# STUDY UNIT 1 – INTRODUCTION

**LEARNING OUTCOMES:**

i. Understand the necessity of studying the labour market
ii. Be able to describe the unique characteristics of the labour market
iii. Understand why unrealistic assumptions are sometimes made in theory
iv. Be able to describe the important characteristics of the South African labour market

## 1. INTRODUCTION

## 1.1 LABOUR MARKET

*LO1: Understand the necessity of studying the labour market*

NECESSITY OF STUDYING THE LABOUR MARKET

- Help us understand the economic questions or issues that we encounter on a daily basis such as unemployment, strikes, skills shortage, affirmative action etc
- All stakeholders would benefit from an in-depth knowledge of the labour market in SA as well as a theoretical analysis of the labour market in general.
- Employers as well as employees have to deal on a daily basis with concepts that we see and hear about in the media.

## 1.2 UNIQUE CHARACTERISTICS OF THE LABOUR MARKET

*LO2: Be able to describe the unique characteristics of the labour market*

THE SEVEN UNIQUE CHARACTERISTICS OF THE LABOUR MARKET

- A product is not being bought but services of a person, a human being.
- Principles of fairness, equity and humanness must be applied.
- The services of the worker are being bought and not the worker therefore a contractual agreement is important in that relationship.
- The market is characterized by great diversity
- The individual worker changes over time
- There is not one single market or clearing house e.g. JSE
- The price of labour is complex

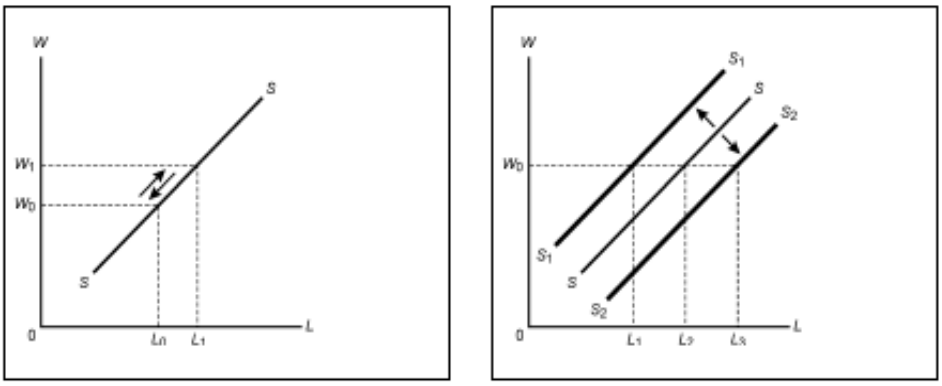
## 1.3 UNREALISTIC ASSUMPTIONS ON THEORY (IES)

*LO3: Understand why unrealistic assumptions are sometimes made in theory*

- Although at times these assumptions might appear to be rather unrealistic, they help us to better understand the key issue under discussion.

## DISTINCTION BETWEEN A MOVEMENT ALONG a CURVE and a SHIFT of the CURVE

**Movement along a supply curve** **Shift of the supply curve**




- Movement along a laour demand/supply curve reflects what will happen to the number of workers demanded/supplied if the price of labour (wages rate) changes, ceteris paribus.
- Otherwise only changes in wage rate will lead to movement along the supply/demand curve
- A shift of laour demand/supply curve reflects what will happen to the whole labour demand/supply curve if one of the other determinants of workers demanded/supplied at each wage rate changes

### Some of Possible reasons for a change in supply:

- New workers entering the market will shift the supply curve to the right
- Impact of HIV/AIDS on labour force will shift the supply curve to the left
- Non-monetary aspects e.g fringe benefits, job security etc will shift the supply curve to the right

### Some of Possible reasons for a change in demand:

- a new substitute for labour becomes available e.g new technology- the introduction of ATMs resulted in a decrease in the demand for bank tellers (demand curve will shift to the left)
- if the price of a substitute factor of production changes e.g if the price of machinery (capital) decreases, more workers will be replaced with machines (demand curve will shift to the left)
- a sharp increase in export orders (the demand curve will shift to the right)
- if the demand for a certain product produced by the labourers decreases, labour demand will also decrease (demand curve will shift to the left)

## 1.4 IMPORTANT CHARACTERISTICS of the SOUTH AFRICAN LABOUR MARKET

LO4: Be able to describe the important characteristics of the South African labour market

- One of the main characteristics of the South African labour market is a chronic skills mismatch.
  - ✓ Where at prevailing wage rates, there is excess demand for skilled labour and an oversupply of unskilled labour.
  - ✓ The skills mismatch has its origins in the apartheid era. The education system for the non-white population, particularly blacks, constrained the acquisition of skills among the majority of the population
  - ✓ Unemployment is particularly concentrated among historically disadvantaged groups and is higher among the rural, female, uneducated, and young segments of the population
- Several authors have argued that South Africa's labour laws impose rigidities in the labour market that contribute to unemployment (Barker, 1999; Black and Rankin, 1998).
  - ✓ The argument is that the labour laws lead to higher wages than would otherwise prevail.
  - ✓ They also involve statutes to regulate working conditions that, while protecting worker rights, create a disincentive for firms to hire and fire workers

### THE TWO IMPORTANT FUNCTIONS OF LABOUR MARKET

- Allocate human resources among alternative users
- Distribute incomes

### THE OBJECTIVES THAT THE FUNCTIONING OF LABOUR MARKET SERVE

- Growth
- Equity
- Efficiency
- Social justice

### PROBLEMS THAT NEED TO BE ADDRESSED IN SOUTH AFRICA

Briefly discuss the problems that need to be addressed in South Africa in order to ensure a successful labour market outcome.

- POVERTY
  - specifically rural poverty
- INCOME INEQUALITY
  - Interracial inequality has diminished while intra-racial inequality has increased.

- UNEMPLOYMENT
    - Particularly females and blacks
- HIGH LABOUR COSTS AND LOW PRODUCTIVITY
    - The economy has been growing without growing of employment because of high labour costs. Where labour productivity has increased it has been at the expense of jobs

# STUDY UNIT 2 – THE SUPPLY OF LABOUR

**LEARNING OUTCOMES:**

i. Explain the labour force as the supply of labour
ii. Explain the labour force participation rate
iii. Discuss population and population growth
iv. Discuss the total fertility rate
v. Explain the impact of HIV/Aids
vi. Discuss immigration, emigration and migrant labour
vii. Explain the theoretical principles underlying the supply of labour

## 2. THE SUPPLY OF LABOUR

### 2.1 LABOUR FORCE

*LO1: Explain the labour force as the supply of labour*

LABOUR FORCE AS THE SUPPLY OF LABOUR

- Refers to all those people who are working, whether for themselves or for someone else, as well as those who want to work and are looking for work, i.e unemployed people.

TOTAL LABOUR FORCE OR ECONOMICALLY ACTIVE POPULATION (EAP)

- Defined as the total number of people over the age of 15 years who present their labour for the production of economic goods and services, whether employed or not.

DETERMINATS OF SUPPLY OF LABOUR:

- Wage rate
- Measured by labour force participation (the % of the working age population that is working or want to work)
- Population size – labour force size
- Skills level

- education and training

## 2.2 LABOUR FORCE PARTICIPATION RATE (LFPR)

*LO2: Explain the labour force participation rate*

LABOUR FORCE PARTICIPATION RATE

- Is the percentage of the population of working age that furnishes its labour for the production of economic goods and services, whether employed or not.
- in short it refers to the percentage of the population that is in the labour force

$$LFPR = \frac{labour\ force}{Working\ age\ population}\ X\ 100$$

Labour Force = Number of Employed + Number of Unemployed

## 2.3 POPULATION AND POPULATION GROWTH

*LO3: Discuss population and population growth*

POPULATION

- The total number of persons inhabiting a country, city, or any district or area.

POPULATION GROWTH

- The increase in the number of people that reside within a state or country.
- In order to determine whether there has been population growth, the following formula is used:
    - Population growth = (birth rate + immigration) – (death + emigration)
- A positive growth rate indicates that the population is increasing, while a negative growth rate indicates that the population is decreasing
- Reflects how the size of the population is changing over time.

## 2.4 FERTILITY RATE

*LO4: Discuss the total fertility rate*

TOTAL FERTILITY RATE (TFR)

- Is the average number of children born alive to a woman in her reproductive years (15 to 49)
- There is a reduction in fertility rate of all population groups in S.A. In S. A. the ideal TFR has been set at 2.1 children per woman by the year 2010.
- This is called the replacement level or breakeven point i.e. where the fertility rate and the mortality rate are equal so that there is no increase or decrease in the population.

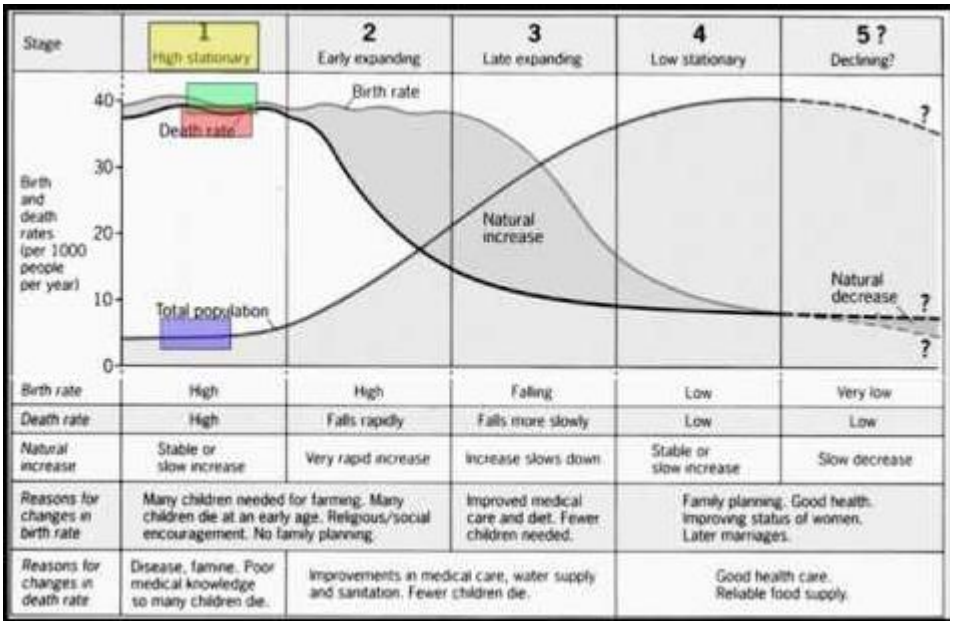
- The decline in the TFR and population growth rates as a whole can be explained by the so called “theory of demographic transition”

## FACTORS INFLUENCING FERTILITY RATES

- Rural residency – children for labour
- Poverty – children for security in later life
- Low status of women – succumb to social and cultural pressure to have children

## THEORY OF DEMOGRAPHIC TRANSITION

VARIOUS STAGES OF THE DEMOGRAPHIC TRANSITION




- FIRST STAGE
  - It is characterized by high birth rates and high mortality rates.
  - Because both (birth and death) are very high, the population may increase slowly or not at all
  - It is associated with pre Modern times
  - In some instances the high birth rates could be because of strong cultural traditions and strong family ties, be at relatively moderate levels.
  - While high death rates could be due to lack of knowledge of disease prevention and cure, occasional food shortages etc

- SECOND STAGE

- It is characterized by a steep decline in mortality rates, particularly among the very young, because of improved health services, improved water and sanitation systems, and better medical care.
- It is associated with urbanizing or industrializing
- Birth rates may increase because of a breakdown in cultural traditions and family life. This result is a sharp increase in the natural rate of population growth.
- The third stage requires sharply declining birth rates, making it difficult for some less developed countries to move from the second stage.
- Many of the least developed countries today are in Stage 2.

- STAGE THREE
  - It is characterized by low fertility and low mortality rates.
  - It is associated with mature industrial
  - It has been found that birth (fertility) rates start declining only under certain circumstances, and these relate especially to improved living standard.
  - Most developing countries are in Stage 3.
- STAGE FOUR
  - It is characterized by stability and at this stage the population age structure has become older
  - It is associated with post industrial
  - In some cases the fertility rate falls well below replacement and population decline sets in rapidly
  - Most developed countries are in Stage 4.
- STAGE 5
  - A possible of stage 5 would include countries in which fertility rates have fallen significantly below replacement level (2 children) and the elderly population is greater than the youthful population.

## DESCRIBING THE SOUTH AFRICAN SITUATION ACCORDING TO THIS THEORY

- The whites in South Africa made the transition to this stage in the 1950s; the Indians/ Asians in the 1960s; the Coloureds in the 1970s and the Africans in the 1990s.

### 2.5 IMPACT OF HIV/AIDS

*LO5: Explain the impact of HIV/Aids*

The following include some possible consequences of HIV/Aids:

- DEMOGRAPHIC IMPACT

- Life expectancy expected to drop to 47 years in 2015.
- This will lead to sharp drop in the growth of the total population

- DEPENDENCY RATIO
  - Increase mortality in the 25 to 40 years age group
  - Increase in the number of orphans
  - Elderly lose adult children and support structure
- SUPPLY OF LABOUR
  - Reduce labour force thus leading smaller labour force
  - Affecting the key productive ages of 20 to 40 years
- EMPLOYMENT
  - Unemployment might not increase but not likely to decrease
  - Economic growth not high enough to reduce unemployment
- DEPLETION OF HUMAN CAPITAL
  - Personal and economic returns from years of investment in schooling and higher education will be cut off before any returns can accrue to the individual, family or society.
- POVERTY AND INEQUALITY
  - Household face dire financial difficulties as their breadwinners fall ill and die, care and funerals.
  - This is likely to increase the high level of inequality found in the county.
- INSURANCE INDUSTRY AND BENEFIT SCHEMES
  - Employers already face increased contributions to their employee's life, disability and medical benefit schemes.
  - Life insurers exposed to increased liabilities on existing policies.
- DIRECT HEALTH COSTS
  - High impact on medical costs and health services
  - Hospitals will be overburdened with Aids patient, reducing effective healthcare

OTHER CONSEQUENCES FOR GOVERNMENT

- Care of orphans
- Reduced revenues
- Decline in growth
- Increased government fiscal difficulties
- Government will lose skills of civil servants
- Will pose challenges to the welfare system

IMPACT ON THE WORKPLACE

- Labour productivity and absenteeism
- Increased employer contribution to benefit schemes
- Union pressure for companies to increase salaries to cover health care

OTHER MACROECONOMIC EFFECTS

- Economic growth rate will be negatively affected

INCREASED PER CAPITAL GDP

- Economy might grow slow but people die fast and the per capita GDP of the ones who remain might increase.

