



UNRISD

United Nations Research Institute for Social Development

A Minimum Wage for South Africa

Challenging Labour Market Inequalities

Imraan Valodia

*University of the Witwatersrand
South Africa*

David Francis

*University of the Witwatersrand
South Africa*

Draft paper prepared for the UNRISD Conference

**Overcoming Inequalities in a Fractured World:
Between Elite Power and Social Mobilization**

8–9 November 2018, Geneva, Switzerland

The United Nations Research Institute for Social Development (UNRISD) is an autonomous research institute within the UN system that undertakes multidisciplinary research and policy analysis on the social dimensions of contemporary development issues. Through our work we aim to ensure that social equity, inclusion and justice are central to development thinking, policy and practice.

UNRISD ▪ Palais des Nations ▪ 1211 Geneva 10 ▪ Switzerland
info.unrisd@un.org ▪ www.unrisd.org

Copyright © United Nations Research Institute for Social Development

This is not a formal UNRISD publication. The responsibility for opinions expressed in signed studies rests solely with their author(s), and availability on the UNRISD website (www.unrisd.org) does not constitute an endorsement by UNRISD of the opinions expressed in them. No publication or distribution of these papers is permitted without the prior authorization of the author(s), except for personal use.

Abstract

South Africa has recently embarked on the implementation of a universal national minimum wage for the first time in the country's history. This is an important intervention, given that the South African labour market continues to generate some of the highest levels of income and wealth inequality in the world. The minimum wage is intended as a structural intervention to transform the nature of the labour market by setting a humane wage floor, while highlighting the larger issues that continue to reproduce inequality in the South African labour market. The process raises interesting questions about the role of social dialogue, and the institutions tasked with overseeing the social dialogue process, in the policy making process, especially at a time when the role of experts and evidence are contested in global and local political economy. The national minimum wage process shows that perhaps institutionalised social dialogue continues to be a central part of our policy making process, but it cannot be taken for granted: the particular configuration of the social dialogue process and the roles assigned to each player matter. The role of outside players, such as experts and the media, if part of a coherent and considered strategy, can play an important role in moving policy forward.

Keywords

Minimum wage; labour market; political economy; South Africa; social dialogue

Bio

Professor Imraan Valodia is the Dean of the Faculty of Commerce, Law and Management at Wits University, and was the Chair of the National Minimum Wage Advisory Panel.

David Francis is the research manager at the Southern Centre for Inequality Studies, and a PhD student in Economics at Wits University. He was the research assistant to the Advisory Panel.

Introduction

Over the past four years, starting in 2014, South Africa has embarked on the implementation of a universal national minimum wage (NMW) for the first time in the country's history. Up until now, there has been fractured and incomplete minimum wage coverage based on a combination of sectoral determinations and collective bargaining. The process of implementing the NMW continues to raise important political and economic questions, and this paper attempts to engage with these issues from a political economy perspective. Indeed, not only is the issue of a minimum wage an economically contested proposal in itself, but it intersects with a larger political contestation in South Africa about the role of the state, economic policy, and the institutional setting required to achieve economic progress. The process to the adoption of the minimum wage required careful coordination with various key players, and the navigation of institutional arrangements, and offers an insight into the contemporary political economy of South Africa. However, this process occurred at a time of growing scepticism globally about the role of experts and data in the political process. This paper examines the implications of this trend for the adoption of the NMW, as well as discussing the role of the South African National Economic Development and Labour Council Nedlac, and social dialogue more generally, in securing the adoption of the NMW.

The labour market in South Africa continues to generate some of the highest levels of inequality in the world. While executive salaries are some of the highest in the world, low pay is widespread, with over half of all full-time workers earning less than R3,500 (US\$247) per month in 2016 (Valodia et al. 2016). The post-apartheid period has seen significant growth in wage inequality, in spite of a profusion of redistributive policies enacted by the state, and the policies in place to address vulnerable work. As a response, the national minimum wage has been conceived as an attempt to address poverty and the low-wage structure of the labour market. While it is by no means a holistic response to the labour market challenges, it is the first step towards more equitable pay and a more equal society. It differs from some of the previous anti-poverty economic policy in that it is intended as a structural intervention to transform the nature of the labour market by setting a humane wage floor, while highlighting the larger issues that continue to reproduce inequality in the South African labour market. Anti-poverty measures in the post-apartheid period have, until the NMW, typically focussed on those outside the labour market – children via the child support grant and the aged via the old age pensions. Simultaneously however, the labour market in South Africa has not been able to generate sufficient employment opportunities, and unemployment has not only remained high, but has increased in the past decade. Since the global financial crisis in 2008, unemployment (according to the narrow definition, which excludes discouraged work seekers) has risen steadily from 22.5 percent to 27.7 percent by the end of 2017. Where there has been employment growth, such as in the services industry, it is largely in low-paid jobs: in 2016, almost half of all workers in wholesale and retail trade earned less than R3,500 per month (Valodia et al. 2016).

Table 1: Unemployment in South Africa

Indicator (%)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Unemployment rate (narrow)	22.50	23.70	24.90	24.80	24.90	24.70	25.10	25.30	26.70	27.70

Source: (Statistics South Africa 2016) and (STATS SA 2017)

The origins of the National Minimum Wage

The process leading to the adoption of the NMW in its current form has its genesis in the call by ex-President Jacob Zuma, on 17 June 2014 as part of his State of the Nation Address, for South Africa's social partners to address low wages, wage inequalities, and violent as well as protracted strikes (National Economic Development and Labour Council 2014). Of course, a number of trade unionists, academics and policymakers had been lobbying for such an intervention before the announcement by Zuma. As a response, the South African National Economic Development and Labour Council (Nedlac) convened a conference in November 2014 which gave rise to the Ekurhuleni Declaration (National Economic Development and Labour Council 2014). The Declaration was significant because it signified recognition by the social partners – Labour, Business, Community and Government – of the following important issues. Firstly, that wages are the most important component of income for South Africa's working people. Second, that income from wages is the main source of ensuring a sustainable livelihood for workers. It is also a key factor in the competitiveness and sustainability of enterprises in the private sector, as well as the sustainability of enterprises in the public sector. Third, unemployment and underemployment, including the legacy of low wages, are the biggest causes of poverty and inequality in the country. Fourth, unemployment, underemployment, poverty, income inequality and increasing income insecurity all affect social cohesion. Finally, that large pay differentials between executives and low-income workers undermine the prospects for cooperative labour relations and workplace cohesion.

