Living Wage South Africa Network

“Living wages is not an amount, but an approach“

Position Paper 1

Living wages in South Africa: A business argument and approach

Executive summary

This paper highlights the importance of employers paying living wages in South Africa to

- maintain business sustainability,
- stability in society and
- social and ethical responsibility.

Employers should work towards paying a monthly minimum net income of R12,000-R15,000 for a 40-hour working week.

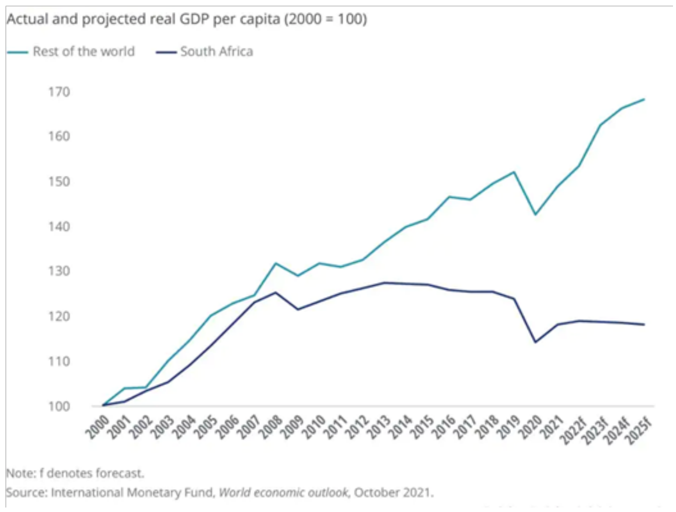
*A **living wage** is the remuneration required for an individual and their family to attain a frugal, but dignified standard of living.*

South African business is stifled by continued low economic growth. National Treasury expects 2.1% real GDP growth in 2022, and 1.8% over the medium term[i]. This is below the average growth rate of >5% targeted in the National Development Plan [ii] and the required >3% sustained growth rate identified by Deloitte [iii]. The contribution of low wages to this economic situation has so far been overlooked [iii].

Wage increases, especially at the lower end of the income spectrum, provide a direct economic stimulus by creating greater disposable income to flow into the economy.

Minimum wage earners are typically unable to cover both, regular monthly needs and costs associated with unforeseen events like funerals or illness. The stress associated with insufficient money [iv; v] prevents individuals from working to their full potential, increases absenteeism and turnover [vi]. The reduced business performance which results indirectly hinders economic growth further.
The benefit of paying every employee enough to enable them and their family to live, thus extends beyond the employee and its family.
Technically, the introduction of the National Minimum Wage Commission and the national minimum wage in 2018, determined through a consultative process including business, labour and government and legislated, means that South Africa has addressed the International Labour Organization's (ILO) Minimum Wage-Fixing Machinery Convention, 1928 (No. 26).

Figure 1. Per capita real GDP growth (actual and projected) in South Africa and the rest of the world (Source: Rolland et al., 2022 [iii])



Less widely known is that the ILO also stipulates a minimum wage floor: Its 1919 constitutional preamble reads that work has to provide at least an adequate living wage. It suggests that, in fact, anyone providing work – either as employee or contractor – receives remuneration not just at legislated minimum wage level, but at a level that enables a decent standard of living.

In practice, minimum and living wages have become increasingly separate concepts. The amount earned by low-income workers in South Africa – even if above national minimum wage levels - often enables survival but entraps people in poverty[vii]. In this way, employers who pay below living wage levels contribute towards poverty enslavement. The national minimum wage level for 2022 (R23,19/hour) amounts t o approximately half to a third of the current living wage based on

Table 1. Living wage estimates for South Africa determined by PWC, 2022 [viii]). Amounts based on a percentile analysis on published and Cost-of-Living adjusted living wages in 26 European countries

	Need of individual wage earner contributing to a household		Collective need of a family		
Household size	1 person	4 people	4 people	5 people	6 people
25th percentile	R5,582	R6,972	R12,549	R14,898	R17,232
50th percentile	R7,448	R9,495	R17,091	R20,356	R23,688
75th percentile	R9,648	R12,756	R22,961	R27,606	R32,271

25th percentile — 25% of living wages are lower than this figure and 75% are higher
50th percentile —50% of living wages are lower than this figure and 50% are higher
75th percentile —25% of the living wages are higher than this figure and 75% are lower.

living wage estimates by PWC [viii] and the University of Cape Town and Tshwane University of Technology[ix]. The income earned by many at the low-income end of the wage spectrum thus tends to trap individuals in poverty and sustains or even exacerbates income inequality.

