 aimed at reducing excessive wage differentials, but has never been enforced. The obscene levels of wage inequality, and extent of fat in our wage structure, means that space exists to substantially reconfigure our wage structure without

excessive economic shocks. This was shown at a micro level with the 'PPC experiment' where PPC CEO Khetso Gordhan took a large pay cut (as did 60 top executives) to reduce the gap between their salaries and those of the lowest-paid. 1 000 PPC workers at the lowest pay-grades received an increase of about R10 000 per year. This reduced the ratio from 120:1 to 40:1 within the space of a couple of years (see <http://www.moneyweb.co.za/archive/why-ppc-ceo-and-60-execs-took-a-pay-cut/>).

9. Recent research shows the disturbing persistence of apartheid wage premiums and practices, even at professional levels of the workforce. Analytico consultancy's study, published in July 2016, found that white male professionals were paid a median salary of R30 453 p/m, while black male professionals were paid a median of R9 224 p/m. White female professionals earned a median of R17 700, while black female professionals were paid a median of R11 155 p/m. The study found that black professionals also have a higher probability of unemployment, despite earning lower salaries than their white counterparts.

10. The bottom half of the wage structure reflects the most extreme form of this apartheid wage legacy. Research conducted by the University of the Witwatersrand's NMW Research Initiative show that at the beginning of 2016 around 54 per cent of full-time workers, or 5.5 million (overwhelmingly black) full-time workers, earned below the working poor line of R4 317. This is the minimum wage a worker has to earn in order for themselves and their dependants to escape absolute poverty. These shocking statistics indicate that, if we assume an average of 3-4 dependants per breadwinner, between 22-27.5 million South Africans – nearly half the population – are living in poverty because of ultra-low wages. This establishes the inextricable link between low wages and poverty in the country.

11. Who are these working poor? They are the majority of workers in all sectors of the economy, with the partial exception of the public sector and local government, to a certain extent mining (where wages are generally higher, but so are economic

pressures, as rurally based mineworkers have a large number of dependants to support) and better-paid employment in the manufacturing sector.

12. So what do these labour market realities mean for the developmental challenges facing South Africa, which is categorised as having a middle-income economy? The 'middle-income trap' theory states that middle-income countries find themselves in a trap because they are unable to compete with ultra-low wage economies; they also cannot compete with highly productive economies. In theory, there are only two ways to escape this trap: either radically repress wages so as to compete with low-wage countries; or ascend the value chain, diversify the economy, develop innovation and manufacturing, and so on. Simon Deakin, a labour law expert who focuses on economic development, argued (in the keynote address at the 2016 South African Society for Labour Law conference) that the NMW plays a key role in circumventing the middle-income trap 'by promoting domestic consumption and encouraging industrial upgrading'. The low-road option of repressing wages has been tried and has failed in South Africa.

13. The high-road alternative of raising income and promoting greater equity is more promising, not only from a moral, but also from a developmental point of view. Evidence has begun to emerge in countries as diverse as the USA, Germany and countries in Latin America that a rising NMW, can promote a high-road model of raising wages and quality of jobs, and making precarious, informal and low-paid work more formal. In Germany since an NMW was introduced in January 2015, we have seen the replacement of many casualised or 'mini-jobs' with permanent jobs (and a net job creation of more than 100 000) (Business Day Live, 23.09.16); Professor Stephanie Luce, an American minimum-wage expert, argues that a similar phenomenon is taking place in the USA, most interestingly in small, medium and micro enterprises (SMMEs), which are raising the quality of jobs, as they cannot afford a higher worker turnover with so few employees (Business Day Live, 25.07.16). Finally, the formalisation of work, combined

with rising minimum wages, has been well documented in Latin America, in countries such as Uruguay, Argentina and Brazil (see Maurizio 2016).

14. Evidence emerging on NMWs internationally is producing counter-intuitive results, which goes against much of the conventional wisdom. This includes that a rising NMW can:

- go together with formalisation (Latin America);
- replace precarious jobs with permanent higher-quality jobs (Germany);
- encourage SMMEs to invest more in higher-quality jobs, because they cannot handle a higher turnover (USA); and
- even act as a break on capital intensity, as automation requires lower-skilled workers to operate it.

15. On the issue of employment, 'neoclassical' economic models are unable to capture the economy-wide impact of rising income, productivity and so on that can accompany rising minimum wages (Isaacs & Storm 2016). They are unable, therefore, to reflect the reality that rising wages do not necessarily lead to job losses; rather, combined with appropriate policies, they can actually lead to job increases. These computer-generated equilibrium (CGE) models fail theoretically, and are unable to predict real-world outcomes. This was seen in countries as diverse as Germany and the UK, and in Latin America, where predictions of catastrophic job destruction failed to materialise.

16. These models also failed to accurately forecast the real-world impact of rising minimum wages in South Africa, but are being used again to predict massive job losses for a NMW introduced at a level lower than current sectoral minima. Models used by the National Treasury and Development Policy Research Unit predict 100 000 to 500 000 job losses for an NMW set at between R1258 to R2200! In contrast, the University of the Witwatersrand NMW Research Initiative study, in line with growing international evidence on the minimal employment

impact of a rising NMW, argues that an NMW set at between R3 700 and R4 500 would have no significant 'disemployment' effect (Adelzadeh & Alvillar 2016).