The Ekurhuleni Declaration committed the social partners to engage on the modalities of introducing a national minimum wage in South Africa; explore ways of reducing pay differentials while maximising job creation efforts; and explore ways to achieve the elimination of poverty and inequality. Arising from this, a Committee of Principals (CoP) was established to take forward the work of the conference in two particular areas: labour relations and wage inequality task teams were constituted to work through the detailed technical aspects of these policy areas. The CoP was chaired by the Deputy President, Cyril Ramaphosa, and comprised the leadership of all the Nedlac social partners. Then, in June 2015, Nedlac convened a workshop on international experiences in introducing a national minimum wage. Reports were received from Brazil, Malaysia, the United Kingdom, Argentina, Chile, Colombia, Costa Rica, Mexico, Uruguay, China, India, France, Turkey, Kenya, Mauritius, Morocco, Cape Verde and the International Labour Organisation (ILO).

Each of the social partners had conducted an extensive amount of research on the modalities of a NMW, a proposed level, and the likely impact on poverty, employment and unemployment levels. Arising out of this, a level between R1,200 (US\$85) and R4,500 (US\$318)¹ per month was proposed by the social partners (Valodia et al. 2016). Despite these activities, there was little substantive progress on reaching agreement around the figure and coverage of the national minimum wage at Nedlac between 2014 and 2016. At a meeting of the CoP on 25 June 2016, the then-Deputy President Ramaphosa announced that an Advisory Panel would be appointed to interrogate all the research and provide appropriate recommendations for the level of the NMW. As a result, in August, 2016, Ramaphosa appointed an Advisory Panel² to interrogate the literature and research on minimum wages, and to engage with the Nedlac social partners, with

¹ Exchange rate as at 27 September 2018.

² <http://www.thepresidency.gov.za/press-statements/deputy-president-cyril-ramaphosa-appoints-advisory-panel-national-minimum-wage>.

a view to resolving what had become apparently intractable differences on this issue, particularly regarding the level at which a minimum wage should be set initially. As part of its work, the Panel consulted with all the social partners, technical experts in economics and labour law, small business, youth, care workers, and the informal sector, and reviewed over 60 research reports on minimum wage regimes worldwide. The Panel was particularly interested in the impact of a NMW on poverty, employment, small businesses, youth and vulnerable economic sectors, and collective bargaining.

In addition, the Panel was tasked with identifying appropriate institutional arrangements to ensure that efficient and functional mechanisms were established for compliance and enforcement (Valodia et al. 2016). The Advisory Panel was given a wide-ranging mandate, drawing on relevant international and South African evidence (Valodia et al. 2016). The key aspect of the mandate was to recommend a meaningful level or range for the first NMW, as well as a medium-term target, and mechanisms to achieve these levels, taking into account the potential impact of the NMW on employment, and recommending appropriate exemptions.

This Panel met for the first time on 11 August 2016 at Nedlac House, and many times in the subsequent months (Valodia et al. 2016). The final report was presented to the CoP, at Nedlac, on 20 November 2016, where the panel made and explained its recommendation of a minimum wage of R20 (US\$1.41) per hour. The Panel stated that it had carefully considered the proposals, evidence and research before unanimously agreeing that the level of R20 per hour (or approximately R3,500 (US\$247) per month based on a 40-hour work week) was the appropriate starting level for the national minimum wage that would both maximise the benefits of the policy, while minimising potential unemployment and disemployment effects (Valodia et al. 2016). This recommendation was adopted by the government in 2017, and legislation effecting the minimum wage is currently awaiting the signature of the President. We now turn to an examination of the political economy of the minimum wage process, particularly the nexus of evidence, social dialogue and politics.

Understanding and assessing the evidence

As discussed below, post-apartheid South Africa has a history of collecting excellent data on poverty and inequality, and these data are accessible and widely available³. As part of their deliberations, the Advisory Panel met with various research bodies that had conducted extensive research into the national minimum wage question; namely the National Treasury, the Development Policy Research Unit (DPRU) at University of Cape Town (UCT), and the Corporate Strategy and Industrial Development unit (CSID) at Wits University. In addition, the Panel's approach was influenced by the vast literature on international experiences with the introduction of a NMW, assessing both the benefits and risks of such a policy. As the report notes:

While minimum wage fixing is always the result of a political process, including in principle full consultation with social partners, setting the minimum wage should be evidence-based. This means that social dialogue and decision making should be informed by data and if possible a wide range of studies using different credible methodologies to ensure that conclusions are not driven by biases in the choice of methodologies. (Valodia et al. 2016, 20)

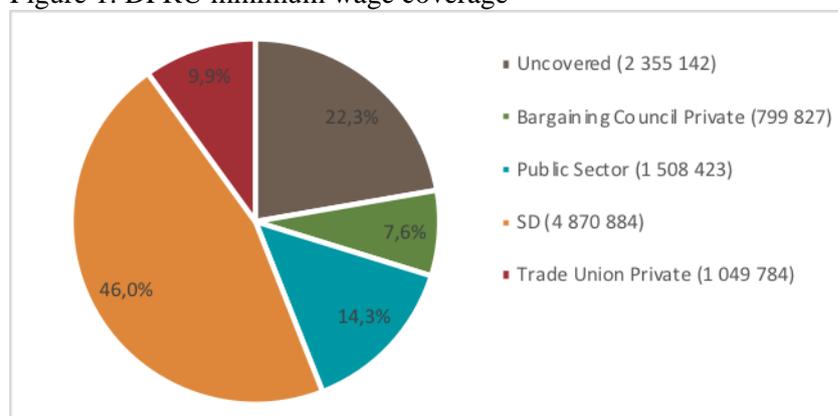
³ During the apartheid period, surveys focused largely on the white population only.