## 2.6 IMMIGRATION, EMIGRATION AND MIGRANT LABOUR

*LO6: Discuss immigration, emigration and migrant labour*

IMMIGRATION

- is the movement of people into a destination country to which they are not native or do not possess its citizenship in order to settle or reside there, especially as permanent residents or naturalized citizens, or to take-up employment as a migrant worker or temporarily as a foreign worker

EMIGRATION

- Is the act of leaving one's resident country with the intent to settle elsewhere

MIGRANT LABOUR

- Person who moves from place to placeto get work, especially a farm laborer who harve sts crops seasonally.
- "Migrant labour" in South Africa referred not only to workers coming into South Africa from neighbouring countries, but also to a system of controlling African workers within South Africa.

WHAT FACTORS INFLUENCE IMMIGRATION AND EMIGRATION?

- The most important factors causing emigration from S. A. are:
    - Real wage differentials between S. A. and the destination country
    - Immigration restrictions in the destination country
    - Political uncertainty in S.A.

**ADVANTAGES AND DISADVANTAGES OF MIGRANT LABOUR**

Discuss the advantages and disadvantages of migrant labour from neighbouring countries for South Africa

ADVANTAGES:

- Increase in demand for goods and services
- Increase in entrepreneurship and therefore creating jobs
- Contribution to fiscal revenue

DISADVANTAGES:

- What S. A. gains the original country loses.
- The original country loses their investment in the person
- South Africans perceive foreigners to be stealing their jobs which is not true

## 2.7 THEORETICAL PRINCIPLES

*L07: Explain the theoretical principles underlying the supply of labour*

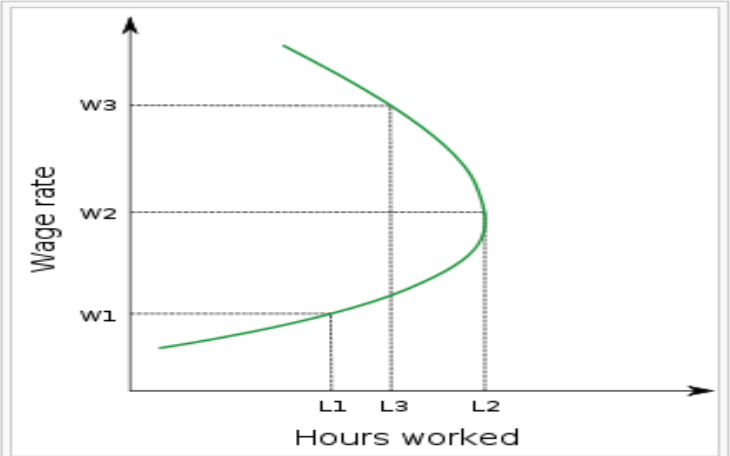
DERIVATION OF BACKWARD-BENDING LABOUR SUPPLY CURVE FOR AN INDIVIDUAL

- Assumptions:
  - Individual can choose how many hours he or she wants to work
  - Individual can choose to take a second job, work overtime, etc
  - leisure is a normal good (when income rises, you demand more leisure)

- The answer to whether the individual wants to work more or fewer hours as wages increase depends on the preferences of the individual (two effects) – as wages rise, each hour is better paid and it becomes more expensive to sacrifice working time to enjoy leisure time
- The individual may therefore be tempted to substitute more work for some of the leisure hours. This is therefore called the substitution effect – as wages increase, so the individual substitutes more work for leisure (ie the opportunity cost of "not working for pay" rises)
- For instance if you can earn R10 per hour, each hour spent not working for pay costs you R10. This is not very much. On the other hand, if you can earn R200 per hour, each hour not working costs you R200.
- Therefore choosing not to work for pay would be very expensive, people would be more likely to work at the wage of R200 per hour. Therefore, the supply of labour to the economy would be upward-sloping.

- The income effect states that a higher wage means workers can achieve a target income by working fewer hours. Therefore, because it is easier to get enough money they work less.
- For instance let us assume that you could earn R10 000 per hour in today's prices. How many hours do you want to work? I would like to work one ten-hour day per month.
- I would then have R100 000 per month with which I could live quite well.
- Someone else might choose to work 60 hours per week for 52 weeks per year --- but only for a few years. How nice to retire wealthy at age 25.
- Most people would want the time to enjoy this large amount of income. Therefore, the supply of labour to the economy would be downward-sloping.
- NB** When your wage is low, the substitution effect dominates. As wages increase, the income effect starts to dominate.

BACKWARD-BENDING LABOR SUPPLY



This labour supply curve shows how the change in real wage rates affects the number of hours worked by employees.

- The above diagram suggest that if real wages were to increase from W1 to W2 then the worker will obtain a greater utility, due to their higher income. Therefore, he/she would be willing to increase their hours worked from L1 to L2.
- The substitution effect is positive while income effect is negative. The substitution effect is greater than the income effect giving rise to a positive price effect.
- Therefore, the increase in the real wage rate will cause an increase in the number of hours worked.
- However, if the real wage increased from W2 to W3, then the number of hours worked would fall from L2 to L3.

- This is because the income effect has now become greater than the substitution effect. In addition, the utility gained from an extra hour of leisure is greater than the utility gained from the income earned working.
- Most importantly, beyond the wage of W2 we see that the worker is being paid enough to sustain their current lifestyle without having to work more hours, therefore creating the backwards bend in the curve.

# STUDY UNIT 3 – DEMAND FOR LABOUR

**LEARNING OUTCOMES:**

i. Explain employment or the demand for labour in South Africa
ii. Explain the responsiveness of employment to economic growth
iii. Distinguish between capital and labour intensity
iv. Discuss the factors that influence the demand for labour in South Africa
v. Explain the informal sector
vi. Explain the derivation of the demand for labour

## 3.0 INTRODUCTION

## 3.1 DEMAND FOR LABOUR

*LO1: Explain the demand for labour in South Africa*

- In South Africa labour market there is a chromic skills mismatch.
- At prevailing wage rates there is excess demand for skilled labour and an oversupply of unskilled labour, and this results in an unbalanced labour demand and supply in the country
- Reducing this mismatch will be an important challenge in the coming years and instrumental in reducing unemployment.
- Generally there is an inverse relationship between the demand for labour and the wage rate that a business needs to pay as they take on more workers
- If the wage rate is high, it is more costly to hire extra employees and when wages are lower, labour becomes relatively cheaper than for example using capital inputs.

## 3.2 RESPONSIVENESS OF EMPLOYMENT TO ECONOMIC GROWTH

*LO2: Explain the responsiveness of employment to economic growth*

- An increase in production normally leads to an increase in the demand for labour. This means that higher economic growth should also result in an increase in the demand for labour.
- However, the impact of economic growth on employment is not necessarily the same over time – more or fewer jobs might be created for any given economic growth rate.
- These changes in employment can be measured by the employment elasticity of economic growth, or as it is also called, the employment coefficient.
- It is defined as the degree of responsiveness of employment to changes in economic growth. It is measured as follows:
- Employment elasticity of economic growth = % change in employment ÷ % change in economic growth
- If the elasticity if relatively high (the sensitivity is high), it means that a 1% economic growth rate will cause a relatively high increase in employment.
- The lower the employment elasticity, the fewer the jobs that are created for every 1% of economic growth, and the higher the real economic growth rate needed to alleviate the country's unemployment and underemployment problem.
- In recent years SA has experienced what is called jobless growth, with employment declining even during periods of positive economic growth.
- In the period 1994 – 2001, for instance the country's economy grew by 2.7% per annum, bur formal employment continued to decline (by more than 1%).
- SA compares very badly with that of other countries, except that the rate for the last five years has improved.

## 3.3 CAPITAL AND LABOUR INTENSITY

*LO3: Distinguish between capital and labour intensity*

LABOUR INTENSITY

- A business process or industry that relies mainly on large amount of labor (labour) to produce its goods or services.
- The degree of labor intensity is typically measured in proportion to the amount of capital required to produce the goods/services;
- The higher the proportion of labor costs required, the more labor intensive the business.

- Labour costs higher than capital costs
- Firms benefit from access to sources of low-cost labour
- Examples of capital intensive industries are food processing (e.g. ready meals), hotels & restaurants, fruit farming / picking etc
- They increase the labour-absorption capacity of the economy.
- Labour-intensive techniques are often more flexible than capital-intensive production.

CAPITAL INTENSITY OF PRODUCTION

- A business process or an industry relies mainly on large amounts of money (capital) and other financial resources to produce a good or service.
- A business is considered capital intensive based on the ratio of the capital required to the amount of labor that is required.
- Capital costs higher than labour costs
- Firms benefit from access to low-cost, long-term financing
- Examples of capital intensive industries are oil extraction & refining, car manufacturing etc
- SA's adoption of the most modern production techniques increases the country's competitiveness in overseas markets.
- The adoption of new technologies is partly a result of trade liberalization and consumers prefer products produced by high technology.

## 3.4 FACTORS THAT INFLUENCE THE DEMAND FOR LABOUR

*LO4: Discuss the factors that influence the demand for labour in South Africa*

- THE RATE AND NATURE OF ECONOMIC GROWTH
  - The economic growth rate has not been high enough to reduce unemployment
  - 1980's – 1990's capital intensity of the economy increased rapidly and job creation ability was reduced
- TRADE LIBERALISATION
  - Trade liberalisation is unlikely to have been the main cause of job losses overall
  - Export sector became more capital intensive and thus shed jobs
  - Trade liberalisation increased the demand for skilled workers, while simultaneously resulting in fewer jobs for unskilled workers

- IMPACT OF UNIONS AND BARGAINING COUNCILS ON LABOUR COSTS
  - High wage increases in SA have discouraged the use of unskilled or lower-skilled workers
  - The SA system of partially centralised wage bargaining results in the poorest outcomes, in terms of job creation and inflation.
  - High strike rate of unions discourage employment of unskilled labour
- Labour Legislation that Increases the Indirect Cost of Labour or Hinders Productivity Increases
  - The introduction of new labour laws has significantly increased the indirect cost of labour
  - Labour laws have reduced flexibility, thus making it more difficult for employers to increase productivity.
- PRODUCTIVITY:
  - This is the most important factor influencing demand for labour. The demand for labour depends upon its marginal revenue productivity.
  - An employer will go on employing more and more units of labour until the wage rate becomes equal to marginal revenue productivity
- DEMAND FOR THE PRODUCT:
  - The higher the demand for the final product produced by labourers, the higher will be demand for labour
- COST OF SUBSTITUTION:
  - If capital can be substituted for labour, demand for labour will be less. But it is very important to consider the cost of substitution that is whether the cost of productivity of capital and machinery is profitable one or not.
  - If the substitution is costly, demand for labour will be more
- TECHNOLOGY:
  - In a country, using labour intensive technology, demand for labour will be more while in a country using capital intensive technology, demand for labour will be less.
- ECONOMIC DEVELOPMENT
  - Industrialisation and agricultural development in the country will lead to more investment in various fields leading to more demand for labour.

- ELASTICITY OF DEMAND FOR A PRODUCT:
    - If demand for a product is elastic, the demand for labour is producing that product will also be elastic.

## 3.5 INFORMAL SECTOR

*LO5: Explain the informal sector*

INFORMAL SECTOR

- Is the part of an economy that is neither taxed, nor monitored by any form of government
- Economic activities experienced in the informal sector has some of the following characteristics:
    - unorganized
    - mostly legal, but unregistered and thus unregulated
    - individually or family owned
    - using simple labour-intensive technology

The informal sector in SA is particularly important and has shown phenomenal growth in recent years.

IMPORTANCE OF THE INFORMAL SECTOR

- The informal sector plays a very important role in any developing country, especially where there is no developed system of social security.
- Informal sector provides some kind of income
- It can serve as a stepping stone for future “formal sector” entrepreneurs

EMPLOYMENT IN THE INFORMAL SECTOR

- The informal sector in SA constitutes about 10% of GDP, compared to 35 – 44% in other developing countries and 21 – 30% in transitional economies.

RECENT EMPLOYMENT ESTIMATES

- The Labour Force Survey of September 2005 found that there were about 2.8 million people in the informal sector in 2005.
- Statistics SA’s (Stats SA) 2014 Survey of Employers and the Self-Employed (SESE) in Pretoria stated that “In terms of the informal sector’s contribution to employment, out of

the 15 million employed [nationally], the informal sector employs about 1.5m, which is 10 percent [of the total]."

- About two-thirds of the informal sector workers work for themselves
- Main reason people started informal businesses was due to unemployment "this was reported by Stats SA showing 60.6 percent of persons in 2001, and by 69.2 percent in 2013."

**LAW OF DIMINISHING MARGINAL PRODUCT**

*Define the concept "law of diminishing marginal product"*

- It states that as successive units of one input (e.g. labour are added to a fixed amount of another input (capita), a level of total production is reached beyond which the marginal product of that variable input declines.

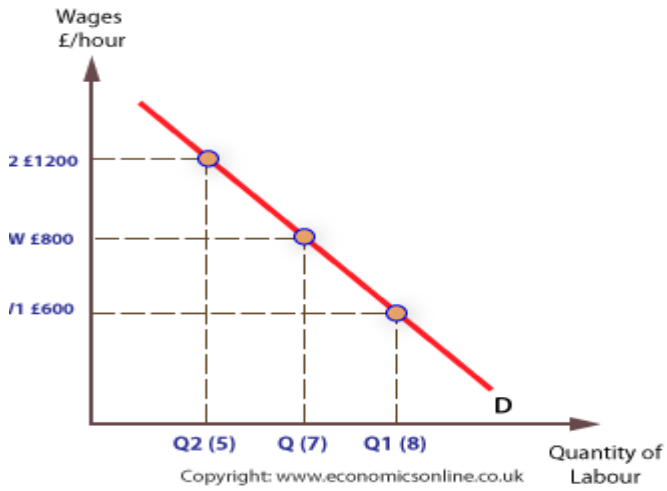
## 3.6 DERIVATION OF THE DEMAND FOR LABOUR

*LO6: Explain the derivation of the demand for labour*

- Assumption: one factor remains fixed - capital or machinery
- Demand for labour is a derived demand. This means it depends on demand for the product the worker is producing.
- For example, if mobile phones are in greater demand, then the demand for workers in the mobile phone industry will increase, ceteris paribus.
- The demand for labour will vary inversely with the wage rate.
- Let us apply the law of diminishing returns which states that if a firm employs more of a variable factor, such as labour, assuming one factor remains fixed, the additional return to extra workers will begin to diminish
- To explore this process, we need to consider the total physical product (output) produced by a series of workers, which will enable us to measure the individual output from each additional worker – the marginal physical product (MPP).
- NB*** Demand is based on the value to the firm of the marginal physical product produced by each worker.
- For example, if candles are £2 each, the firm can calculate the revenue derived from each worker's physical output.
- The value of the extra output is called marginal revenue product (MRP), and this is calculated by multiplying MPP and price, as follows:

| Workers | Total physical product | Marginal physical product | Marginal revenue product |
|---|---|---|---|
| 1 | 1000 | | |
| 2 | 1900 | 900 | 1800 |
| 3 | 2700 | 800 | 1600 |
| 4 | 3400 | 700 | 1400 |
| 5 | 4000 | 600 | 1200 |
| 6 | 4500 | 500 | 1000 |
| 7 | 4900 | 400 | 800 |
| 8 | 5200 | 300 | 600 |

- Now it is easy to plot the diagram for the demand for land and to find the number of workers that would be employed by a profit maximising firm at various wage rates.
- NB** Profit maximising firm will employ workers up the point where the marginal benefit, in terms of the MRP, equals the marginal cost of labour (MCL), which in this case is the wage rate (W).