17. The low-road alternative is to pursue a 'race to the bottom' wage-repression scenario. This would involve further reduction of existing ultra-low wages, which already have thrust 5.5 million workers and their dependants into poverty. This is economically, socially and morally unviable and unacceptable. Unfortunately, it is the route proposed by the Treasury through the NDP, and influential sections of business are attracted by this option (COSATU 2013). Arguably, however, this route is in the interests of neither the South African state, nor even business, itself, which is currently in a downward spiral of non-investment, lack of conducive macroeconomic conditions, and low levels of effective demand in both South Africa and the region (because of poverty).

This economic stagnation is combined with parasitic tendencies on the part of powerful sections of business towards the South African economy, including the stripping of assets from the country, tax evasion, speculative activity and an investment strike. These acts, in turn, deepen our structural problems. Some in the productive sector of the economy, on the other hand, appear to recognise that this low road is a cul de sac, and share a number of labour's concerns on the economy – see COSATU's (2010) 'Declaration of Manufacturers and Trade Unions'. However, this sector of business lacks critical mass. Will their influence increase with the development of the black industrialists programme, or will this be another case of fronting that does not challenge the current economic structure? The deadlock in NEDLAC on the NMW is, therefore, fundamentally about different interests and different visions about how to escape from our socio economic crisis. These interest and visions are not necessarily static, but are subject to social contestation and, thus, can be shifted, both by the social pressure exerted from below for transformation in the wage structure, and by an effective case being made that the alternatives are

conducive to a more functional growth path. This requires progressive forces to mobilise society and intelligently engage with the secondary contradictions in capital and the state. We also need to contend with potentially different approaches within labour and the community.

18. A particular challenge is that business in South Africa is dominated by the finance/mining nexus, and the productive manufacturing sector has a limited voice. Further, there is a growing trend, both in South Africa and internationally, for business to use consultants as professional negotiators, who are not that interested in engaging on the issues. Indeed, their mandate seems to be to block progress in certain areas. This does not necessarily reflect the views of business on the ground. A fascinating survey was leaked in the USA showing that a clear majority of businesses surveyed (80 per cent), including SMMEs, supported an increase in the NMW, and that professional business organisations rejecting such an increase did not represent their views (see <https://www.scribd.com/doc/306912486/COSC-Presentation>).

19. The defensive, backward approach taken by business in the negotiations has led to negotiators adopting postures seemingly designed to create deadlocks and drag out the process. This is reflected in:

- a refusal to engage on concrete proposals tabled by the parties, using every possible technique to delay and obstruct;
- a refusal to engage on the evidence they disagree with, including refusing to allow alternative research perspectives to be presented in NEDLAC; and
- this intransigent attitude having been emboldened by the approach taken by some government negotiators (particularly those from the Treasury), which is indistinguishable from that of business.

20. There has been much talk in recent times about the need for a social accord in South Africa. In

many respects, the NMW negotiations are a microcosm of issues that any 'social accord' discussions would need to confront. They raise the question as to whether established business is prepared to abandon the predatory economic model of super-exploitation and ultra-low wages as a sine qua non for any constructive discussion on possible forms of social co-operation. At this point the picture is not encouraging.

Postscript

The deputy president appointed a panel of experts to consider various aspects of the NMW. The panel has now made its recommendations and negotiations will resume. The Report of the Expert Panel can be found at <https://t.co/YLTyHIRsXs>.

QUESTION-AND-ANSWER SESSION

Question 1: How will the NMW affect small businesses?

Answer: Proposals from labour aim to create incentives for small businesses in order to help them reach the minimum wage for their workers.

Question 2: How about the fact that tax is already high on small businesses?

Answer: Decrease the effective level of taxes for small business, compared to large business. When taxes are lower, people pay them and then there is more money flowing in the economy. Payment of the NMW and taxes should be a requirement for certain state opportunities such as tenders.

Question 3: Will the NMW not encourage companies to hire immigrants for cheap labour, thereby increasing unemployment?

Answer: The reality is that such companies can afford to pay the minimum wage but choose to exploit immigrants. There needs to be proper policing of illegal, exploitative employment practices

Question 4: Is the problem not with the NMW, itself, but with its enforcement?

Answer: Enforcement would be less of a problem with the NMW than it has been with the current system of sectoral minimum wages, as the NMW would be a figure that everybody in the country knows. Currently, only people working in particular industries know the

normal payment for certain jobs and services; the NMW, however, will be known by everyone. Criminal sanctions, rather than just the normal fine or slap on the wrist, have been proposed in order to deter businesses from contravening the policy.

Question 5: It was suggested that the NMW amounts to unemployment denialism. Unemployment levels in South Africa are about 20–30 per cent higher than in Brazil. Consequently, raising the minimum wage in Brazil is likely to create jobs, whereas in South Africa we cannot necessarily expect the same results.