In order to understand the importance of the NMW as an economic and social policy, it is necessary to look briefly at the poverty and inequality data, and the South African regulatory environment, in order to make the point that this is not a policy intervention on the margins, but rather one that seeks to effect structural change at the heart of the economy. What is notable in this regard is that the economic evidence did not point unequivocally to a particular policy outcome. As the report notes, one of the key challenges facing economic policy makers, for some years, has been the very low GDP growth in South Africa (Valodia et al. 2016). The National Treasury forecasted growth of 2.0 percent in 2018 and 2.2 percent in 2019 (Valodia et al. 2016). As the World Bank correctly notes, such low levels of economic growth will hamper the country from achieving its unemployment and poverty reduction goals, many of which are founded on a growth assumption of 5.6 percent as outlined in the National Development Plan (NDP) (National Planning Commission 2011).

While South Africa has never before had a national minimum wage, it has for many years maintained a fragmented arrangement of wage floors covering certain sectors. This system is based on two key pieces of legislation, the Labour Relations Act (LRA) of 1995, and the Basic Conditions of Employment Act (BCEA) of 1997. The LRA makes provision for collective bargaining for almost all employees, and it sets the legal framework within which this mechanism operates. The BCEA, on the other hand, sets out the basic rights and conditions of work for all employees, regardless of their bargaining council membership. It also makes provision for the introduction of sectoral determinations, that set minima for sectors where collective bargaining has no reach.

Figure 1 provides a graphical overview of the coverage of the various minimum wage systems in South Africa. Sectoral determinations cover 46.0 percent, or 4.9 million workers, while 14.3 percent, or 1.5 million, are covered by public sector collective bargaining agreements. 9.9 percent, or 1.1 million workers are private sector workers covered by trade union agreements, and a further 7.6 percent are private sector workers covered by bargaining council agreements. This leaves 22.3 percent of the workforce, numbering 2.4 million workers, uncovered by any form of minimum wage protection⁴.

Figure 1: DPRU minimum wage coverage



Source: (DPRU and CDSA 2016)

⁴ It is important to note that this sample only includes those employees earning an income below the BCEA cut-off, which was set at R205,433.30 per annum in 2014. This level is significant because all sections of the BCEA apply to workers earning less than this amount.

The breakdown of uncovered workers by sector is displayed in Table 2. The largest proportion of uncovered workers is in the manufacturing sector, with 31 percent being uncovered, equating to 719,467 workers. The construction sector follows with 29 percent or 648,839 workers uncovered. Financial services have 26 percent or 613,799 workers uncovered.

Table 2: Uncovered workers by industry

Industry	Number	Percentage
Agriculture	46 931	0%
Mining	35 062	1%
Manufacturing	719 467	31%
Utilities	24 320	1%
Construction	648 839	29%
Transport, storage and communication	250 514	11%
Financial services	613 799	26%
Private households	14 642	1%
Other	1 567	0%
Total	2 355 142	100%

Source: (DPRU and CDSA 2016)

A high-level overview of the labour market at the household level is provided in **Table 3**. These data are sourced from the third wave of the National Income Dynamics Study (NIDS) and point to the most important features of the labour market. The first observation is the high level of unemployment among those in quintiles one and two, at 61.2 percent and 32.7 percent respectively (this is according to the narrow definition of unemployment which does not take into account discouraged work seekers), compared to 3.3 percent for those in quintile five. This is in comparison to the national unemployment rate which is recorded at 25.1 percent, and 29.1 percent according to the expanded definition (that includes discouraged work seekers).

The second observation is the average wage of the employed. Those in quintile one earn an average wage of R1,017 (US\$ 72) per month and those in quintile two earn R1,707 (US\$121) per month, compared to R13,458 (US\$ 950) for those in quintile five, and a national average of R5,787 (US\$ 410). These figures highlight both the magnitude of wage inequality in the country and the extent of low pay⁵.

Third, the percentage of working households rises significantly across the quintiles, from 36.2 percent in quintile one to 87.8 percent in quintile five. These data suggest that poverty in the country is, among many other variables, a problem of both extremely low pay (for those in employment) and extremely high and widespread unemployment.

5

Table 3: Household indicators (2012 prices)

	Poor		Non-Poor		All	
	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	
General						
Share of Households	20%	20%	20%	20%	20%	100.0%
Number of People (000s)	16 306	12 867	8 979	7 640	6 483	52 275
Share of Population	31.2%	24.6%	17.2%	14.6%	12.4%	100.0%
Average Household Size	5.2	4.1	2.8	2.4	2.1	3.3
Labour Market Participation						
Employed	15.9%	35.9%	52.5%	65.3%	75.0%	44.4%
Unemployed (strict)	25.1%	17.4%	12.3%	9.0%	2.6%	14.9%
Unemployed (discouraged)	5.5%	4.5%	2.2%	1.7%	1.2%	3.4%
Not Economically Active	53.5%	42.2%	33.0%	24.0%	21.3%	37.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Unemployment Rates						
Narrow Unemployment Rate	61.2%	32.7%	10.9%	12.1%	3.3%	25.1%
Broad Unemployment Rate	65.8%	37.9%	21.7%	14.1%	4.8%	29.1%
Wages and Labour Market Linkages						
Average Wage of Employed Persons	R1 017	R1 707	R2 651	R4 751	R13 458	R5 787
Average Number Employed per Household	0.4	0.9	1.0	1.2	1.2	0.9
% Working Households	36.2%	65.8%	71.1%	85.8%	87.8%	69.3%
Average Number Non-Employed per Employed in Working Households	4.1	2.5	1.4	0.9	0.6	1.5
Average Monthly Household Income	R1 671	R3 125	R4 169	R7 317	R24 090	R8 018
Average Monthly per-capita Income	R323	R773	R1 491	R3 117	R12 509	R3 611

Sources: (DPRU and CDSA 2016) Note: All figures weighted using calibrated weights.