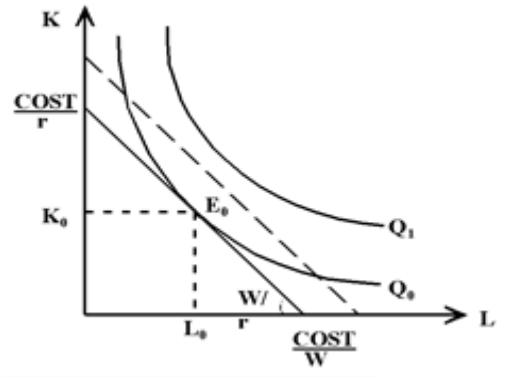

- For instance, at a wage rate of £1,200, the firm will employ 5 workers, because at 5 workers, MRP = MCL.
- However at a lower wage of £800, the firm will employ 7 workers, and so on. This means that a demand curve can be derived.
- NB*** In labour market theory, the demand for labour is identified as MRP=D.

## ISOQUANTS

- Each isoquant depicts the various combinations of Labour (L) and Capital (K) which can be used to produce a particular level of output, say $Q_0$ in figure 1 below

- Isoquants depicting larger quantities of output (such as $Q_1$ in figure 1 below) will be further from the origin (they require greater quantities of inputs)

Figure 1




## PROPERTIES OF ISOQUANTS

- They are downward sloping, indicating that as the input of employment increases, the input of capital declines in order to produce the same output.
- Higher isoquants are associated with higher levels of output.
- They are convex to the origin, indicating that capital and labour are not perfect substitutes.
- the slope of the isoquant is equal to MPL/MPK, where MPL is the marginal product of labour and MPK is the marginal product of capital

## ISOCOST LINES

- assume that factor prices are given: 'W' is the wage paid to labour and 'r' is the implicit (rental) cost of using capital
- for a given COST outlay, a firm can purchase different quantities of L and K according to the following equation: COST = WL + rK,
- an isocost line depicts the various quantities of L and K which can be purchased for a particular COST outlay
- re-arranging the COST equation produces the following equation for an isocost line: K = COST/r – (W/r)L
- as shown in figure 1 above, the slope of the solid isocost line is – (W/r), the horizontal intercept is COST/W and the vertical intercept is COST/r
- the greater the COST outlay, the further the isocost line will be from the origin (more of both L and K can be purchased)

- In the figure 1 above, the dashed isocost line has a higher cost outlay than the solid isocost line; the dashed isocost line is parallel to the solid isocost line (both isocost lines have slope –W/r)

## THE OPTIMAL QUANTITIES OF L AND K

- a profit-maximizing firm will choose the least cost combination of L and K to produce a particular level of output, such as $Q_o$
- the least cost factor input combination will be determined by the tangency of an isocost line with the $Q_o$ isoquant
    - the closer the isocost line to the origin, the smaller the cost
- as shown in Figure 1, the optimal tangency position is given by point $E_o$
    - given factor prices (W, r), the optimal combination of inputs to produce $Q_o$ is $L_o$ and $K_o$
- At this optimal tangency point, the slope (W/r) of the isocost line is equal to the MPL/MPK slope of the isoquant
    - the ratio of factor marginal products is equal to relative factor prices; the firm's internal rate of factor substitution is equal to the rate at which the factors can be substituted in the market place
- to summarize, in the short run the firm hires labour up to the point where the VMPL (of MRPL) is equal to the wage rate
- Whilst in the long run the firm hires labour up to the point where the relative value of the MPL (in terms of the MPK) is equal to the relative price of labour (W/r)

# STUDY UNIT 4 – WAGES AND THE COST OF LABOUR

**LEARNING OUTCOMES:**

i. Explain the determination of wages
ii. Discuss earnings in South Africa
iii. Explain wages and inflation
iv. Discuss wage differentials
v. Explain the trade-off between wages and employment
vi. Discuss the impact of labour laws on the cost of labour
vii. Explain the determination of wages in a perfectly competitive labour market
viii. Explain the determination of wages in a monopsony market

## 4.0 INTRODUCTION

## 4.1 WAGES

*LO1: Explain the determination of wages*

**WAGES**

- Refers to the cost of using labour and often, wages are paid hourly, daily, or weekly not monthly basis.
- As a price of labour, it is subject to the forces of demand and supply in the labour market

DETERMINATION OF WAGES

- Wages in a market economy is usually determined in different ways. Some of the most important factors are discussed below:
- PERFECTLY COMPETITIVE LABOUR MARKET
    - Agreement between an individual employer and an individual employer
    - Predominant in agriculture, domestic service and in smaller enterprises
    - Minimum wage often required
    - Equilibrium between the industry demand and industry supply will determine wage levels.
    - In a competitive market firms are wage takers because if they set lower wages workers would not accept the wage.
    - Excess demand will drive up the wage rates and also the supply until a new equilibrium is reached.
    - Excess supply will drive down the wage rate and also the demand until a new equilibrium is reached.

- Because firms are wages takers the supply curve of labour is perfectly elastic therefore AC = MC
- The firm will maximise profits by employing workers up the point where MRP of Labour = MC of Labour

- MONOPSONY LABOUR MARKET
  - Employer is a wage setter and can set wages by adjusting the number of workers he or she hires.
  - One employer or collusion or cooperation between employers to fix wages at a certain level.
  - The wage paid by a monopsony is lower than the wage paid by firms in perfect competition in the labor market. In addition, the quantity of labor used is also smaller.
  - Employers form a united front in respect to wages, e.g. bargaining council
- SEGMENTED LABOUR MARKET
  - The labour market is permanently divided into a number of segments, each with its own characteristics and mode of operation, and with little or no mobility between them.
- DUAL LABOUR MARKET
  - Characterised by two distinct non-competing markets, i.e. the primary and the secondary labour markets.

    PRIMARY SEGMENT
    - ❖ Characterised by high earnings, good working conditions and employment stability
    - ❖ Access usually severely restricted, only possible at the bottom
    - ❖ Filled by promotion from within the enterprise
    - ❖ Promotion determined by bureaucratic and rigid rules of the company or occupation
    - ❖ Internal labour market tends to lack market mechanisms for the allocation and pricing of labour.
    - ❖ Employers spend large amounts on training their workers
    - ❖ High wages result in more labour-saving and productive equipment being used.
    - ❖ Trained workers can only be used by the internal market, utilised by the specific employer and close competitors

SECONDARY SEGMENT

- Characterised by little or no job security, little prospect of promotion and generally poor conditions of employment.
- Low paying jobs, unstable patterns of employment
- Enterprises over-competitive, small and labour intensive, low level of unionization
- Low level of skills; low level of training, and employers do not care about productivity
- Domestic workers, dishwashers in restaurants, cleaners, janitors and other menial jobs
- Trapped on the outside

- COLLECTIVE BARGAINING
  - Unions and employers or groups of employers bargain collectively on wages and other conditions of employment.
  - Power balance determine the outcome
  - Market conditions also play an important role
- GOVERNMENT INVOLVEMENT AND INFLUENCE
  - Varies from an extreme of government setting an example as an employer,
  - To the other extreme of legislative measures which determine minimum wages or which protect and encourage centralized collective bargaining.
- COMMUNES AND COMMUNISM
  - Commune refers to a small community, often rural, whose members share in the ownership of property, and in the division of labour; the members of such a community
  - Communism refers to any political philosophy or ideology advocating holding the production of resources collectively.
  - The ultimate form of communes is communism
  - Based on two principles:
    - There is social, collective or public ownership of physical capital and property
    - Consumption is separated from productive effort
    - Operates in terms of the principle from each according to his ability – to each according to his need.
- OTHER METHODS
  - Various methods of worker participation and incentive systems can be used:
    - representation at the decision making levels

- ❖ merit awards
- ❖ productivity or production-linked pay
- ❖ profitability-linked remuneration

## 4.2 EARNINGS IN SOUTH AFRICA

*LO2: Discuss earnings in South Africa*

- Earnings typically refer to after-tax net income
- Earnings are usually measured for individual employed persons and earnings data deals with current monthly pay, regardless of what came before or after
- Statistics South Africa publish the wages in South Africa
- According to Stas SA (2010), South African employees who were in paid employment had median monthly earnings of R2 800.
- The median monthly earnings for men (R3 033) were higher than that for women (R2 340) - women in paid employment earned 77,1% of what men did.
- Wages in South Africa increased to 16796 ZAR/Month in the second quarter of 2015 from 16506 ZAR/Month in the first quarter of 2015.
- Wages in South Africa averaged 11287.12 ZAR/Month from 2004 until 2015, reaching an all time high of 16796 ZAR/Month in the second quarter of 2015 and a record low of 6742 ZAR/Month in the first quarter of 2005.

## 4.3 WAGES AND INFLATION

*LO3: Explain wages and inflation*

WAGES

- Refers to the cost of using labour and often, wages are paid hourly, daily, or weekly not monthly basis.
- As a price of labour, it is subject to the forces of demand and supply in the labour market
- Also in turn is affected by productivity levels and ability of the employers to substitute labour with other factors of production such as machinery

INFLATION

- Refer to a sustained increase in the general price level.
- The inflation rate is the annual rate of increase in the general price level, and price levels are determined by using a price index.

- The Consumer Price Index (CPI) is the most common measure of inflation and it measures changes in the price level of a market basket of consumer goods and services purchased by households.
- The inflation rate obtained by including the complete basket is called CPI headline, or the official inflation rate.
- By excluding the effect of interest rates on mortgage bonds, a much more dependable indication of underlying inflation might be obtained. This measure of inflation is called CPIX.
- Core inflation, excludes not only mortgage bond interest rates, but also a number of other items on the basis of their prices being highly volatile or subject to temporary influences or affected by government intervention.

## 4.4 WAGE DIFFERENTIALS

LO4: Discuss wage differentials

- Refers to the difference in wages between workers with different skills in the same industry or between those with comparable skills in different industries or localities
- The wage paid to workers varies greatly. These wage differentials are mostly the result of differences in worker ability and the workers' effort in performing the job.
- There are also wage differentials across occupations, because of differences in the demand and supply of labourers for particular job or occupation.

REASONS for WAGE DIFFERENTIALS in the SA LABOUR MARKET, and POSSIBLE MEASURES TO REDUCE them

- SIZE OF THE ENTERPRISE
    - On average large firms pay more than small firms across all occupational categories
    - Large firms probably unionised
    - The efficiency wage hypothesis – because higher wages may result in increased effort, reduced shirking, and lower monitoring costs
    - Larger firms have a greater ability to pay higher wages
    - Workers indirectly share in the higher profits
- AGE OR EXPERIENCE
    - Employees with more experience are usually paid higher wages
    - In some cases employees receive a salary increment based on years of service
- WORKING ENVIRONMENT OCCUPATIONAL DIFFERENTIALS
    - · Circumstances such as nigh work, unpleasant physical working conditions or

- hazardous work can justify higher wage rates

- OCCUPATIONAL DIFFERENTIALS
  - Income differentials between the highest and the lowest paid workers in SA are high, both by developing and developed country standards.
  - Oversupply of workers at the lower skills levels, and short supply of executive and senior managerial skills.
- DISCRIMINATION
  - A better indication of employer discrimination would be differences in wage levels in the same occupation, after allowing for differences in education or experience.
  - There is still a large measure of wage discrimination in SA that cannot be ascribed to education, occupation, level of skill or some other non-discriminatory factor
- EDUCATIONAL DIFFERENTIALS
  - Completion of matric or tertiary education is the most important factors determining higher earnings.
  - Quality of tertiary qualification important as a differentiator – historically white or black universities.
  - Different demand for different degrees a factor that determines salary differences
- DEGREE OF UNIONISATION
  - Unions have caused wages to peak at between 10% to 30% above those in non-unionized situations
  - Unions have cause salaries to be higher in SA than other countries.
- INTERSECTORAL DIFFERENTIALS
  - Bargaining councils have led to increased wage differences i.e. higher wages in sectors with bargaining councils compared to those without.

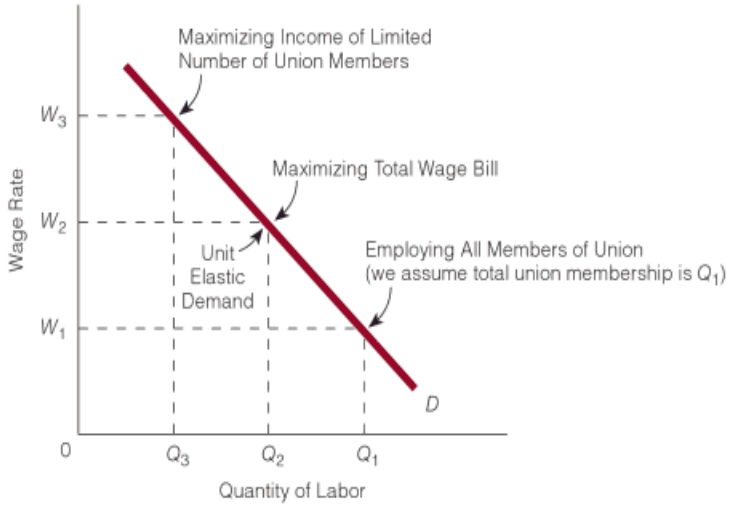
## BRIEF EXPLANATION OF CCUPATIONAL DIFFERENTIALS IN THE SA LABOUR MARKET

- Income differentials between the highest and the lowest paid workers in SA are high, both by developing and developed country standards.
- It has been estimated that CEOs in large enterprises earn 50 times more than production workers.
- Oversupply of workers at the lower skills levels, and short supply of executive and senior managerial skills.

- If an artificial ceiling is imposed on the CEO's salaries these people are likely to leave the country.
- Another factor that causes the differentials might be the labour intensiveness of work in SA compared to capital intensive in other countries.
- Salaries of the unskilled people cannot be increased willy-nilly because it might be unfair to the skilled workers if they earn the same as unskilled people
- Wage differentials can only be reduced by addressing the root cause e.g. by improving education and training, as well as productivity.

**4.5** Explain the trade-off between wages and employment

- Labour unions usually seek one of the three objectives (1) to employ all their members, (2) to maximise the total wage bill, or (3) to maximise income for a limited number of union members
- To illustrate the concept of trade-off between wages and employment, suppose the demand curve below represents the demand for labour in a given union.
- Also assume the total membership of union is $Q_1$.




