

# Supporting wage-led growth

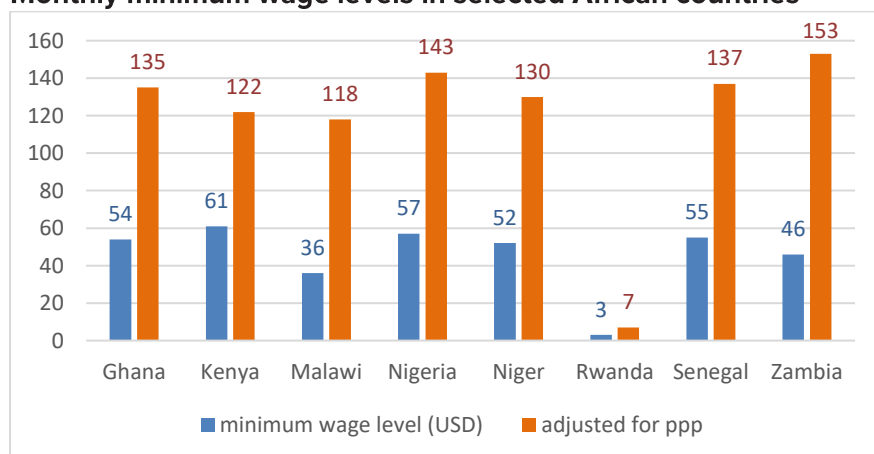
## The case for coordinated African wage floors

While the GDP of Sub-Saharan Africa has more than quadrupled in the last 15 years, from 368 billion current USD to 1.5 trillion<sup>1</sup>, it is clear that this massive economic growth has not been shared among the large majority of Africa's people. Poverty is staggering throughout the continent, and in 20 African countries more than half of the population lives below the national poverty line<sup>2</sup>. Over 16% of the people on the continent are malnourished<sup>3</sup> and levels of inequality are among the highest in the world<sup>4</sup>.

These trends are not only unacceptable from a social justice perspective, but they are also a threat to social and political stability as well as sustainable economic development. The World Bank, IMF, academics and others have shown how high income inequality carries significant risks, including low social mobility, under-utilisation of human capital, eroded confidence in institutions, and reduced social cohesion<sup>5</sup>.

A lack of decent work possibilities that are underpinned by wages that allow workers to live in dignity is exacerbating this situation. Minimum wages on this continent are the lowest in the world, and many African countries do not have a minimum wage at all. At the same time, the possibility for workers to organize and collectively bargain for fair wages is also being compromised in many African countries as trade union rights are under attack<sup>6</sup>. Dismally low wages are also leading to low household consumption, which in turn reduces aggregate demand, particularly when wages are stagnating in many economies at the same time<sup>7</sup>. This in turn compromises job creation and productivity, and constrains possibilities for even greater economic growth.

### Monthly minimum wage levels in selected African countries



Source: ITUC union questionnaires and wageindicator database. PPP conversion factors are based on 2015 values (latest available) and taken from the World Bank database.

Notes: In the case of multiple minimum wages (Kenya, Zambia, Senegal) the lowest rate applies.

<sup>1</sup> World bank database, GDP in current USD (accessed 03/2018)

<sup>2</sup> See UN Economic Commission for Africa 2017 Statistical Yearbook

<sup>3</sup> Ibid

<sup>4</sup> World bank database, Gini indicator (accessed 03/2018)

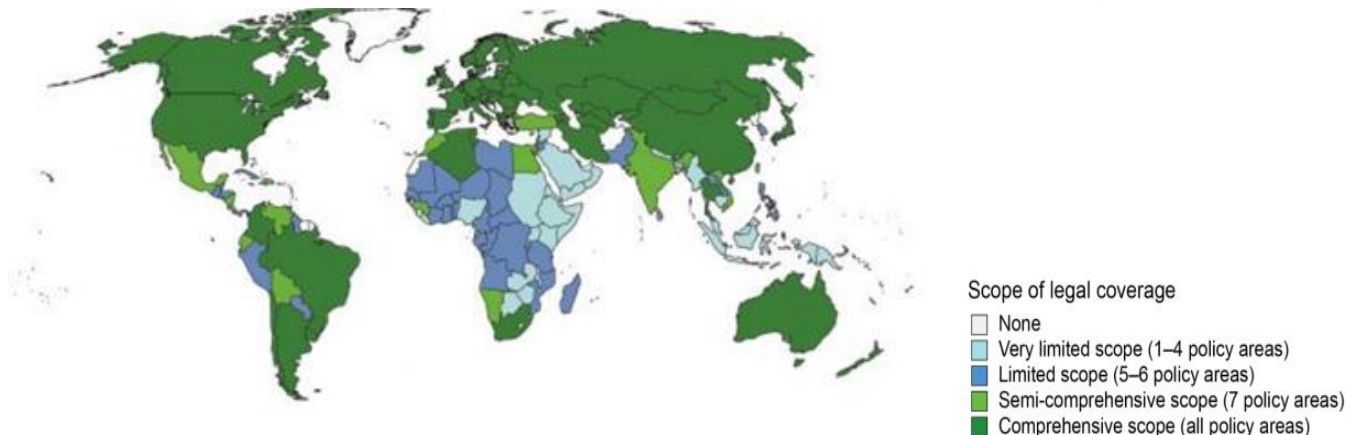
<sup>5</sup> See for instance World Bank (2016) Poverty and Shared Prosperity; IMF (2015) Causes and Consequences of Income Inequality: A Global Perspective; Wilkinson and Pickett (2009) The Spirit Level: Why More Equal Societies Almost Always Do Better