The sectoral distribution of pay is outlined in Table 4. A wage level of R3,500 per month – the proposed NMW – falls above the pay of 6.2 million workers (full-time equivalent), or 47.3 percent of the workforce, including 90.7 percent of domestic workers and 84.5 percent of agricultural workers. Furthermore, 54.6 percent of construction workers, and 48.2 percent of wholesale and retail workers earn below R3,500 per month.

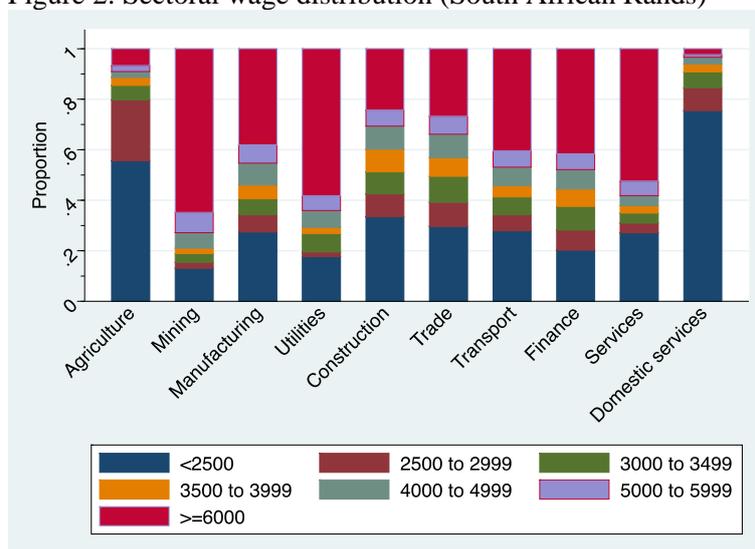
Table 4: Distribution of low pay in South Africa (2016 prices)

Sector	Number of Workers	Number of Workers within Industry Earning Below R3500	Share of Total Number of Workers Earning Below R3500	Workers Within Industry Earning Below R3500	Share of Total Number of Workers Earning Below R3500
Agriculture	657 286	555 193	4,2%	84,5%	8,9%
Mining and Quarrying	427 869	77 912	0,6%	18,2%	1,3%
Manufacturing	1 565 716	622 181	4,7%	39,7%	10,0%
Electricity, gas and water supply	117 118	27 982	0,2%	23,9%	0,5%
Construction	948 331	517 786	3,9%	54,6%	8,3%
Wholesale and Retail Trade	2 307 491	1 112 935	8,5%	48,2%	17,9%
Transport, storage and communication	810 423	319 453	2,4%	39,4%	5,1%
Financial Services	1 816 839	671 008	5,1%	36,9%	10,8%
Community, Social and Personal Services	3 261 921	1 190 986	9,1%	36,5%	19,2%
Private Households	1 235 770	1 120 636	8,5%	90,7%	18,0%
Other	3 933	2 021	0,0%	51,4%	0,0%
Total	13 152 697	6 218 092	47,3%		100,0%

Source: LMDS (2014); 2014 prices; Number of workers represents entire industry (no income cut-off; includes full-time and part-time workers).

Figure 2 gives a graphical indication of where a national minimum wage would take effect at various levels, according to sector. It is again evident how agriculture and domestic work have a markedly different wage distribution from all other sectors, with more than 80 percent of workers in both of these sectors earning below R3,500 per month. The distribution varies across the remaining sectors: in construction and trade, approximately 50 percent of workers earn less than R3,500 per month (adjusted to full-time equivalent earnings), and this drops to approximately 40 percent in manufacturing, transport, finance and services.

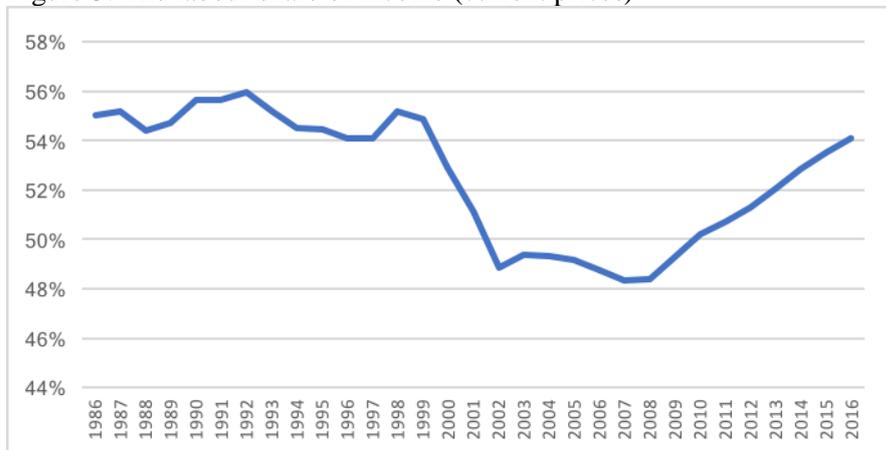
Figure 2: Sectoral wage distribution (South African Rands)



Source: (Finn 2015). August 2016 prices.

Another factor to be aware of is the broader economic context in which this initiative was proposed – one where the labour share of national income had, on average, seen a steady and significant decline since 1985, as shown in Figure 3. While the labour share has recovered somewhat, it was still more than six percentage points lower in 2012 than in 1985. What this graph obscures, however, is that the rising labour share has been driven by rising salaries at the higher end of the wage distribution: while average wages have risen, there has been very low growth in the income of low-wage earners (Strauss, Isaacs, and Capaldo 2017).

Figure 3: The labour share of income (current prices)



Source: *Quantec 2017*

The data above appear to make a very strong case for the adoption of a universal wage floor in South Africa. However, there are some important local and international political economy considerations which make the success of the NMW both less likely, and more interesting, than would first appear to be the case.