- If the objective is to attain the wage rate that maximise the total wage bill, then the wage rate that must exist in the market is $W_2$. At $W_2$, the quantity of labour is $Q_2$ and the elasticity of demand for labour is equal to 1
- Recall that total revenue or total expenditure is maximised when price elasticity of demand is equal to 1 or demand has unit elasticity.
- If follows that the total wage bill is maximised at that point where the demand for labour is unit elastic.
- However less union labour is working at $W_2$ than at $W_1$, indicating that there is a trade-off between higher wages and the employment of union members.

## 4.6 LABOUR LAWS - BCEA and LRA

*LO6: Discuss the impact of labour laws on the cost of labour*

LABOUR LAWS such as BCEA and LRA

- BASIC CONDITIONS OF EMPLOYMENT ACT (BCEA)

  HOURS OF WORK

  - By reducing the hours of work BCEA has increased the unit cost of labour and production costs in general, because of the impact on fixed labour cost, variable labour cost and capital cost.
  - Fixed cost of labour (e.g. leave pay, office space, protective clothing, recruitment costs, costs associated with education and training, and severance pay as well as capital costs do not change in relation to hours of work.
  - The impact of variable costs will depend on whether the workers are paid hourly in which case the take home pay will be reduced or if the salary is fixed per month wage which will increase the cost to the employer without the accompanying productivity.
  - The act has also introduced increases in paid annual leave, paid family responsibility leave, longer notice periods, several obligations relating to night work.
  - There is good evidence that employment will either reduce or at most remain constant if working hours are reduced.
  - A reduction in working hours reduces competitiveness; it also has a negative effect on the balance of payments.

MINIMUM WAGES

- The Employment Conditions Commission makes recommendations to the minister and the minister sets minimum wages through sectoral determinations.
- The minimum wages set by such determinations are generally relatively low compared to actual wages in the particular sector. In this case, they do not appear to have had a significant impact on the cost of labour.

LABOUR RELATIONS ACT (LRA)

- The LRA provides for bargaining councils and the extension of bargaining council agreements to all parties in a particular sector.
- Promotes unionization, which does not properly apply the principles of positive labour relations, i.e. voluntarism for all parties, equality before the law for all parties, and non-competitive universal human rights.

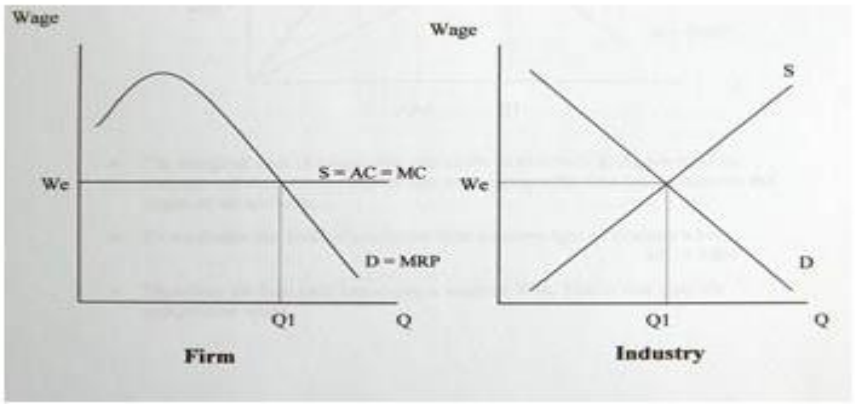
- The level of unionization in SA is high by international standards and very high by the standards of a developing country.
- The LRA also increase the cost of labour in various other indirect ways, for instance by making dismissals and retrenchments more difficult and expensive.

## 4.7 DETERMINATION OF WAGES IN A PERFECTLY COMPETITIVE LABOUR MARKET

*LO7: Explain the determination of wages in a perfectly competitive labour market*

- A perfectly competitive labour market will have the following feature:
  - Many firms
  - Perfect information about wages and job conditions
  - Firms are offering identical jobs
  - Many workers with same skills

DIAGRAM OF WAGE DETERMINATION



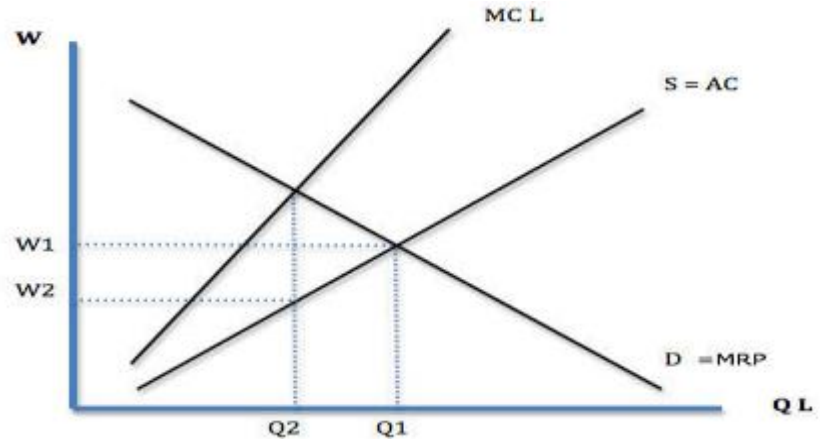

- Equilibrium between the industry demand and industry supply curves will determine wage levels.
- In a competitive market firms are wage takers because if they set lower wages workers would not accept the wage.
- Excess demand will drive up the wage rates and also the supply until a new equilibrium is reached.
- Excess supply will drive down the wage rate and also the demand until a new equilibrium is reached.
- Because firms are wages takers the supply curve of labour is perfectly elastic therefore AC = MC

- The firm will maximise profits by employing workers at Q1 where MRP of Labour = MC of Labour

## 4.8 DETERMINATION OF WAGES IN A MONOPSONY MARKET

*LO8: Explain the determination of wages in a monopsony market*

- Occurs when there is only one main employer of labour, then can exercise market power as a buyer of labour
- Employer is a wage setter and can set wages by adjusting the number of workers he or she hires hence the labour supply curve is horizontal
- The wage paid by a monopsony is lower than the wage paid by firms in perfect competition in the labor market. In addition, the quantity of labour used is also smaller.
- Employers form a united front in respect to wages, e.g. bargaining council




- A monopolist faces a downward-sloping product demand curve and sets the price (by restricting output) to maximize profits
    - a monopolist equates marginal revenues (MR) to marginal costs
- If it was in a competitive labour market, the equilibrium will be where D=S at Q1, W1.
- However, a monopsony can pay lower wages and employ fewer workers.
- The marginal cost of employing one more worker will be higher than the average cost because to employ one extra worker the firm has to increase the wages of all workers.
- A monopsonist faces an upward-sloping labour supply curve and sets the wage rate (by restricting the amount of labour hired) to maximize profits
    - A monopsonist firm to maximise the level of profit it will employs Q2 of workers where the Marginal cost of labour equals the Marginal Revenue Product MRP = D

# STUDY UNIT 5 – UNIONS, COLLECTIVE BARGAINING AND MINIMUM WAGES

**LEARNING OUTCOMES:**

i. Describe collective bargaining and the labour market
ii. Discuss the union movement
iii. Discuss the impact of unions
iv. Explain the influence of strike action
v. Explain bargaining councils
vi. Discuss minimum wages
vii. Discuss minimum subsistence levels

## 5 INTRODUCTION

### 5.1 COLLECTIVE BARGAINING AND THE LABOUR MARKET

*LO1: Describe collective bargaining and the labour market*

COLLECTIVE BARGAINING

- Refers to a process of negotiations between employers and a group of employees aimed at reaching agreements that regulate working conditions.
- The interests of the employees are commonly presented by representatives of trade unions to which the employees belong
- the collective agreements reached by these negotiations usually set out wage scales, working hours, training, health and safety, overtime, grievance mechanisms, and rights to participate in workplace or company affairs

LABOUR MARKET

- Refers to the place where workers and employers interact with each other
- It is regarded as a factor market – it provides a means by which employers find the labour they need, whilst millions of individuals offer their labour services in different jobs.
- Deals with the demand for labour and supply for labour

  DEMAND FOR LABOUR

  - Many factors influence how many people a business is willing and able to take on; the most obvious is the wage rate or salary
  - There is an inverse relationship between the demand for labour and the wage rate that a business needs to pay as they take on more workers
  - If the wage rate is high, it is more costly to hire extra employees

- When wages are lower, labour becomes relatively cheaper than for example using capital inputs.
- A fall in the wage rate might create a substitution effect and lead to an expansion in labour demand.

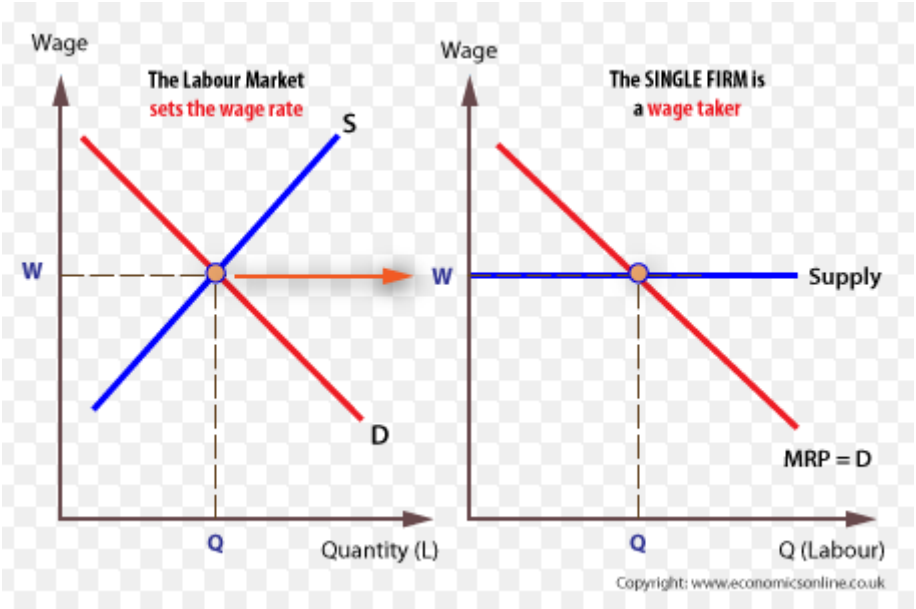
## SHIFTS IN THE DEMAND FOR LABOUR

- E.g of outwards shift of the labour demand curve:
  - ✓ A rise in the level of consumer demand for a product which means that a business needs to take on more workers
  - ✓ An increase in the productivity of labour which makes using labour more cost efficient than using capital equipment
  - ✓ A government employment subsidy which allows a business to employ more workers
- E.g of inwards shift of the labour demand curve:
- During a recession when sales of goods and services are in decline, business profits are falling and many employers cannot afford to keep on their payrolls as many workers. The result is often labour redundancies and an overall decline in the demand for labour at each wage rate.

## SUPPLY FOR LABOUR

- Refers to the number of workers willing and able to work in a particular job or industry for a given wage
- There is a positive relationship between the supply for labour and the wage thus the labour supply curve for any industry or occupation will be upward sloping.
- This is because, as wages rise, other workers enter this industry attracted by the incentive of higher rewards.
- They may have moved from other industries or they may not have previously held a job, such as housewives or the unemployed
- However the extent to which a rise in the prevailing wage or salary in an occupation leads to an expansion in the supply of labour depends on the elasticity of labour supply.

## LABOUR MARKET DIAGRAM




- The point where the supply and demand for labour intersect gives us equilibrium market wage rate.
- Employees are hired up to the point where the extra cost of hiring an employee is equal to the extra sales revenue from selling their output

## Main Factors That Determine The Relative Power Of The Collective Bargaining Parties And Therefore The Outcome Of Collective Bargaining

- Some of the most important factors that determine the relative power of the collective bargaining parties and, therefore, the outcome of collective bargaining are as follows:

### UNEMPLOYMENT POSITION

- The unemployment position and the effect of the outcome of collective bargaining on employment do not always seem to be important considerations in collective bargaining in S.A.

### DEMAND CONDITIONS, PROFITABILITY AND PRODUCTIVITY

- It also has an important influence on collective bargaining. In buoyant market conditions or when labour productivity is increasing, the employer will more readily grant wage increases.
- In recessionary conditions, an employer might be more willing to face a strike than give a substantial wage increase.

### ELASTICITY OF DEMAND

- The elasticity of demand for the employer's product is also an important consideration.

- If the demand is inelastic, the employer will grant wage increases more readily and will increase the product or service prices.
- The opposite is also true.

MONOPOLISTIC CONDITIONS

- In monopolistic conditions employers will also grant wage increases more readily because they can usually recover higher costs arising from wage increases by increasing the prices of their products.

EXPORT ORIENTATION

- The export orientation of both employer and unions. If both employers and unions want S.A's products to be competitive overseas they will take that into consideration when bargaining.

CAPACITY TO DEAL WITH A STRIKE

- The employer's capacity to deal with a strike, if production can be easily varied or temporary worker can be used or the employer has sufficient inventories the employer will be less willing to grant high wage increases.

STANDARD OF LIVING

- The standard of living of the workers is also an important consideration.
- Relatively low standards might influence the union to fight harder for a high wage increase.
- The same applies if the inflation rate is relatively high.

## 5.2 UNION MOVEMENT

*LO2: Discuss the union movement*

- In spite of the threats to the union movement, unions in S.A. are relatively strong. There were about 3 million union members in 2005.
- This comprises just less than 40% of those informal employment, excluding the agricultural sector, domestic workers and self-employed persons.
- This is high by international standards and very high by the standards of developing countries.
- Union membership in S.A. has been increasing for a number of years, in contrast with many other countries that have shown sharp declines in union membership figures.
- This can be ascribed to a number of factors, including the heightened awareness of political and worker rights and the registration of unions that were previously not registered.

- The number of unions increased sharply after 1995. This was probably as a result of changes to the LRA, which made union registration easier.

LARGEST UNION FEDERATIONS

- Three trade union federations comprise the bulk (approx. 77%) of union membership in S.A. The most important union movements in the country are the following:

CONGRESS OF SOUTH AFRICAN TRADE UNIONS (COSATU)

- Claims to have approximately 1.8 million paid-up members and 33 affiliate
- Founded in 1985 and the largest labour federation in S.A.
- COSATU is in alliance with ANC
- Among the fastest-growing unions in the world
- Committed to a socialist economic system

FEDERATION OF UNIONS OF SOUTH AFRICA (FEDUSA)

- Has about 550 000 paid-up audited members and nearly 30 affiliates
- Founded in 1997
- Not aligned to any political party

NATIONAL COUNCIL OF TRADE UNIONS (NACTU)

- Claims a membership of about 230 000 and about 20 affiliates
- Non racial, but emphasize philosophies of Africanist and black consciousness.
- No political alignment

CONFEDERATION OF SOUTH AFRICAN WORKERS UNIONS (CONSAWU)

- Claimed membership of about 150 000 including the National Professional Teachers'
- Organisation of South Africa (Naptosa).