<sup>6</sup> For more information please refer to the [ITUC Global Rights Index 2017](#)

<sup>7</sup> ILO (2017) [Global Wage Report 2016/2017](#)

In addition to low wages, social protection systems are woefully under-developed in Africa. The chart below from the ILO shows that social protection systems remain limited in scope throughout the vast majority of countries on the continent.

### Number of areas covered in social protection programmes anchored in national legislation



Source: ILO Global Social Protection Report 2014-2015

Raising the minimum wage and enhancing social protection would have significant social and economic benefits. Minimum wages have been shown to be an effective tool in reducing poverty as well as wage inequalities by pushing up wages at the bottom of the distribution<sup>8</sup>. While employers and some governments have wrongly argued that raising the minimum wage would compromise companies’ abilities to operate and reduce jobs, the vast majority of literature has shown that this is not the case<sup>9</sup>. Empirical evidence from South Africa - as well as countries in other regions such as Brazil, Indonesia, and India - has shown that the minimum wage can have a positive impact on employment<sup>10</sup>. Empirical evidence also shows that minimum wages increases have not affected competitiveness as there are other, more critical factors such as skill supply, the rule of law, the stability of industrial relations, availability and use of technology and infrastructure, logistics, and trade rules<sup>11</sup>. Numerous studies have also highlighted the positive effects of minimum wages on improved skills, reduced turnover, higher organizational efficiency and higher productivity<sup>12</sup>. Social protection systems have also been shown to be extremely effective in preventing and reducing poverty, fostering skills development and employability, providing crucial automatic stabilisers, reducing informality and supporting overall economic growth and development<sup>13</sup>.

Unions across the continent are calling on their leaders to set minimum wage floors that allow African workers and their families to live in dignity, and which will support African economic development. If African governments support and promote minimum wage increases across the continent, competition can no longer be argued to be a barrier. Minimum wages should be developed together with social partners and should be based on the cost of living, considering at minimum the costs of the following essential items:

Minimum living wage	
Food	Education expenses
Housing, household bills and utilities	Essential care costs
Transport	Medical expenses
Clothing	Contingency for emergencies

<sup>8</sup> See for instance [ILO Global Wage Report 2016/2017](#)

<sup>9</sup> See for instance the ILO [Minimum Wage Policy Guide](#) ; World Bank (2015) [Balancing Regulation to Promote Jobs](#)

<sup>10</sup> ITUC Frontlines Report (2014) [Income inequality: Time to deliver an adequate living wage](#)

<sup>11</sup> See for instance, OECD (2008) [Skills for Competitiveness: Tackling the low skilled equilibrium conceptual framework](#); World Bank (2017) [Trouble in the Making? The Future of Manufacturing-Led Development](#)

<sup>12</sup> See for instance a comparative evidence review conducted by the Ontario Ministry of Labour (2015) [The Economic Impact of Minimum Wages](#); OECD (2016) [Employment Outlook](#); ILO (2017) [Global Wage Report 2016/2017](#)

<sup>13</sup> See for instance ILO World Social Protection Report 2017-2019; European Commission (2013) [Evidence of Demographic and Social Trends: Social policies’ contribution to inclusion, employment and the economy](#); ILO (2011) [Decent Work and the Informal Economy](#); ILO (2014) [Monotax: Promoting formalization and protection of independent workers](#)

Minimum wages must cover all workers in order to ensure that every worker is guaranteed a minimum standard of living, and they should be effectively enforced through labour inspectorates, as well as through dissuasive sanctions for non-compliance. Governments must also ensure and promote collective bargaining rights in order to achieve fair wages above the minimum wage level. Accordingly, workers should have the right to organise, join trade unions, and negotiate appropriate wages and compensation for their work with their employers.

Unions also call on governments to ensure adequate, comprehensive social protection systems based on ILO Convention 102 on Social Security and Recommendation 202 on Social protection Floors, and in line with the commitment of the UN Agenda 2030 to expand social protection coverage. Social protection systems must contain, at minimum, the following elements:

Social protection	
Medical care	Family benefit
Sickness benefit	Maternity benefit
Unemployment/ out-of-work benefits	Disability benefit
Old-age pension	Survivors' benefit
Employment injury benefit	Child and elderly care

To achieve this, governments must ensure adequate fiscal space for social protection social protection. Tackling illicit financial flows and tax evasion, progressive taxation, and supporting the transition to formal employment from the informal economy will all be essential in this regard.

The promotion of wage increases and the expansion of social protection are foundations for development, and regional coordination is necessary. We therefore call on the African Union to coordinate these reforms by calling for concrete, time-bound commitments for establishing minimum living wages and expanding social protection.