The political economy of minimum wages

As highlighted above, despite the profusion of excellent data on the South African labour market, and a high-level political commitment to the implementation of a national minimum wage, the process had deadlocked at Nedlac, and there was little movement in the debate between 2014 and 2016, when the expert panel was appointed. Within four months of the appointment of the panel, the recommendation of a minimum wage of R20 per hour, subject to various conditions, had been adopted at Nedlac. Understanding this process, and the role played by the Advisory Panel, requires an examination of the global and local political and economic context, and the political economy of minimum wages. The first issue is that, globally, minimum wages are a highly contested political and economic issue, and there is by no means consensus on the economic and political justification for minimum wage policies. (Kopf 2017) argues

The minimum wage has become a battleground for economists. Thomas Leonard of Princeton writes in his excellent history of the minimum wage, The Very Idea of Applying Economics: The Modern Minimum-Wage Controversy and Its Antecedents, that the amount of energy that goes into minimum-wage arguments vastly outstrips its importance as a policy matter. Issues like the design of health insurance, tax policy, and entitlement reform are more important policy issues, he says, but don't

inspire nearly the level of rancour – less than 2 percent of American workers received wages at or below the federal minimum in 2016. Leonard believes the minimum wage generates so much angst because it goes right to the heart of how one views free markets. If the minimum wage is good policy, it upends all of orthodox economic theory (Kopf 2017, NP).

Indeed, the debate about the implementation of the minimum wage in South Africa is one part of a far broader debate across countries, and across the field of economics in academia, about the economic implications of wage policies. Neoclassical economics suggests that the market for labour – the labour market – functions just as any other market, say one for tomatoes. That is, the price at which the market “clears” is determined by the intersection of an upward sloping supply curve and a downward sloping demand curve. At this equilibrium price, the supply of willing workers equals demand for labour, and there is no unemployment. The logical extension of this reasoning is that a mandatory minimum wage which is above this equilibrium price will necessarily lead to job losses. The implications of this argument in South Africa is that the country’s unemployment problem is as a result of a price for labour that is too high, due to structural problems, sectoral determinations, and collective bargaining. It is clear that debates about minimum wages are by definition deeply ideological. Not only is any policy contingent on the availability of evidence, but on the ideological lens through which that evidence is examined.

The argument that raising wages would axiomatically lead to higher unemployment was first challenged in a significant fashion in a 1994 paper by (Card and Krueger 1994), which used an increase in the minimum wage in the state of New Jersey to investigate the relationship between minimum wages and employment. They used a natural experiment: while the minimum wage in New Jersey was raised, there was no such change in neighbouring Pennsylvania. This allowed for the comparison of firms (in this case, fast-food restaurants) in the two states, before and after the minimum wage increase. They found, strikingly, that after the wage increase, restaurants in New Jersey *increased* their employment by 13 percent relative to those in Pennsylvania. They found that instead of reducing employment, employers made use of a range of non-wage measures to offset the increase in employment costs (Card and Krueger 1994). The findings raised significant criticism of the mainstream understanding of the relationship between wages and employment, and highlighted the gap between neo-classical economic theory, and evidence from the real world.

Further to the ideological content of the debate, the apparently evidence- and expert-led process of recommending and adopting the NMW was occurring in a time of significant global uncertainty for the place of evidence and experts in the policy-making sphere, particularly the rise of “post-truth politics” and extreme scepticism of experts and expert knowledge. Davies identifies what he calls the “oversupply of facts in the 21st century” (Davies 2016). He argues that the multiplicity of sources and methods, backed by varying levels of credibility, mean that it is increasingly hard for the public to make sense of these data and to act accordingly. This certainly appears to be the case in the process of the NMW policy in South Africa. One of the most significant aspects of the Advisory Panel is that it did not commission any new research – all the evidence on which its deliberations were based had already been in the public sphere for some time. Indeed, as we have highlighted, South Africa has a tradition of strong academic work into poverty and inequality, and there was a very large amount of data available. Relating to Davies’ argument, however, much of these data were in conflict. While the microeconomic

data were largely descriptive in nature and uncontested by the social partners, there was significant contestation around the macroeconomic modelling of the impact of the NMW – an area that is informed largely by ideological views about how labour markets work. Indeed, the Advisory Panel was presented with three different macroeconomic models each of which generated significantly different predictions on the basis of the underlying theories of the labour market on which they were assembled.

These contestations, however, took place as part of a far larger debate on the impact of minimum wages that has been richly discussed in the literature. The Panel made extensive use of international evidence in the deliberations – a triangulations of sorts that moved the debate beyond the borders of South Africa and placed the deliberations in a global context. In addition to this, the Panel included an international expert, Dr Patrick Belser, from the ILO, whose role was very explicitly to advise on international experiences with the implementation of national minimum wages, and to offer advice and cautions to the South African team. According to the ILO (2007), an environment conducive to the creation and growth or transformation of enterprises combines the legitimate quest for profit and the need for development that respects human dignity, environmental sustainability and decent work. Minimum wages should also be seen as only one component of a broader wage policy, which includes collective bargaining and equal pay policies.

How, then, do we understand the adoption of the National Minimum Wage in this context? The success of the Advisory Panel suggests that the prediction of “the erosion of the authority of experts, scientists and professionals in public life” might be somewhat premature (du Toit 2017, NP). Indeed, the Panel was an explicitly advisory body, with a mandate to thoroughly investigate all the available evidence relating to the labour market and minimum wages. (du Toit 2012) has written about the consensus in South Africa of anti-poverty policy, albeit one that has led to interventions on the margin of the economic system, rather than any substantive structural changes. What marks the NMW process different is that it has led to a far more substantive intervention in the labour market, one that constitutes a significant change in the share of income to labour, and will fundamentally alter the lower end of the wage distribution.