ALTHOUGH NO A FEDERATION, ANOTHER IMPORTANT UNION MOVEMENT IS SOLIDARITY.

- Its membership numbers are unknown but members are mostly white.
- They have decided to engage with political parties and with Cosatu in an attempt to convince these organisations to reduce the "reverse discrimination" against whites.

## 5.3 IMPACT OF UNIONS

*LO3: Discuss the impact of unions*

STRENGTH AND IMPACT OF UNIONS

The strength and impact of unions are influenced by the following factors:

- UNION DENSITY

- Extent to which unions have built a solid base through representing a significant proportion of the workforce.

- CAPACITY TO MOBILISE
  - Extent to which unions, irrespective of numerical strength, have the capacity to mobilise labour successfully ie bringing workers out on strike or organise national protest action.
- LABOUR INSTITUTIONALISATION
  - Extent to which worker and union rights as well as union participation in decision-making processes have been institutionalized through labour legislation, collective agreements and union participation in the administration of benefits.
- UNION STRUCTURES
  - Extent to which unions has developed appropriate structures and capacity to deal with labour issues arising at local, regional and global level.

## THREATS FOR UNIONS AND POSSIBLE WAYS OF RESPONDING TO SUCH THREATS

*The changing economic environment often linked to globalization, has created a number of threats for unions and the unions have responded in a variety of ways to such threats.*

- The threats to the union movement have become particularly apparent in the worldwide decline of union membership.
- The interrelated factors that have contributed to this situation are listed as follows:
  - GLOBALISATION
    - ✓ It has led to intense competitive pressure in product markets, accelerated the mobility of capital, and added to the vulnerability of labour.
  - MORE INSECURE EMPLOYMENT
    - ✓ Flexible labour market policies have been gaining greater legitimacy and political support than before, owing to factors such as globalisation, technological change and, in some cases, worker preferences.
    - ✓ One of the ways in which unions have responded to this challenge is to extend their membership drives to non-traditional constituents:
      - New entrants at the higher end of the labour markets
      - Casual workers, who are either part-time or temporary
      - Home-based workers and those in the informal sector
      - Women workers

- SMALL BUSINESS
  - ✓ Technological changes have made it possible to reshape production through new forms of industrial organisation.
  - ✓ The larger number of production units makes it more difficult for unions to organise workers and to bargain collectively.
- GEOGRAPHIC DISPERSION OF PRODUCTION
  - ✓ The geographic dispersion within a country makes it more difficult for unions to gain access to every workplace.
  - ✓ The bigger threat is the ease with which employers can move production to other countries.
- SKILLS COMPOSITION
  - ✓ The skills composition of the workforce is changing and workers are increasingly being differentiated by their competence.
  - ✓ At the higher end of the scale, workers tend to be better educated, career minded, individualistic and less motivated by class interests and solidarity.
- WOMEN WORKERS
  - ✓ Women often have a greater need for flexible working arrangements, and owing to family commitments after hours, might be less interested in union activities.
- INCREASED UNEMPLOYMENT.
  - ✓ In other cases, the unemployed are so anxious to find work that they undermine union solidarity, thereby weakening labour movement.

## 5.4 STRIKE ACTION

*LO4: Explain the influence of strike action*

- Strike activity is an integral part of collective bargaining, and the power relationship between employer and employee would be severely distorted without the right to strike.
- The ultimate sanction of unions to enforce their demands for higher wages, i.e. strikes, has both costs and benefits.
- Collective bargaining helps to avoid exploitative actions by the employer thus reducing the need for government intervention.
- Strikes are a healthy sign of a free economy.
- To severely limit the right to strike would increase the necessity of introducing other measures to protect workers, which would mean more central control of the economy.

- A strike is often a way for workers to get rid of resentments or grievances that have built up over time. Strikes may help to build long-term working relationships and to achieve more realism and moderation in both demand and offers.
- Strikes certainly do have major implications for enterprises, employees and often the economy.
- The loss of working time because of strikes does not necessarily imply a proportional loss of production.
- Losses will be reduced if employers are able to stockpile production before the strike, if they are monopolist producers, if overtime worked after the strike can catch up some of the backlog, or if replacement workers can continue production during the strike.

## 5.5 BARGAINING COUNCILS

*LO5: Explain bargaining councils*

- Organisations which facilitate the negotiation process between unified employees (typically trade unions) and employers on matters such as working conditions and wages
- Bargaining councils are a form of bilateral monopoly. In the case of employers, there is a monopsony because of solidarity among them to fix wages at a certain level.
- At the same time, however, labour has a monopoly in the sense that the union bargains a certain wage level for all employees.
- In this case, wages are determined by the relative strength of each party because neither party has all the power, some compromise in respect of wages must be reached.
- The final wage outcome in such a market will therefore be indeterminate – the negotiated wag may be either above, below or equal to the competitive wage rate.

ADVANTAGES OF BARGAINING COUNCILS

- Probably the most important advantage is that minimum conditions of employment are set by the parties themselves without government intervention.
- Conditions of employment are standardised for the industry and compensation on the basis of labour costs is eliminate.
- They play an important role in the provision of pension and provident benefits as well as medical benefits.
- Assist with the settlement of disputes.
- Remove wage conflict from the shop floor, which means that employer and employee relations at this level are not damaged by the bitterness that often characterizes wage bargaining.

## DISADVANTAGES OF BARGAINING COUNCILS

- The greatest disadvantage of bargaining councils is that agreements in them are extended to non-parties and have an impact especially on small enterprises.
- If the labour costs of all employers increase in tandem, the possibility of all enterprises passing on the increased cost to the consumer is much greater
- The link between wages and productivity becomes tenuous.
- They introduce an element of inflexibility, and do not take into account that circumstances can vary radically from one enterprise to the next and from one region to another.
- They have been accused of having bureaucratic and cumbersome style of operation, and that they do not readily grant exemptions.
- Other criticisms that have been leveled against bargaining councils include:
    - They are complex structures and this deters investors
    - Wages in small, low-profit enterprises are higher, creating a barrier to the entry of new small-scale enterprises
    - The setting of a minimum wage prices workers out of employment and unemployment increases
    - They are not representative because, increasingly, many small non-registered employers operate outside the formal economy
    - They are undemocratic and better suited to an industrialized economy.
- It seems that this type of centralised wage bargaining system does not perform well in terms of employment, economic growth and price stability.
- Both highly centralised and decentralised bargaining give better economic outcomes than systems such as the bargaining councils.

# 5.6 MINIMUM WAGES

*LO6: Discuss minimum wages*

## MINIMUM WAGES

- An amount of money that is the least amount of money per hour that workers must be paid according to the law
- Bargaining councils are one mechanism used in S.A. to ensure that a minimum wage applies in the sector covered by the bargaining council.

## ARGUMENTS IN FAVOUR OF MINIMUM WAGES

- Every worker should be paid at a level that enables a certain minimum standard of living to be maintained.

- If wages were left entirely to market forces, many workers could be exploited by unscrupulous employers and would not be able to maintain the minimum standard of living required to satisfy basic needs.
- Employers will use labour more efficiently and therefore improve productivity because of the increased wage costs.
- Unprofitable, inefficient enterprises should not be "subsidized" by poorly paid workers.
- Higher wages can, under certain circumstances, lead to improvements in the workers' morale and nutrition, and reduce absenteeism, illness and labour turnover, all of which can bring about productivity improvements. This is part of the so-called "efficiency wage" theory.
- Market mechanism does not operate effectively. There are many distortions of the market as a result of, for instance, discrimination, uncompetitive conditions in product markets, labour that is not particularly mobile between regions, occupations or employers, and inadequate information.
- If there are monopsony employers, they can exploit labour because of their strong bargaining power and their influence on the price of labour.

## ARGUMENTS AGAINST MINIMUM WAGES

- An important argument against minimum wages is that they do not accommodate the specific circumstances of an individual enterprise.
- Entrepreneurs will usually be able to pass the increased costs resulting from minimum wages on to consumers in the form of price increases. This can create an inflationary effect.
- It will interfere with the proper and flexible operation of the market, reducing efficiencies and eventually leading to a lower economic growth rate and higher unemployment than will otherwise have been the case.
- It distorts the price of labour compared to capital and results in workers being replaced by capital equipment.
- Productive investment becomes less profitable and enterprises may close down or new enterprises not start up. These factors will result in more unemployment, and society at large will not benefit from the introduction of minimum wages.
- In periods of economic contraction and declining demand, employees will have less chance of keeping their jobs. They will be dismissed and swell the ranks of the unemployed.
- Market mechanism is distorted as wage differentials between skilled and unskilled workers are reduced, and the incentive for education and training and promotion is thereby also reduced.

- For minimum wages to have these harmful effects on the economy would have to comply with the following conditions:
    - to exceed the wage levels the market generates or increases all or most wage levels in the formal sector.
    - to apply to a large proportion of the workforce.
    - to increase unemployment.

## SA'S DUAL SYSTEM OF MINIMUM WAGE DETERMINATION

- Minimum wages in SA are determined by a dual system.

### BARGAINING COUNCILS

- In those sectors where there is adequate collective bargaining between unions and employers, bargaining councils normally determine wages and other conditions of employment through negotiation.
- Agreements within bargaining councils are reached without government involvement.
- However, the government gives statutory force to the agreement by promulgating it in the Government Gazette.

### SECTORAL DETERMINATIONS

- In those sectors where proper collective bargaining does not take place, the Employment Conditions Commission can be requested by the Minister of Labour to investigate conditions in the industry and to make a recommendation in respect of wages and other conditions of employment.
- The Employment Conditions Commission advises the Minister on the making of sectoral determinations and any other matter concerning the BCEA.

## SOCIAL WAGE

- Is the total sum of all social benefits received free or partially, such as state transfers, subsidies and services (unemployment insurance, state old-age pensions, free public health services, etc) and kinship and community transfers.
- It therefore complements the direct and indirect income of an employee, such as money wages, fringe benefits and employer-provided entitlements to cover contingency risks.
- In SA a high proportion of the social wage has been borne by enterprises, which has placed them at a structural disadvantage as far as international competitiveness is concerned.

## 5.7 MINIMUM SUBSISTENCE LEVELS

*LO7: Discuss minimum subsistence levels*

MINIMUM SUBSISTENCE LEVEL

- The minimum financial requirements of a family to enable members to maintain their health and have acceptable standards of hygiene and sufficient clothing.
- Competition among workers is indicated as one of the reasons for the tendency of natural wage to approach its minimum subsistence level ie when there is unemployment competition among workers weakens their bargaining power
- However on the other hand, in rapidly growing economies competition among employers due to "scarcity of hands" is seen as increasing the workers' bargaining power, so that the natural wage may be fixed above the subsistence level.

# STUDY UNIT 6 – PRODUCTIVITY AND LABOUR MARKET FLEXIBILITY

**LEARNING OUTCOMES:**

i. Explain the importance and measurement of productivity
ii. Describe productivity in South Africa
iii. Explain unit labour cost, that is, where productivity and wages are considered together
iv. Discuss some of the factors that influence productivity
v. Describe the importance and types of labour market flexibility
vi. Discuss the general considerations regarding flexibility

## 6 PRODUCTIVITY AND LABOUR MARKET FLEXIBILITY

### **6.1** IMPORTANCE AND MEASUREMENT OF PRODUCTIVITY

*LO1: Explain the importance and measurement of productivity*

IMPORTANCE OF PRODUCTIVITY

- Productivity is used to assess the extent to which certain outputs can be extracted from a given input
- Productivity measures provide a means to managers to ascertain, plan control and improve efficiency at different levels of organization.

- Also facilitate comparison of performance of different companies within a market or industry. This helps manager set improvement targets for organization's long term strategic plans, and in developing suitable competitive strategy.
- Productivity measures are also essential for motivating employees through payment of incentive for high productivity.

MEASUREMENT OF PRODUCTIVITY and SOME of the SHORTCOMINGS of THIS METHOD

- Productivity is the relationship between real output (i.e. the quantity of goods and services produced) and the quantity of input used to produce that output.
- It is therefore a measure of input efficiency, which is expressed in terms of a ratio:
- $\text{Productivity ratio} = \frac{\text{Quantity of Output}}{\text{Quantity of Input}}$
- If output increases with unchanged inputs, productivity increases.
- Similarly, if output remains the same with reduced capital or labour inputs, productivity will be higher. This method of defining productivity has two shortcomings:
    - It takes no account of quality of the product or service
    - Productivity should compare sold outputs with inputs
- The modern approach is increasingly to see productivity at the workplace as a holistic concept, where account is taken of quality, quantities or inputs and outputs, consumer satisfaction, etc.
- A useful approach is to concentrate on value added, i.e. the value that labour and capital add to the total output of the enterprise for the satisfaction of the consumer.

## 6.2 PRODUCTIVITY IN SOUTH AFRICA

*LO2: Describe productivity in South Africa*

- After increasing only marginally in the 1980s, labour productivity increased rapidly from the beginning of the 1990s, and has generally increased more rapidly than capital productivity.
- However, when one considers the continuous decline in employment in the 1990s, it becomes apparent that the improvement in labour productivity was probably partly achieved through the shedding of labour.
- The economy continued to experience a sharp increase in capital intensity during this period, which enabled employers to reduce their workforce and maintain production.
- Capital has increased at an average rate of 2.46% per annum since 1996 compared to a decline in the six years before that.
- Overall there was an increase in multifactor productivity in the 1990s, after very low increases up to 1995.

- A look at the productivity statistics in the past year show that the agriculture, forestry and fishery sector posted an increase in the real output growth rate of 2.2% in 2013.
- The increase occurred despite a decrease in labour productivity growth rate of -6.8% during 2013.
- A few sectors of the economy have performed well with the mining sector yielding a growth rate of 3.1% in 2013 from -3.6 in 2012.
- However the positive growth rate in output was not accompanied by an increase in labour input in the mining sector. The mining sector experienced a decline of -3.1% in 2013.

## 6.3 UNIT LABOUR COST

*LO3: Explain unit labour cost, that is, where productivity and wages are considered together*

- Unit Labour Cost measures the average cost of labour per unit of output
- In general an increase in unit labour cost means lower productivity.
- Changes in labour costs must be considered in relation to the changes in productivity that may have taken place at the same time.
- The extent to which changes in productivity and wages have moved together is determined by unit labour cost.
- Unit labour cost takes account of changes in remuneration costs as well as labour productivity.
- Unit labour cost is the cost of labour to produce one unit of output. It is also referred to as remuneration cost per unit produced.
- $$\text{Change in unit labour lost} = \frac{\text{Change in average remuneration per worker}}{\text{Change in labour productivity}}$$
- An increase in unit labour cost implies that the remuneration of workers is increasing more rapidly than labour productivity, and this will have a negative effect on the cost of production and therefore on competitiveness.
- Unit labour cost in SA has been increasing quite rapidly, which indicates that wages have increased without concomitant increases in productivity.
- However, when one considers real wages, the increase in labour productivity in recent years has exceeded the real wage increases.