Individuals in low-income work often cannot survive without additional loans to meet their needs [ix]. Insufficient income often forces individuals into a position where they have no choice but to secure additional money through unlicensed money lenders. With no regulated terms, low-income earners become exploited due to their precarious situation. Even where loans are afforded through licensed financial service providers these are often unaffordable. Interest on credit means that, over time, their income becomes negative, ultimately leaving those with low-income jobs poorer *because* they work [ix]. It erodes the quality of life for low-income earners not only financially. The associated stress has been shown to reduce actual cognitive functioning as it depletes mental resources, as well as physical and mental health [x]. It also prevents low-income workers from thinking of tomorrow and planning strategically as they have to focus on day-to-day survival.

By paying below living wage levels, employers thus contribute directly towards maintaining poverty and low quality of life in South Africa, thus denying people dignity.

Paying wages which at minimum meet the living wage threshold. is a corporate responsibility, not just a "nice to have". It means paying employees what they are owed.

> "South Africa has one of the highest levels of inequality. Inequality exhibits through skewed earning distribution, imbalanced access to opportunities and regional disparities."
> "The distribution of income is skewed to the richest 20% of the population who hold 68% (compared to a median of 47 percent for similar emerging markets). The bottom 40 percent of the population holds 7 percent of income (compared to 16 percent for other emerging markets)."
> **International Monetary Fund, 2020**

The argument for living wages is thus not only a moral one but based on employers' obligation towards employees and society.
Higher wages at the lower end of the wage-spectrum also serve strategic purposes. South Africa's ***Companies Amendment Bill of 2021***, currently in draft form, mandates for-profit companies to report the pay ratio between the 5% of earners that earn the highest and the lowest 5%. While in the proposed legislation it is only a reporting requirement, it opens the possibility of pay-disparity based penalties in future.
Arising out of the Covid-19 pandemic and restrictions the South African public has become more aware of social sustainability, especially in the higher income segment.

Companies Act Amendment Bill of 2021 – Draft
Selected proposed insertions in Companies Act 71 of 2008 (Section 30A):
(3) The remuneration report must, in the prescribed manner, consist of the following parts:
- the total remuneration including all salary, benefits (including employer contributions to benefit funds), short-term incentives (bonuses) and long-term incentives such as share options and any other type of long-term incentive awards which has been settled in the year under review of the employee of the company with the highest total remuneration, be it the chief executive officer or any other prescribed officer in the company as may be specified in terms of section 30(4) and (6) of this Act;
- the total remuneration, including all salary, benefits (including employer contributions to benefit funds) and incentives (bonuses), as recorded in the company's payroll record, of the employee as defined by section 213 of the Labour Relations Act, 1995 (Act No. 66 of 1995) of the company, with the lowest total remuneration in the company; and
- the average remuneration of all employees, median remuneration of all employees and the remuneration gap reflecting the ratio between the total remuneration of the top 5% highest paid employees and the total remuneration of the bottom 5% lowest paid employees of the company.

At an international level there is pressure to implement living wages for companies working with living wage accredited organisations along their supply chains. Organisations accredited as living wage employers with the Living Wage UK Foundation, for example, commit to conducting business with only those organisations who offer living wages. In short, there is a business case for living wages, too.
Examples, such as Gravity Payments, show how a higher wage bill associated with living wages can be set off against greater profits arising from enhanced public image, increased staff performance and loyalty towards the employer, lower absenteeism and turnover rates while also creating higher quality of life for employees and their families. The reason lies not only in the increased monetary amount, but also in its symbolic meaning, through its effect on employees feeling valued and recognised.

Without one standard methodology for determining living wages some employers have been unsure of what amount to consider a living wage in South Africa, how to determine it, especially how to take into account regional differences, and how to implement it. The Living Wage South Africa Network can assist with these questions. The Living Wage South Africa Network is an open network which brings together different stakeholders interested in the living wage concept in South Africa. It provides networking opportunities for the exchange of resources and research capacity associated with the implementation of living wages. While most living wage methodologies make use of an econometric approach, we suggest an approach that is based on the lived experiences of employees instead. We also advocate to adopt one living wage standard rather than to introduce a variety of amounts. The Living Wage South Africa Network is a global affiliate of the Living Wage UK Foundation. Our next paper will share different methodologies to determine a living wage.

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