The political economy of the minimum wage in South Africa

In order to make sense of the minimum wage process, we need to turn to a very brief history of the labour movement and social dialogue in South Africa. In the late 1980s, the trade union movement in South Africa began venturing into broader economic policy questions. Shifting from a focus on plant-level bargaining, Cosatu and Nactu began to bargain and set wages and conditions of work across firms in a sector or industry. This marked a major shift in strategy. From this, the unions began to engage business and the government (then the apartheid government) on national economic policy issues. One particular event in this regard was the introduction in South Africa of value-added taxes (VAT). Cosatu, using the muscle of its now significant membership, demanded and won the right to have a say on the modality and the level of VAT. Similarly, Cosatu played a significant role in shaping policy and ownership when mobile telephony was first introduced in South Africa. At the time, the government proposed amendments to the Labour Relations Act which proposed significant changes to the law to push back on rights that Cosatu and other union federations had won. Through massive national and international campaigns, the trade unions not only fought off the proposed amendments, but also

won the right to be centrally involved in shaping labour legislations. All of these developments led to the emergence of fora such as the National Economic Forum (NEF) where government and business engaged the trade union movement on a range of policy matters.

As the political transition towards democracy unfolded, the trade unions played a critical role in shaping both the politics of the transition but also discussions about the structure of the post-apartheid economy. The vision, drawing extensively on the experiences of the Scandinavian and German model, was for a post-apartheid social compact premised on co-determination where both national economic policy matters and plant-level work organization would be jointly determined by government, management and workers. It is within these debates and visions that Nedlac was established.

At the heart of the discussion of the NMW process is a discussion about the role of Nedlac. Nedlac is a statutory body established in 1995 in order for social partners to engage on key policy issues – particularly around the labour market. However, there are criticisms from some quarters that Nedlac is no longer able to function as effectively as it was originally intended to, largely as a result of the political developments discussed above (Menon 2017). Webster and Joynt (2014) argue that Nedlac is “distinctive as a peak-level social dialogue institution in that it includes not just labour market issues but also trade and industrial policy, monetary and fiscal policy as well as developmental issues” (Webster and Joynt 2014, 1). The authors note that historically, Nedlac has had an important impact on economic reform in three broad areas – the restructuring of the labour market, trade liberalisation, and competition policy. However, they also argue that the idea and functioning of Nedlac was severely undermined in 1996, when the government bypassed the institution and unilaterally imposed a new economic policy called GEAR (Growth, Employment and Redistribution) (Webster and Joynt 2014). In this article, from 2014, they highlight the concern about whether the costs of Nedlac outweigh its benefits, and note three main issues facing Nedlac. The first is the instrumental use of Nedlac. Secondly, the emergence of an insider-outsider divide, and thirdly, the marginalising of the social dialogue process as the profile of Nedlac has declined. They argue that in a climate of heightened conflict, social dialogue potentially had lost its meaning. It is not clear that this is true. Nedlac has already facilitated the large policy issues in South Africa, and now the focus has turned to the smaller technical issues, which while very important, do not necessarily attract the political attention, and input from political figures, that the larger policy issues draw.

Understanding the process of the NMW also requires an examination of the contemporary political moment in South Africa. One of the main features is the prominence of issues of poverty, economic concentration and inequality in the national discourse. These debates manifest in various forms, most recently the rise of the term “White Monopoly Capital”, which, while a relatively fuzzy term in its own right, in 2016/17 came to signify a variety of economic woes from industrial concentration, to the slow pace of transformation across the economy. In addition to this, South Africa is witnessing the rather extraordinary historical weakness of traditional trade unions, chiefly the Congress of South African Trade Unions (Cosatu) and the rise of newcomers such as the South African Federation of Trade Unions, (Safu) and the Association of Mineworkers and Construction Union (Amcu), which have disrupted organised labour to some extent. Another notable feature is that the NMW process at Nedlac was driven by the then-Deputy President, Cyril Ramaphosa (who has subsequently become the President). Given the deadlocked nature of the NMW process at the beginning of 2016, the task of resolving the impasse and delivering on the ANC election manifesto was seen as a poisoned

chalice, and possibly an attempt by ex-President Zuma to permanently unseat his deputy. In addition, there is a widespread feeling that South African policy making is informed more by the political and personal ambitions of several politicians, and less by relevant evidence or a coherent overarching policy framework. An example of this can be seen in the enduring deadlock over mining policy (Mathews 2018) (Tillet 2018).

There have been three important changes in the political and economic landscape in recent years. The first is that, Nedlac emerged in a context of strong and unified trade unions, in the economic sphere, and when the labour movement was an important political component of the tripartite alliance. This is no longer the case. The union movement is fragmented, and the dominance of Cosatu has been challenged by the rise of Saftu, and the overall political power of the unions has waned significantly. Despite a net gain in trade union membership in the post-apartheid era, South Africa saw declining trade union membership between 1999 and 2007, and again between 2011 and 2012 (the most recent year for which there is reliable data). Notably, according to (Du Toit et al. 2015), the stabilisation in number of unions shown below obscures the growth in the number of public sector unions – by 2001, there were more than one million public sector union members, accounting for 40 percent of total union membership. The phenomena accounts for much of the growth in total membership between 1995 and 1999 (Du Toit et al. 2015). It is clear from the data that private sector unionisation is under pressure, and this is reflected in the political disorganisation of the union movement.

Table 5: Unions and union membership

Year	Registered trade unions	Total membership	Average trade union size
1995	248	2 690 727	10 850
1999	499	3 359 497	6 732
2003	365	3 277 685	8 980
2007	261	3 049 860	11 685
2011	194	3 392 149	17 483
2012	196	3 057 772	15 600

Source: Du Toit 2015

Secondly, business as a formal social partner and political entity has become increasingly fragmented. Thirdly, under the Zuma administration, the same is true of the government; while the attention of the Cabinet was directed elsewhere, many of the key Ministries essentially acted independently of the core, and of each other. This is set against a potential structural change in the nature of policy making in South Africa in the post-Mbeki era, as highlighted by du Toit (du Toit 2017). He questions both the limits of what he terms “techno-political deliberation” as a form of political reasoning in the current political moment, and the role of Nedlac as a forum for the “process of adjudicating and judging between competing demands, interests and definitions of the common good” (du Toit 2017, NP). This leads to the important question: was the NMW process an example of the intended functioning of Nedlac, or was its success contingent on the particular alchemy of a range of factors exogenous to Nedlac? While there is little doubt that Nedlac, and more broadly the idea of social dialogue, is clearly less influential than the heady days of 1995, the NMW process does suggest that social dialogue remains an important institution for addressing inequality and, we would venture, there may be good reasons for

optimism about the potential for Nedlac to play a more instrumental role in addressing the economic challenges South Africa is grappling with. We say this for a number of reasons.