## 6.4 FACTORS THAT INFLUENCE PRODUCTIVITY

*LO4: Discuss some of the factors that influence productivity*

- There are various factors that influence productivity:

  QUALITY OF THE LABOUR FORCE

- The quality of the labour force probably has the biggest impact on productivity. In SA there is a high rate of illiteracy and employers invest less in training than do those in many other countries.
- Furthermore, if the EEA and especially the BBBEE Codes exacerbate the shortage of skills by compelling enterprises to become equitably representative of the population while the supply of skilled black people is insufficient, the impact on productivity will be negative.

## LABOUR MARKET FLEXIBILITY

- Numerous aspects of labour market flexibility can have a critical impact on productivity.
- Among these are flexible working practices and working time, multi-tasking and extended job descriptions, transfers within and between workplace, and appropriate job security.

## MANAGEMENT RESPONSIBILITIES

- The Labour Market Commission has indicated that a lack of management skills in leadership, mentoring, work reorganization and decision-making abilities is a major constraint on productivity improvement.
- The lack of competition in the SA's market and insufficient investment in research and development are among the many factors contributing to poor productivity that can be laid at the door of management.

## SOCIO-POLITICAL CIRCUMSTANCES

- Social circumstances in SA are an important factor contributing to low productivity growth.
- In particular, the lack of proper housing, long travelling distances, unsatisfactory health care and nutrition, and various other socioeconomic factors play an important role.
- Productivity incentive schemes; there are various schemes whereby remuneration and productivity can be linked or productivity promoted.
- There should, for instance, be a direct link between personal or team performance and remuneration. Workers should have control or influence over the factors that drive both performance (output) and payment.

## MANAGEMENT – UNION COOPERATION

- The labour market is often characterised by a confrontational relationship between employers and workers.

- Employers in the past have also not given enough attention to sharing the benefits of productivity improvements with employees, or addressing any possible negative effects of productivity improvements on employees.
- This has resulted in opposition from unions to productivity bargaining. There is also an issue of authoritarian and racist supervision, hostile relationship between management and unions at the shop floor level.

NATIONAL PRODUCTIVITY INSTITUTE

- The National Productivity Institute is responsible for the promotion of productivity awareness, and for education and training.
- It provides consulting services to both the private and public sectors.

## 6.5 LABOUR MARKET FLEXIBILITY

*LO5: Describe the importance and types of labour market flexibility*

LABOUR MARKET FLEXIBILITY

- refers to the willingness and ability of labour to respond to changes in market conditions, including changes in the demand for labour and the wage rate
- Labour market flexibility is an important aspect of how labour markets function to adjust supply to demand.

IMPORTANCE OF LABOUR MARKET FLEXIBILITY

- FIRMS WILL BE MORE EFFICIENT AND COMPETITIVE
  - Flexible labour markets help keep costs down for firms. For example, firms can get rid of surplus workers.
  - This may help prevent the firm go bankrupt and protect jobs in the long term.
  - Arguably with globalization, it is increasingly important for firms to remain competitive within the global economy.
- INCREASED LABOUR PRODUCTIVITY
  - With increased labour productivity there could be an increase in output and exports.
  - There could be a lower rate of natural unemployment and lower inflation.
- PREFER FLEXIBLE EMPLOYMENT PATTERNS
  - Many workers will prefer flexible employment patterns because it suits their life style and offers a greater range of choice.
  - For example, flexible labour markets have played a role in increasing female participation rates.
- ENCOURAGE INWARD INVESTMENT

- May encourage inward investment; Multinational firms may be attracted to invest in countries with more flexible labour markets, creating jobs in the first place.

- RESTRICTIVE LABOUR MARKET PRACTISES
  - Arguably countries with restrictive labour market practices, such as France and Spain have experienced higher rates of structural unemployment.

## TYPES OF LABOUR MARKET FLEXIBILITY

- Four types of flexibility have been identified by the ILO:
  - Wage flexibility
  - Working time flexibility
  - Contract of employment flexibility (job security and hiring decisions)
  - Work organisation flexibility

## WAGE FLEXIBILITY

- Requires that wages levels and wage differentials should be responsive to economic and labour market conditions, whether in the country as a whole, a sector or an individual enterprise.
- Wages are usually rigid downwards and flexible upwards i.e. responsive to price increases and unresponsive to unemployment.
- Wages are to be more responsive to macroeconomic factors such as productivity, unemployment and international competitiveness
- Minimum wages seem to be one of the major causes of unemployment among those groups they set out to protect, for example, young people.
- Minimum wages determined by bargaining councils might, in some instances, introduce rigidities in the labour market and can therefore reduce employment creation among lower-skilled and younger workers.
- Policies which might achieve greater wage flexibility include:
  - abolishing minimum wages;
  - weakening collective bargaining of across the board wage levels
  - reducing the welfare benefit floor for wages; and
  - eliminate wage indexation

## WORKING TIME FLEXIBILITY

- Gives firms more authority to set and change work schedules and the organisation of working time within a given period.
- Time flexibility can take various forms, such as:
  - hours of work;
  - paid holiday; sick leave;

- overtime; out of normal hours working
- retirement

- Some countries have introduced a system whereby overtime is paid only if the total number of hours during a year exceeds a certain prescribed limit, or the sum paid for overtime is fixed below a certain limit.
- Many enterprises in SA and abroad have introduced flexi time arrangements.
- Many overseas enterprises also apply a system of averaging the hours of work over a certain period e. g. a year referred to as animalization of working time
- Some countries have introduced legislative changes authorizing collective bargaining partners to agree upon innovative working time arrangements.

CONTRACT OF EMPLOYMENT FLEXIBILITY: JOB SECURITY AND HIRING DECISIONS

- The ability of an enterprise to adjust the size of its workforce to changes in the demand for the product (i.e. the ability to hire or fire) and to use various types of employment contracts, such as short-term contracts and subcontracting, is also referred to as external or numerical flexibility.

  JOB SECURITY

  - Job security comes at a cost.
  - Not only do legal and other processes incur high costs, but job security regulations are blamed for the reluctance of employers to engage new workers on indefinite period contracts.
  - Many countries have relaxed job security regulations, for example by extending the authorized probationary period, moving away from government approval for retrenchments and making temporary employment contracts possible.
  - policies that were aimed at greater numerical flexibility included:
    - ✓ weakening employment protection legislation;
    - ✓ reducing fixed-term employment contract;
    - ✓ encouraging temporary and part-time working
  - There is fairly extensive protection of employees against unfair dismissals in SA in terms of the LRA, both with regard to procedure and reasons for dismissals.
  - The requirements of procedural fairness have contributed more than any other factor to perceptions that the SA labour law is inflexible.

  RESTRICTIONS ON HIRING

  - If an employer's ability to recruit and appoint the best person for the job is inhibited, it will have a negative impact not only on flexibility, but also on the search for excellence.

- There are several examples of restrictions on hiring in SA legislation, e.g. the provision for closed shop agreements, in terms of which employers can hire only persons belonging to one or more specified unions.
- Another restriction is the duty on employers to implement affirmative action measures to give preference in hiring and promotion to so-called "disadvantaged groups" in terms of the Employment Equity Act.
- On the other hand, the Act might, over the longer term, lead to the better utilization of human resources, which will increase productivity.
- The provisions for probationary employment in the LRA might reduce some of the disadvantages of substantial job security and might thereby increase flexibility.

## WORK ORGANISATION FLEXIBILITY

- The extent to which workers or conditions of employment within an enterprise can adjust to changing circumstances is also called internal or functional flexibility.
- Rules and agreements relating to the workplace, conditions of employment and the skills level of the workforce can affect this.
- Other factors which can inhibit internal flexibility have their origins in legislation, bargaining councils or collective agreements on work rules, union rules and work practices.
- Work-process flexibility can also be a factor where workers can be shifted between tasks relatively easily and working practices can similarly be changed easily and at low cost.
- Bargaining councils established in terms of the LRA might also have a negative impact on work organisation flexibility.
- They have a tendency to apply agreements rigidly, subject only to inefficient and cumbersome exemption mechanisms.

## A SKILLED WORKFORCE

- New patterns of work often require flexible and highly skilled workers.
- Workers are required, for instance, to function without direct supervision and to be able to correct small interruptions in the production process on their own initiative.
- Highly capital intensive production techniques and equipment also require skilled workers to operate such equipment successfully.

## 6.6 GENERAL CONSIDERATIONS REGARDING FLEXIBILITY

*LO6: Discuss the general considerations regarding flexibility*

- Labour market flexibility refers to the willingness and ability of labour to respond to changes in market conditions, including changes in the demand for labour and the wage rate
- Labour market flexibility is an important aspect of how labour markets function to adjust supply to demand.
- It is also the central to the supply-side of the macro-economy, and to its overall performance in achieving macro-economic objectives.
- Flexible labour markets have the following features:
    - Easy to hire and fire workers
    - Labour is occupationally and geographically mobile
    - Government intervention does not distort the market

### EFFICIENCY WAGE HYPOTHESIS

- Under certain circumstances a wage increase can lead to an equivalent productivity increase.
- There are various reasons why this might be the outcome:
    - Higher wages might enable (or induce) the employer to recruit employees more carefully.
    - A higher wage might make employers more willing to invest in their workers.
    - Workers' morale might improve due to their higher wages, and their absenteeism might be lower because their opportunity cost of not working is higher.
    - Workers' nutritional and health levels might improve, positively affecting their physical vigour and mental alertness.
    - Workers might, at least in the short term, be motivated by the higher wages to improve their productive effort. They might even do so over the long term if they fear being dismissed from a well-paying job.
    - Labour productivity might also increase as a result of wage increases if the employer attempts to reduce the wage bill by becoming more capital intensive.
- What is important is not whether productivity increases, but whether it increases by more than the wage increase, i.e. whether the productivity improvement fully compensates for the labour cost increase.
- If this does indeed happen, it might be more efficient for the employer to pay higher wages, as this might reduce the unit labour cost.

# STUDY UNIT 7 – GLOBALISATION AND THE LABOUR MARKET

**LEARNING OUTCOMES:**

i. Discuss South Africa's links with the world
ii. Explain South Africa's competitive position
iii. Describe the impact of international trade on the labour market
iv. Explain the impact of trade liberalisation on the South African labour market
v. Discuss how the challenges of globalisation can be addressed

## 7 GLOBALISATION AND THE LABOUR MARKET

### 7.1 SOUTH AFRICA'S LINKS WITH THE WORLD

*LO1: Discuss South Africa's links with the world*

- South Africa is the economic powerhouse of the African continent
- South Africa is one of the most sophisticated, diverse and promising emerging markets globally.
- The unique combination of a highly developed first-world economic infrastructure and a huge emergent market economy has given rise to a strong entrepreneurial and dynamic investment environment.
- South Africa has a relatively open economy with regard to trade, investment and labour markets.
- Exports and imports form a large part of total domestic production.
- Foreign capital is also important because South Africa does not save enough to finance the required level of investment.
- There is an outflow of skilled labour and an influx of legal and illegal unskilled labour.

### 7.2 South Africa's competitive position

*LO2: Explain South Africa's competitive position*

- According to World Economic Forum, SA fares poorly in terms of its international competitiveness.
- In 2005 SA occupied the 42nd position on a list of 117 countries. Some of the strengths related directly or indirectly to the labour market were the following:
    - The extent of incentive compensation
    - Company spending on research and development

- Judicial independence
- Social transfer recipients

- Some notable competitive disadvantages were:
  - Tertiary enrolment
  - Inflation
  - Cooperation in labour-employer relations
  - Availability of scientists and engineers
  - Quality of public schools
  - Skills outflow or “brain drain”
  - Unemployment rate
  - Hiring and firing practices
  - Pay and productivity
- According to the World Economic Forum (2013), South Africa was ranked as the 53rd most competitive country out of 148 surveyed in the 2013/14 Global Competitiveness Index, making it the second highest ranked country in Africa after Mauritius (45th).
- However South Africa is rated first overall in terms of economic competitiveness out of 38 African countries, according to the Africa Competitiveness Report, which reviews the degree of competitiveness of Africa's economies.

- SRI international compared SA with 11 benchmark countries, which were selected on the basis of a set of criteria such as similar economic structures and social conditions.
- The following emerged from the survey:
  - Unemployment rate – SA highest
  - Adult literacy rate – SA second from bottom
  - Strike activity – third highest strike level
  - Secondary school enrolment – 5$^{th}$
  - Tertiary school enrolment – SA second from bottom
  - Availability of skilled labour – SA last
  - Availability of competent senior managers – near the bottom
- Labour costs are also becoming increasingly important in determining international comparative advantage.
- Unit labour costs at current prices in manufacturing in SA have increased much more rapidly than those of its main trading partners, and this has damaged the country’s international competitiveness.
- However, international comparison should be approached with caution owing to the complex interaction of many factors.

## 7.3 IMPACT OF INTERNATIONAL TRADE ON THE LABOUR MARKET

LO3: Describe the impact of international trade on the labour market

EMPLOYMENT AND WAGES

- After analysing a number of studies, the ILO (2005) concludes that "globalisation initially has a negative impact on wages, but this effect dissipates over time and eventually the impact of globalisation on wages becomes positive".
- This positive impact generally occurs within three to four years of openness.
- The initial negative impact can be as a result of import penetration and a move of producers to more profitable sectors, with resultant job losses in some sectors.

REDUCTION IN POVERTY

- Poverty reduction and reducing inequalities are not the same and, even if inequalities have increased, it does not necessarily mean that the poorest people have become even poorer as a result of globalisation.
- The number of poverty-stricken people may thus decline at the same time as inequalities increase; this will happen if there is a general increase in incomes but the incomes of the rich increase more than those of the poor.
- This seems to have been the case in China and India. In both these countries there has been a massive increase in incomes as a result of globalisation.
- This has significantly reduced poverty, even though inequalities have increased.
- Because the populations of these countries form such a large part of the world population, it affects average trends in the world.

## 7.4 IMPACT OF TRADE LIBERALISATION ON THE SOUTH AFRICAN LABOUR MARKET

*LO4: Explain the impact of trade liberalisation on the South African labour market*

- SA's trade liberalisation initiatives have been relatively recent, and the effect on employment takes years to materialize.
- Short term employment losses as a result of structural adjustment are inevitable, as described by the so called "J-curve phenomenon".
- The J-curve suggests that the economy initially declines, but after a while shows strong improvements.
- The manner in which globalization has affected employment in SA is rather atypical. The employment losses in export-oriented sectors have been relatively greater than in import-competing sectors.