Answer: That, in itself, amounts to low-wage and poverty denialism, because over 20 million South Africans – poor workers and their dependants – are part of the working poor (and this includes the unemployed). This means that half the population of South Africa is living in poverty because of low wages. The route of low wages is not a workable solution to the problem that we are facing, and this is proof of the need to employ a different method rather than retaining the same cheap labour system that is failing us.

Question 6: What is preventing the NMW discussion from gaining popularity and the support of broader society?

Answer: The problem faced by the labour force is that most of the negotiations have been subject to confidentiality agreements, and this hampers labour's ability to communicate with other South Africans on the progress of the negotiations. The fact that COSATU has weakened also impacts on the ability of the NMW to gain traction. There is a need for discussions such as the present one to reach the majority of the public in order to create pressure on the ground.

Question 7: Which sector's interests is the National Treasury furthering?

Answer: The National Treasury is furthering the interests of the business sector.

RECOMMENDATIONS TO CIVIL SOCIETY ON ADVOCATING FOR A NATIONAL MINIMUM WAGE

- put pressure on everyone at the top to pronounce on the issue of the NMW;
- involve a more diverse range of stakeholders;
- the matter should not be limited to discussion on the NMW, but should be extended to encompass business ethics;
- increase awareness around the NMW;
- pressure the government has to re-prioritise;
- efforts should be made to find common ground;
- dialogues and conventional campaign methods are inaccessible – mass mobilisation is necessary; and
- ordinary members of our communities need to be educated on the benefits of the NMW.

REFERENCES

Adelzadeh A & Alvillar C (2016) *The impact of a national minimum wage on the South Africa economy*. National Minimum Wage Research Initiative Working Paper Series No. 2, University of the Witwatersrand. Available at: <http://nationalminimumwage.co.za/wp-content/uploads/2016/07/The-impact-of-a-NMW-on-SA-economy-Final.pdf> [accessed 17 November 2016].

Clarke GRG, Habyarimana J, Ingram M, Kaplan D & Ramachandran V (2007) An assessment of the investment climate in South Africa. Washington DC: World Bank.

Coleman N (2015) *Wage inequality is growing*. Available at: <https://twitter.com/NeilColemanSA/status/614014163359268865> [accessed 17 November 2016].

COSATU (Congress of South African Trade Unions) (2010) *Statement on the declaration by manufacturers and trade unions on industrial and economic policy interventions needed to create decent jobs*. Available at: <http://www.cosatu.org.za/docs/pr/2010/pr0510c.html> [accessed 17 November 2016].

COSATU (2013) Summary of Critique of the National Development Plan, March 2013. Draft for discussion. Available at: <http://www.cosatu.org.za/docs/discussion/2013/NDPcritiquesummary.pdf> [accessed 17 November 2016].

Isaacs G & Storm S (2016) *Predicting the impact of a national minimum wage: Are the general equilibrium models up to the task?* Econ 3x3. Available at: <http://www.econ3x3.org/article/predicting-impact-national-minimum-wage-are-general-equilibrium-models-task> [accessed 17 November 2016].

Maurizio R (2016) *The consequences of minimum wages on inequality. Evidence for Latin America*. National Minimum Wage Symposium and Policy Round Table, National Minimum Wage Research Initiative, University of the Witwatersrand, 2–4 February 2016. Available at: <http://nationalminimumwage.co.za/wp-content/uploads/2016/02/Minimum-Wages-and-Inequality-Evidence-from-Latin-America-Roxana-Maurizio-Wits-02-02-16.pdf> [accessed 17 November 2016].

Philip K, Tsedu M & Zwane M (2014) The impacts of Social and Economic inequality on Economic Development in South Africa. New York: UNDP.

Stats SA (Statistics South Africa) (2016) *Labour market dynamics in South Africa, 2015*. Pretoria: Stats SA.

Wright EO (2012) *Class struggle and class compromise in the era of stagnation and crisis*. Department of Sociology, University of Wisconsin-Madison. Available at: <http://www.ssc.wisc.edu/~wright/Class-Crisis-Stagnation.pdf> [accessed 16 November 2016].

ABOUT THE INSTITUTE FOR JUSTICE AND RECONCILIATION

The Institute for Justice and Reconciliation (IJR) was launched in 2000 by officials who worked in the South African Truth and Reconciliation Commission, with the aim of ensuring that lessons learnt from South Africa's transition from apartheid to democracy are taken into account and utilised in advancing the interests of national reconciliation across Africa. IJR works with partner organisations across Africa to promote reconciliation and socio-economic justice in countries emerging from conflict or undergoing democratic transition. IJR is based in Cape Town, South Africa. For more information, visit <http://www.ijr.org.za>, and for comments or enquiries contact info@ijr.org.za.

CONTACT US

Tel: 021 202 4071 Email: info@ijr.org.za

Physical and Postal Address

105 Hatfield Street Gardens 8001 Cape Town

South Africa

www.ijr.org.za



IJR
THE INSTITUTE
FOR JUSTICE AND
RECONCILIATION

The opinions expressed in this paper do not necessarily reflect those of the Institute for Justice and Reconciliation (IJR). Authors contribute to the IJR Policy Briefs series in their personal capacity