First, although the NMW Advisory Panel played a critical role in resolving the impasse on the NMW, by itself the Panel could not have achieved anything. An important lesson in this regard is the combination and interaction of the formal Nedlac processes, such as the Ekurhuleni Declaration and the Panel's ability to deliver a technical solution that was not only based on an extensive and sound interrogation of the evidence but also palatable to the key parties involved. In other words, it is precisely the interaction of the formal processes in Nedlac and the technical processes of the Panel that made for a viable solution that will now be finalized in the formal processes of the legislature.

Second, a number of commentators have highlighted the role that the Deputy President played in both appointing the Panel and steering the NMW through the Nedlac processes. The Deputy President clearly played a decisive role and his leadership made it possible for an agreement to emerge. However, focussing only on his role ignores the fact that the social partners had already agreed on the idea of a NMW and that concessions had been made by all the parties. Leadership matters, but so do institutions and while it is important to recognise the role of agents, it is also important to recognize that structures that make it possible for agents to act.

Third, and probably most important, a number of political developments made it possible for a solution to the NMW issue to emerge in Nedlac. Various relationships between the social partners made it possible for Nedlac to become marginalised in the policymaking process. First, Cosatu was in an alliance with the ANC and was able to, or believed that it was able to, influence economic policy matters within the ANC more effectively than it could within Nedlac. Second, business had, following President Mbeki's famous 'reprimand' of Anglo-American CEO Tony Trahar in 2004⁶, increasingly withdrawn from the socio-economic arena and left 'politics' to the ANC and Cosatu. Government itself has, under the Zuma presidency, lost any significant ability to coordinate economic policy. In this context of 'policy impasse', it is hardly surprising that questions began to emerge about the efficacy of social dialogue in South Africa.

However, in the period leading up to the NMW, significant changes had occurred to break the impasse. Cosatu is now significantly weaker than it has been and, though still in an alliance with the ANC, its ability to shape policy inside the ANC is significantly weakened. Equally important, following the firing of Finance Minister Nhlanhla Nene, business, under the leadership of a new brand of black business leaders Jabu Mabuza and Bonang Mohale among others, has taken on a more active 'political role' engaging for the first time with the socio-economic and political challenges that South Africa faces. Government too, in the absence of any other significant policy to address poverty and inequality in the labour market cohered around the NMW issue. These developments created the possibility for serious engagement of all these actors within the Nedlac process.

In addition to the formal tripartite arrangement, the role of the media and of the Department of Labour deserve some comment. The announcement of the minimum wage, and the release of the Panel's report, was accompanied by a wide-ranging media campaign that was driven by the Panel itself, and not Nedlac or any of the social partners. Did this have the effect of de-

⁶ <https://www.fin24.com/Economy/Mbeki-Stop-bad-mouthing-SA-20040910>.

politicising the debate for a time, and allowing the facts and merits of the various arguments to be discussed in the public realm? In this regard, the Panel spent a lot of time in the media publicising the microeconomic evidence that underpinned the decision (see Valodia and Francis 2016, Valodia 2017a and Valodia 2017b). Despite the fact that this information was largely accepted by the academic and policy fraternities, it transpired that the public was not aware of the data. The fact that 47 percent of working people earned less than R3,500 per month attracted huge attention in the media, and helped the NMW proposal gain traction. In effect, a widespread public understanding and acceptance of the data made the argument for the NMW. An additional aspect of the media strategy was that the Panel engaged in a very open and public manner that was not defensive, and this appeared to diffuse scepticism of experts and created a broader social dialogue on the NMW issue. The role of the Department of Labour also merits some reflection. The department has historically been relatively ineffective, at least since around 1995, after the passing of the Basic Conditions of Employment Act and the associated legislation. The Department recognised that there was a lot to be gained from its role in the NMW process, which placed the Department at the very centre of the debate on inequality in the labour market.

In summary, there may be good grounds for optimism for the future of social dialogue in South Africa. The political configurations that somewhat ‘side-lined’ social dialogue in favour of bilateral deal-making have changed in South Africa and the fact that the NMW was agreed to within Nedlac and is now being implemented bodes very well for the future of social dialogue and Nedlac.

Conclusion

What is notable about the NMW process is that, despite the general political malaise in South Africa, policy incoherence, and a backdrop of growing scepticism about the role of evidence and experts in policy making, a policy intervention as important and impactful as the NMW was steered through Nedlac by the Deputy President, while other important policies remained deadlocked. In trying to understand this, there are several things to consider. The first, as du Toit states, is that there is a strong anti-poverty policy consensus (if not an agreement on how to address poverty) in South Africa. The post-Apartheid period has seen widespread support for anti-poverty interventions. The NMW process has to be seen in this historical context. While it arguably differs from previous policy interventions in that it is a more structural intervention, it is not an anomaly in the poverty policy trajectory of South Africa.

Secondly, the process shows that it is possibly not the use of experts per se, but their role that is contested. In the case of the NMW, the Advisory Panel’s central mandate was to make sense of the plethora of data and information available, and to suggest a coherent policy. Thus, a notable factor was the general acceptance, both within Nedlac and from the general public, and in the press, of the legitimacy of the Advisory Panel in itself. In general, it appears that the Panel enjoyed a high level of political and economic legitimacy. Furthermore, and perhaps related to its success, the Panel was given a very specific mandate, as outlined in detail above, to recommend an introductory level for the NMW and to make recommendations for appropriate institutional arrangements. They were not tasked with deciding whether or not to implement a minimum wage, and perhaps this limited the political exposure of the Panel. Thirdly, public buy-in was central to the acceptance of the recommendations of the Advisory Panel. The

evidence itself was used to create the argument for the minimum wage rather than being deployed only to strengthen the recommendations of the Panel.