- What has happened is that exporters have increased productivity by reducing their labour force in order to be able to compete in international markets.
- A study by Rangasamy and Blignaut 2005 found that those sectors that became more externally oriented had lower inflation rates and higher growth rates than the other sectors in the economy for the period 1994 – 2000.
- In particular, the average growth rate for the externally oriented sectors. The difference in the inflation rate was less marked, i.e. 8.3% for the external sectors and 9.7% for the others.

EFFECT ON SKILLS PATTERNS

- Globalisation seems to have shifted production in favour of capital- and skills-intensive sectors to the detriment of labour-intensive sectors.
- Employment of less skilled workers has been negatively affected.
- Reasons why the employment of less skilled workers might have been negatively affected by trade liberalisation include:
    - Exporting firms have been found to be relatively skills intensive.
    - There is increased competition from low-wage, labour-intensive export production in other developing countries.
    - Firms that import a large percentage of their raw materials are more skills intensive.
    - Trade liberalisation often induces “defensive innovation”, which is more skills intensive.

IMPACT ON WAGES AND INEQUALITIES

- Edwards and Behar (2005) have found that trade liberalisation has had the biggest negative impact on the wages of semi-skilled workers and artisanal workers, with the wages of unskilled workers being affected least.
- However, because of wage rigidities, these wage effects have most likely been translated into employment effects.
- Trade liberalisation in SA might thus have increased inequalities, at least over the short term.

## 7.5 CHALLENGES OF GLOBALISATION

*LO5: Discuss how the challenges of globalisation can be addressed*

ADDRESSING THE CHALLENGES OF GLOBALIZATION FOR E.G USA AND EUROPE LABOUR MARKET

- Countries face a choice in addressing the challenges of globalization – either to allow greater wage flexibility, which will increase inequalities, or to protect the wages of the unskilled, which will increase unskilled unemployment.
- The USA and Europe are examples of countries that opted for opposite policy choices.
- In the five years to 1997 some 12 million jobs were created in the USA, while there was almost no net increase in jobs in Continental Europe over the same period.
- In 1997, unemployment fell to a 24-year low in the USA, while it reached a post-war high in Germany, for example. Most observers agree that the fundamental reason for this has been more flexible labour markets in the USA, and wage flexibility in particular, as opposed to highly regulated labour markets in Europe.
- High direct and indirect labour costs have meant that European employers have been unable or unwilling to expand employment, whereas wages in the USA have been sufficiently flexible to "clear" the labour market, i.e. to keep unemployment to a minimum.
- The lower wages in the USA occurred at the lower end of the skills spectrum, with the result that wage differentials, and consequently inequality, increased significantly.
- Furthermore, the real wages of unskilled workers often actually declined, resulting in a growing phenomenon of the working poor.
- In Europe, there was practically no increase in inequality. It has been argued that Europe has been able to generate remunerative employment for the male breadwinner and that most unemployment is found among what Wolf calls "outsiders", i.e. women, the young and older workers.
- It is also said that even though the newly created jobs in the USA may not be quality jobs, the wages paid in these jobs are mostly higher than the average wage and allow people to acquire skills and experience.
- Some observers state that the reason for the USA's performance does not lie with wage flexibility, but with less rigid regulations governing output-related matters such as working hours, planning and zoning, combined with the more effective channeling of capital to start-up enterprises.
- Overall, however these findings suggest that if countries respond to competition from low-wage countries by allowing greater wage flexibility, then wage differentials will increase (as in the USA), whereas if they respond by protecting the wages of unskilled labour, then unemployment will rise (as in Europe).

# STUDY UNIT 8 – UNEMPLOYMENT IN SOUTH AFRICA

**LEARNING OUTCOMES:**

i. Explain the definition and types of unemployment
ii. Discuss unemployment in South Africa
iii. Discuss the reasons for high unemployment
iv. Describe a strategy to create jobs
v. Explain special employment and income maintenance programmes

## 8 INTRODUCTION

- An unemployed person – is a person who is without work, is currently available for work, and is seeking work or wanting to work.
- The unemployment rate – is the number of unemployed persons taken as a percentage of the total labour force (the economically active population – EAP), which includes both the employed and the unemployed.

### 8.1 DEFINITION AND MEASUREMENT OF UNEMPLOYMENT

*LO1: Explain the definition and measurement of unemployment*

The definitions used by the LFS are as follows:

STRICT DEFINITION OF UNEMPLOYMENT

- States that the unemployed are those people within the economically active population, who:
  i. did not work during seven days prior to the interview,
  ii. want to work and are available to start work within a week of the interview, and
  iii. have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

EXPANDED DEFINITION OF UNEMPLOYMENT

- It simply excludes criterion (iii) given in the strict (official) definition
- Includes everyone who desires employment, irrespective of whether or not they actively tried to obtain a job e.g even discouraged work-seekers

  OR
- The unemployed people – are those people within the economically active population who:
  - Did not work during the seven days prior to the interview,
  - Want to work and are available to start work within a week of the interview,

**SOME OF THE PROBLEMS IN THE DEFINITION AND MEASUREMENT OF UNEMPLOYMENT IN GENERAL, BUT ALSO WITH REGARD TO CIRCUMSTANCES IN SA**

- The strict definition of unemployment which excludes people who are not searching for work, excludes many rural people in particular because they find it more difficult to "actively take steps to find a job" and therefore are not officially counted as unemployed.
- Another shortcoming of the definition of unemployment is that it does not measure underemployment, i.e. when a person's employment entails less than normal hours of work.
- There are two types of underemployment:
    - Visible underemployment
        - In which persons involuntarily work less than normal hours and are seeking, or have the desire for, full-time or additional work.
    - Invisible underemployment
        - Which is misallocation of labour resources, for example the underutilization of skills, or workers having very low productivity

MEASUREMENT OF UNEMPLOYMENT

- Although there are various ways of measuring unemployment, there are three broad approaches:
    - The sample survey method – A survey is undertaken among a number of households to determine the economic status of the members of the household (the LFS is an example).
    - The census method – The economic status of the whole population is determined by asking individuals what their economic status is.
    - The registration method – Unemployed persons register as such.
- The most dependable source of unemployment statistics in SA is probably the LFS. This survey has been in use only since 2000.
- Before that the October Household Survey (OHS) was used, with different definitions and approaches. It is thus difficult to compare surveys over time.

## 8.2 UNEMPLOYMENT IN SOUTH AFRICA

*LO2: Discuss unemployment in South Africa*

MAIN TYPE OF UNEMPLOYMENT EXPEREINCED IN SA IS STRUCTURAL UNEMPLOYMENT

- STRUCTURAL UNEMPLOYMENT

- It refers to the overall inability of the economy, owing to structural imbalances, to provide employment for the total labour force even at the peak of the business cycle.
- Occurs when there is a change in the structure of an industry or the economic activities of the country
- Some of the factors that contribute to increased unemployment rates are rapid changes in technology, inflation, recession and changes in taste, among others
- The South Africa economy experienced rapid technological advancements which led to most industries to be more capital intensive, resulting in structural unemployment as human labour is no longer required.
- In addition, structural unemployment is associated with the mismatch between the skills of the workers and the skills requirements of available jobs.

- FRICTIONAL UNEMPLOYMENT
    - Arises as a result of normal turnover that occurs in any dynamic economy and the time lags involved in the re-employment of labour.
    - Because there are people moving between jobs and new entrants to the labour market at any given time, there are both unemployed person and vacancies that can be filled by them, and it usually takes time for those seeking work to find and fill these vacancies.
    - Frictional unemployment is usually or relatively short duration and can be reduced even further by improving labour market information and placement services so that the employer and job seeker can find each other sooner and more effectively.
    - This type of unemployment is very common in South Africa, mostly amongst unemployed unskilled labourers as they move from one place to another because there is lack of communication facilities such as telephones, internet and employment stations
- CYCLICAL UNEMPLOYMENT
    - Also known as Keynesian unemployment and it is due to deficiency of aggregate effective demand.
    - Arise during the times of recession, business activities are low, most people lose their jobs and the economy faces higher levels of unemployment.
    - Mafiri (2002) elucidates that in South Africa, cyclical unemployment has a dimension that makes it uneasy to address successfully: it is superimposed on large scale structural unemployment.

- As a result, the unemployment problem becomes severe, complex and difficult to alleviate.
- Once the economy improves, however, the cyclical unemployed again find jobs.

- SEASONAL UNEMPLOYMENT
  - Is due to seasonal variations in the activities of particular industries caused by climate changes, changes in taste or by the inherent nature of such industries.
  - For instance in agriculture sector in South Africa, farm workers in vineyards in the Western Cape are classified as seasonal workers.
  - They tend to be on high demand during the harvesting period and are unemployed during off period season.
  - Or Persons working during peak periods and unemployed in off-peak periods are described as seasonal workers or seasonally unemployed.

## 8.3 REASONS FOR HIGH UNEMPLOYMENT

*LO3: Discuss the reasons for high unemployment*

- The high unemployment that is prevalent in South Africa can be ascribed to factors on both the supply side of labour, as well as the demand for labour.
  - An influx of unskilled, illegal immigrant labour who are prepared to work for low salaries and as such are employed above our own nationals which impacts negatively on unemployment
  - Poor education levels thus a mismatch of too much unskilled labour and insufficient skilled labour. OR Failure of education system to deliver the skills that the nation requires.
  - Overly protective Labour Laws (for employees) making it less attractive to hire new staff
  - Minimum wages that prevent employers from employing staff at a rate that both parties would be prepared to work for/pay. This reflects the strong political and bargaining power of organised labour.
  - The demand for unskilled labour had fallen in the two sectors (agriculture and mining) that would normally be large employers of unskilled labour

## 8.4 STRATEGY TO CREATE JOBS

*LO4: Describe a strategy to create jobs*

- One of the reasons for SA's high unemployment is the relatively slow growth of the economy, when compared to countries such as China, India, Malaysia and a number of other industrializing countries.

## REDISTRIBUTION AND DEVELOPMENT PROGRAMME (RDP

- The first official economic program that was employed by the South African government was the RDP in 1994 so as to subdue unemployment, income inequality and to alleviate poverty.
- The essential elements of RDP policy revolve around a comprehensive plan aimed at lessening poverty and inequality in turn placing emphasis on both economic growth as well improving service delivery and human resource development for the previously disadvantaged population
- The architects of RDP strategy set several goals to be attained and those goals include the following:
    - ✓ Eradicate poverty, inequality and meet the basic needs of every South African;
    - ✓ Develop human resource capacity and raise the standard of living of all South Africans;
    - ✓ Establishment of a living wage;
    - ✓ End racial or gender discrimination at any level, hiring, promotion or training situations; and
    - ✓ Develop a prosperous balanced regional economy in Southern Africa

## GROWTH, EMPLOYMENT AND REDISTRIBUTION POLICY (GEAR)

- In 1996 the government announced its GEAR, which recognizes higher economic growth and significant job creation as the key challenges of economic policy. Some of the core elements of the GEAR strategy are:
    - ✓ Budget reform to reduce the fiscal deficit to 3%, while strengthening the redistributive effect of expenditure.
    - ✓ Achieve sustained annual real GDP growth of 6 per cent over the period of 1996 to 2000
    - ✓ Create 400 000 new jobs each year
    - ✓ Restructuring of state assets (which among others includes privatization)
    - ✓ Expansionary infrastructural investment
    - ✓ The gradual relaxation of exchange controls
    - ✓ A redistribution in tariffs to contain input prices
    - ✓ Anti-inflationary monetary policy
    - ✓ Tax incentives to stimulate new investment
    - ✓ Small and medium-sized enterprise development

- ✓ Structured labour market flexibility within the collective bargaining system
- ✓ A social agreement to facilitate wage price moderation.

## ACCELERATED AND SHARED GROWTH INITIATIVE OF SOUTH AFRICA (ASGISA)

- Within the framework of ASGISA its core objectives are to halve unemployment and poverty by the year 2014
- Employed by government in trying to improve the economic growth or performance so as to bring about equitable sharing of that economic growth.
- ASGISA planners or task force identified the six most binding constraints or bottlenecks to higher economic growth, poverty alleviation and job creation
- ASGISA highlights the following binding constraints:
  - ✓ The volatility and level of the currency
  - ✓ The cost, efficiency and capacity of national logistics systems
  - ✓ The shortage of suitably skilled labour amplified by the cost effect on labour of apartheid spatial patterns
  - ✓ Barriers to entry, limits to competition and limited new investment opportunities
  - ✓ The regulatory environment and the burden on small and medium businesses
  - ✓ Deficiencies in state organisation, capacity and leadership
- The response to the constraints is a combination of systematic initiatives, optimizing on public expenditure, improving the environment to do business in SA and removing bottlenecks.
- In addition, the following selected interventions will be launched:
  1. Expansion of infrastructure. Especially Eskom, Transnet, the Airports Company, water, Soccer World Cup infrastructure, and the information and communications sector.
  2. Sector strategies. The following sectors have been identified as important in meeting the objectives of ASGISA:
     - ✓ Business Process Outsourcing (BPO), especially from other countries
     - ✓ Tourism
     - ✓ Other priority sectors under consideration are bio-fuels, chemicals, metals and metallurgy, agriculture, agro-processing, creative industries, wood pulp and paper, clothing and textile and durable consumer goods.

3. Education and skills. Key measures to address the skills challenge in the education sphere will focus on:
    - ✓ The quality of education
    - ✓ Adult basic education and training (ABET)
    - ✓ Further education and training (FET)
    - ✓ Artisanal skills.

## JOINT INITIATIVE FOR PRIORITY SKILLS ACQUISITION (JIPSA)

- JIPSA was formed in order to deal with matters regarding skills shortage in South Africa and also in support of ASGISA for skills development.
- According to policy makers, economists and other observers, skills shortages in South Africa have long been seen as one of the contributing factors for the economy not to perform well thus putting sort of constraints on the attainment on economic growth.
- By eliminating skills shortages, economists are optimistic that a higher economic growth can be attained in South Africa thereby accelerating the pace of economic growth.
- JIPSA identified urgent skills such as artisans and technicians that are needed to boon the economy of South Africa and then provide solutions.
- Solutions are provided through a variety of means that include special training programmes, exchange programmes with other countries and even attracting immigrants when necessary.
- Several companies which include Eskom, Sasol, Transnet, Anglo Platinum, Arcelor Mittal SA and Gold Fields have entered into mutual agreements as skills business partnerships with the South African government to provide training in the scarce skills needed to boon the nation.