Finally, the process calls for a reflection on the role of Nedlac itself, the place of social dialogue in policy making. The NMW process shows that perhaps institutionalised social dialogue continues to be a central part of our policy making process, but it cannot be taken for granted. The NMW process has shown that the particular configuration of the social dialogue process, and the roles assigned to each player, matter. The policy making process shouldn't be viewed in the narrow confines of the institutional process. The role of outside players, such as experts and the media, if part of a coherent and considered strategy, can play an important role in moving policy forward.

Bibliography

Card, David, and Alan Krueger. 1994. 'Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania'. *American Economic Review* 84: 772–93.

Davies, William. 2016. 'The Age of Post-Truth Politics'. *The New York Times*, 24 August 2016. <https://www.nytimes.com/2016/08/24/opinion/campaign-stops/the-age-of-post-truth-politics.html>.

DPRU, and CDSA. 2016. 'Investigating the Feasibility of a National Minimum Wage for South Africa'. http://www.ilo.org/ilostat/faces/oracle/webcenter/portalapp/pagehierarchy/Page3.jsp?MBI_ID=2&_afLoop=4957141712613&_afWindowMode=0&_afWindowId=loeqoumvd_1#!%40%40%3F_afWindowId%3Dloeqoumvd_1%26_afLoop%3D4957141712613%26MBI_ID%3D2%26_afWindowMode%3D0%26_adf.ctrl-state%3Dloeqoumvd_33.

Du Toit, Darcy, Shane Godfrey, Carole Cooper, Graham Giles, Tamara Cohen, Bradley Conradie, and Anton Steenkamp. 2015. *Labour Relations Law: A Comprehensive Guide*. Sixth Edition. Johannesburg: LexisNexis.

Finn, Arden. 2015. 'A National Minimum Wage in the Context of the South African Labour Market'. National Minimum Wage Research Institute. <http://nationalminimumwage.co.za/wp-content/uploads/2015/09/NMW-RI-Descriptive-Statistics-Final.pdf>.

Kopf, Dan. 2017. 'Economists Still Can't Decide Whether the Minimum Wage Is a Good Thing'. *Quartz*, 22 August 2017. <https://qz.com/1034952/economists-still-cant-decide-whether-the-minimum-wage-is-a-good-thing/>.

Mathews, Charlotte. 2018. 'Mining Charter: Breaking the Deadlock'. *The Financial Mail*, 15 February 2018. tax policy, and entitlement reform are more important policy issues, he says, but don't inspire nearly the level of rancour— percent of American workers received wages at or below the federal minimum in 2016.

Menon, Sunita. 2017. 'Nedlac: Council of Conflict'. *The Financial Mail*, 8 June 2017. <https://www.businesslive.co.za/fm/features/2017-06-08-nedlac-council-of-conflict/>.

National Economic Development and Labour Council. 2014. 'Declaration of the Labour Relations Indaba'. Ekurhuleni Declaration. Ekurhuleni. http://nationalminimumwage.co.za/wp-content/uploads/2015/08/0012indaba_declaration.pdf.

National Planning Commission. 2011. 'National Development Plan: Vision for 2030.' Pretoria, South Africa: The National Planning Commission.

- Statistics South Africa. 2016. 'Labour Market Dynamics in South Africa, 2015.' Pretoria: Statistics South Africa.
- STATS SA. 2017. 'Poverty Trends in South Africa'. 03-10-06. Pretoria: Statistics South Africa.
- Strauss, Ilan, Gilad Isaacs, and Jeronim Capaldo. 2017. 'The Impact of Minimum Wage Increases on the South African Economy in the Global Policy Model'. 20. ILO Research Paper. Geneva: International Labour Organisation. http://www.ilo.org/wcmsp5/groups/public/---dgreports/---inst/documents/publication/wcms_593076.pdf.
- Tillet, Edward. 2018. 'Ramaphose and the Challenge of the Mining Charter'. *PoliticsWeb*, 26 June 2018. <https://www.politicsweb.co.za/opinion/ramaphosa-and-the-challenge-of-the-mining-charter>.
- Toit, Andries du. 2012. 'The Trouble with Poverty: Reflections on South Africa's Post-Apartheid Anti-Poverty Consensus'. Working Paper 22. PLAAS, University of the Western Cape.
- . 2017. 'Hyper-Politics and Anti-Politics'. *Global Policy Journal*, 10 August 2017. <http://www.globalpolicyjournal.com/blog/10/08/2017/hyper-political-anti-politics>.
- Valodia, Imraan. 2017a. 'Minimum Wage Is Part of the Moral Economy'. *Mail and Guardian*, 17 January 2017. <https://mg.co.za/article/2017-01-17-00-the-minimum-wage-is-a-step-to-the-moral-economy>.
- . 2017b. 'Hourly Minimum Wage Is Likely to Benefit Employees and Employers'. *Business Day*, 1 March 2017. <https://www.businesslive.co.za/bd/opinion/2017-03-01-hourly-minimum-wage-is-likely-to-benefit-employees-and-employers/>.
- Valodia, Imraan, Debbie Collier, Ayabonga Cawe, Mamokete Lijane, Siphokazi Koyana, Murray Leibbrandt, and David Francis. 2016. 'A National Minimum Wage for South Africa'. Johannesburg: NEDLAC. <http://new.nedlac.org.za/wp-content/uploads/2016/11/NMW-Report-Draft-CoP-FINAL1.pdf>.
- Valodia, Imraan, and David Francis. 2016. 'How the Search for a National Minimum Wage Laid Bare South Africa's Faultlines'. *The Conversation*, 28 November 2016. <https://theconversation.com/how-the-search-for-a-national-minimum-wage-laid-bare-south-africas-faultlines-69382>.
- Webster, Eddie, and Katherine Joynt. 2014. 'Repositioning Social Dialogue: The South African Case'. 191. Global Labour Column. http://www.global-labour-university.org/fileadmin/GLU_Column/papers/no_191_Joynt_Webster.pdf.