## NEW GROWTH PATH (NGP)

- The main aim of the new growth path is to accelerate the economic growth at a rate of between 6 per cent and 7 per cent so as to help in creating five million jobs by 2020.
- Furthermore this will bring about a more inclusive labour absorbing, thereby reducing the level of unemployment to around 15 per cent thus curtailing unemployment by 10 per cent by 2020.
- The NGP identified six priority areas that would contribute in generating job creation and these are: infrastructure development, agriculture, mining, manufacturing, the green economy and tourism

## WAGE SUBSIDIES AS A METHOD OF ADDRESSING UNEMPLOYMENT

- A wage subsidy reduces the price of labour relative to the price of capital or that of no-targeted workers, and in this way encourages enterprises to substitute targeted workers for unsubsidized capital or non-targeted workers.
- It also reduces the enterprise's costs, encouraging it to expand its output and demand for labour.
- The wage subsidy thus leads to a shift down the firm's labour demand curve.
- Specifically, it reduces the cost of labour for the employer, thus increasing the demand for labour.
- The extent to which a wage subsidy increases the employment of targeted groups will depend on the elasticity of the demand for such workers.
- If a reduced wage does not result in a greatly increased demand for workers, the employment effect of subsidies will be negligible, and may simply increase the profits of employers.
- A further disadvantage of subsidies is that there may be no long-term positive impact on employment creation, or that it may lead to the inefficient utilisation of labour.

### THERE ARE VARIOUS TYPES OF WAGE SUBSIDIES:

- General stock subsidy – which is simply paid as a percentage of the enterprise's total wage bill.
- Paid only in respect of workers about to be retrenched, very difficult to administer, may impede structural change
- Recruitment subsidy – which is paid in respect of new recruitments. This may be problematic if employers replace existing employees with targeted group (substitution or displacement effect)
- Incremental subsidy – only paid on the basis of workers being appointed to new, additional jobs created in the enterprise's labour force. Funds may be wasted if paid to enterprises that would have expanded employment anyway.

In SA a wage subsidy scheme is in operation to encourage the employment of unemployed people in learnerships.

## 8.5 SPECIAL EMPLOYMENT AND INCOME MAINTENANCE PROGRAMMES

*LO5: Explain special employment and income maintenance programmes*

### Expanded Public Works Programme (EPWP)

- Is a government programme aimed at the alleviation of poverty and unemployment

- The EPWP is a nationwide programme under the auspices of government and state-owned enterprises.
- The programme ensures the full engagement on Labour Intensive Methods of Construction (LIC) to contractors for skills development.
- The programme provides an important avenue for labour absorption and income transfers to poor households in the short to medium term.
- .EPWP projects employ workers on a temporary or ongoing basis either by government, by contractors, or by NGOs under the Ministerial Conditions of Employment for the EPWP or learnership employment conditions.
- The EPWP focuses at reducing unemployment by increasing economic growth by means of improving skills levels through education and training and improving the enabling environment for the industry to flourish

## BASIC INCOME GRANT (BIG)

- Acts as a key intervention to combat poverty and to improve the lives of the majority of South Africans.
- BIG started as a step towards alleviating poverty in South Africa by providing people with a grant, which would assist in meeting their basic needs.
- At least 22 million people in South Africa--well over half the population--live in poverty. On average, they survive on R144 per person per month. A Basic Income Grant would provide rapid and sustained relief to all South Africans by:
    - providing everyone with a minimum level of income,
    - enabling the nation's poorest households to better meet their basic needs,
    - stimulating equitable economic development,
    - promoting family and community stability, and
    - affirming and supporting the inherent dignity of all

# STUDY UNIT 9 – HUMAN CAPITAL and the DEMAND FOR SKILLED WORKERS

**LEARNING OUTCOMES:**

i. Explain the human capital theory
ii. Describe some of the criticisms of the human capital theory
iii. Explain human capital in South Africa
iv. Discuss education in South Africa
v. Describe skills development in South Africa
vi. Discuss the skilled labour shortages in this country

## 9 HUMAN CAPITAL and the DEMAND FOR SKILLED WORKERS

### 9.1 HUMAN CAPITAL THEORY

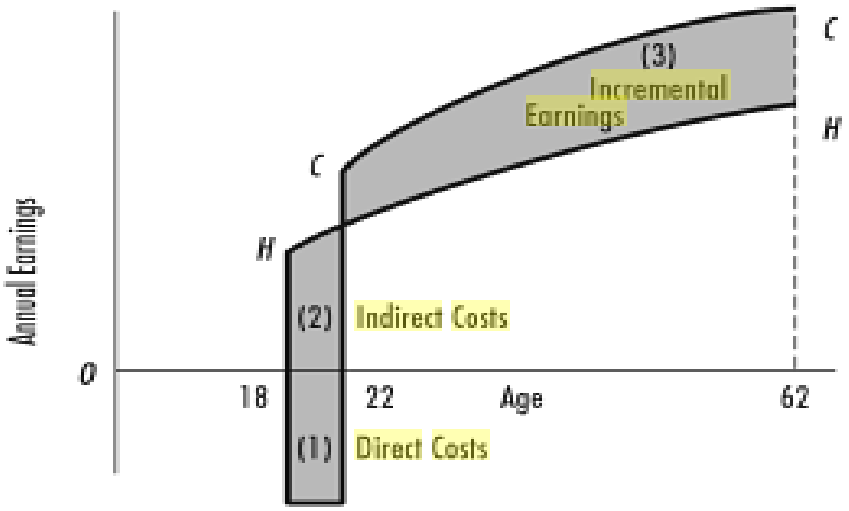
*LO1: Explain the human capital theory*

- Human capital theorists argue that an educated population is a productive population.
- Human capital theory emphasizes how education increases the productivity and efficiency of workers by increasing the level of cognitive stock of economically productive human capability, which is a product of innate abilities and investment in human beings
- People with higher educational qualifications consistently earn higher salaries.
- The person is more valuable to the employer and this, in turn, leads to higher earnings
- There is thus a progression from education and training, to higher productivity, to higher earnings.
- Education and training can also provide immediate benefits (such as subjective satisfaction and status) in addition to the long-term monetary rewards through higher earnings.

HYPOTHETICALLY INDIVIDUAL DECIDING WHETHER OR NOT TO GO TO COLLEGE

- The decision to attend college for investment purposes depends upon the expected return on one's investment thus comparing costs and benefits (higher earnings) of college
- Bear in mind that there are costs involved in improving education. Costs of attending college:
    - Direct costs – are the cost of tution, fees and books
    - Indirect cost – is the forgone earnings you give up while you attending college (instead of working and earn a wage)

HUMAN CAPITAL THEORY MODEL




- From the diagram above HH curve reflects the age-earnings profile if a person does not attend college. Then the CC curve is the cost-earnings profile if one attends college.
- Therefore the total cost of attending college is the sum of the direct cost (Area 1) plus indirect costs (Area 2)
- Once the college graduate enters the labour force, s/he will earn more than would have been earned with only a high school (matric).
- The difference between the two earnings streams is shown as Area 3
- However the investment decision requires a comparison of the present value of the annual increments to earnings (3) with the present value of direct and indirect costs (1 and 2).
- If the former exceeds the latter ie if the net present value is positive then the investment will take place.

Human Capital Theory (HCT) concludes that investment in human capital will lead to greater economic outputs however the validity of the theory is sometimes hard to prove and contradictory.

## DISTINCTION BETWEEN the PRIVATE and SOCIAL RATES of RETURN to EDUCATION

- The rate of return could be a private rate, in which only the benefits and costs to the individual would be taken into account.

- However, and even more importantly from a policy point of view, it could also be the public or social rate of return, in which case the costs and benefits of education and training from a societal point of view would be considered.
- The costs to calculate the social rate of return would be all public subsidies to education, whereas for the individual these costs would be excluded simply because the individual does not carry these costs.
- Similarly for the individual, the after-tax incremental earnings would be calculated, whereas for society as a whole, it would be before taxes.
- The benefits for society as a whole would include societal objectives such as economic growth, reducing unemployment, eliminating poverty or reducing inequalities.
- However, the benefits could also include the potentially lower crime rates and lower law enforcement costs
- Children of educated parents would more naturally be inclined to have a high educational standard and would also have a better home environment in which to pursue educational objectives.

## 9.2 CRITICISMS OF THE HUMAN CAPITAL THEORY

*LO2: Describe some of the criticisms of the human capital theory*

### MEASUREMENT

- In order to come to an accurate indication of the impact of the human capital theory it is important to be able to measure the amount of education and training.
- The problem with that is; how do you measure the amount of education and training?
- Years of schooling and even degrees obtained are not necessarily an indication of the quality of education and training.
- Even though there are measures that could be potentially be used to measure the quality of education, for instance teacher qualifications and teacher to pupil ratios, these are not necessarily related to the quality of education.
- Furthermore, it is in many cases practically impossible to measure the productivity of an individual worker, and this needs to be done to determine the impact of education on productivity.

### ABILITY OR EDUCATIONAL LEVEL

- Different educational qualifications may, in fact, be an indication of pre-existing differences in ability.
- Workers with the necessary abilities attain higher educational qualifications and it is therefore ability, not educational qualifications, which is rewarded with higher earnings.

- If this is indeed the case, then sharp increases in educational spending will not necessarily lead to increases in productivity and consequently earnings.

## THE SCREENING HYPOTHESIS

- In terms of the screening hypothesis, employers apply educational attainment as an inexpensive screening device to determine the “ability” of workers and thus their job placement.
- Workers of a higher educational level are regarded, rightly or wrongly, as having more ability.
- This leads to their being appointed or promoted to better jobs relatively soon, which leads to higher earnings.
- However, higher education levels might not be related to higher ability.

## FAMILY BACKGROUND AND FINANCIAL STATUS

- It can lead to both higher educational qualifications and also higher earnings, without these necessarily being a direct relationship between education and earnings.
- Family background can, for instance, facilitate entry to better educational facilities and to certain occupations, in the business world, which might otherwise have been much more difficult to access.

## DUAL LABOUR MARKET THEORY

- According to this theory, workers in the internal labour market segment enjoy good jobs, high earnings, high upward mobility and job security.
- Jobs “on the outside” are characterised by low wages, little job security and limited upward mobility.
- The dual labour market theory’s criticism of the human capital approach is that wages are not necessarily dependent on education and training or even productivity, but on the operation of the internal labour market.
- The wages of the workers on the outside, in the secondary labour market, remain low irrespective of educational attainments, because access to the internal labour market and high wages is severely restricted, and because there is little incentive for employers to utilise workers better.

## THE RADICAL APPROACH

- According to the radical approach, neither educational and training programmes nor the integration programmes of the dualists will significantly alter relative income structures in the labour market.

- It is in the interests of capitalists to have different classes or workers, and they ensure that this structure is maintained.
- The government is the instrument of the capitalist class and will not address the problem.
- According to this approach, inequalities can be changed only if the power relations in society are changed, i.e. the power of the capitalist class should be eliminated.

## 9.3 HUMAN CAPITAL IN SOUTH AFRICA

*LO3: Explain human capital in South Africa*

- South Africa has a shortage of skilled workers and an oversupply of unskilled workers that resulted from bottlenecks in the labour market generated by apartheid.
- People play a crucial role in any company's ability to produce products and services that will improve a country's productivity and economic growth.
- The role of human capital and resources for development is of paramount importance in a country like South Africa, as its human resources are underdeveloped and the potential of people are not realised or taken into account.
- SOUTH Africa's dearth of skilled employees and its poor ability to nurture talent through educating, training and employing its people has been highlighted in a new index from the World Economic Forum (WEF) 2015, which ranks the country 92nd out of 124 economies.
- The WEF's human-capital index ranks economies on how well they are developing and deploying their human capital, and creating workforces which are prepared for the demands of competitive economies.
- The rankings, which are topped by Finland, show sub-Saharan Africa ranks lowest of all the world's regions, with the region "characterised by chronically low investment in education and learning", the WEF (2015)

## 9.4 EDUCATION IN SOUTH AFRICA

*LO4: Discuss education in South Africa*

- In spite of significant progress with education in SA, there are still many problems with the country's education system.
- Some of the common problems are discussed below:

  LOW PROGRESSION OF LEARNERS

  - When one compares the number of learners who progress from one grade to the next the following year, there has been an improvement in the early grades.

- This indicates that in the lower grades, the fall-out rate of learners is relatively low.
- However, this is not the case in the middle or higher grades.
- In the higher grades in particular, the flow-through rage has in fact declined quite sharply.
- This suggests that there is probably gate keeping (not allowing learners who are unlikely to pass matric to progress to Grade 12) or “culling” of learners (removal of over-age learners, or discouraging them from registering for the senior certificate examination).

## SHORTAGE OF TEACHERS

- There has been an improvement in the number of the learners per teacher, and there has also been a more equal distribution of learner to teacher ratios between provinces.
- In 1994, this ratio ranged between 23 and 39 across the provinces, and this has improved to a more equal range of between 31 to 37 in 2001
- The number of under qualified educators dropped from 130 000 in 1991 to 56 000 in 2002, or from 40% to 16% of the total.
- It is estimated that about 20 000 teachers leave the profession each year through death, disease or resignation.
- To this number should be added the additional teachers required owing to increased numbers of learners and the need to reduce learner to teacher ratios.
- The total number of new teachers required each year could be in the region of 30 000.
- The current output of teachers is less than 10 000 per annum, whereas the total teacher training capacity is only 20 000 per year.
- Further cause for concern is the fact that the number of African students training to be teachers, especially in the foundation (mother-tongue) phase, has “collapsed”.
- Data shows that less than 10% of students training to be teachers in 2005 were African.

## BACKLOGS IN INFRASTRUCTURE

- Considerable progress has been made since 1994 in decreasing backlog.
- However, by 2002, 28% of schools still did not have water and 43% did not have electricity.

- There was also a shortage of classrooms, but this had been reduced from about 76 000 in 1995 to 43 000 in 2002.
- There was also a severe lack of libraries, with only one in five schools having a library.

## POOR QUALITY IN SPITE OF INCREASED EDUCATIONAL EXPENDITURE

- SA's expenditure on education by general government comprised 18.8% of total government expenditure.
- SA's expenditure on education, as measured as a percentage of GDP (18.8), is very high compared with other countries.
- After 1994, the government addressed the earlier discrimination in the allocation of resources, by reallocating resources.
- This shift in fiscal incidence was the most dominant resource shift in the overall budget, and mainly took the form of more teachers and higher salaries for teachers in historically black schools, coupled with cutbacks in teacher numbers in other schools.
- However, real resource shifts in pupil to teacher ratios were not substantial, with the result that educational outcomes did not improve substantially.
- Therefore, even though there was more equity in educational resource allocation, there was not much improvement in the iniquities with regard to educational outcomes.

## SHARP FALL IN HIGHER GRADE QUALIFICATIONS

- The number of Senior Certificate passes with endorsement for university entrance dropped from 78 821 in 1995 to 67 707 in 2001 – a drop of 14%.
- This is likely to cause a sharp fall in university enrolments and degrees granted, which is likely to have a negative impact on the supply of skills to the economy.

## POOR QUALITY MATHEMATICS AND SCIENCE EDUCATION

- Mathematics and science education is a requirement for many tertiary qualifications.
- If the skills level of SA workers is to be improved, the country needs to produce substantial number of learners with quality mathematics and science education. However the opposite is happening.
- Even though there appears to be an increase in the number of learners enrolled for mathematics, this growth has taken place at the standard grade level only.

- At the higher grade, which is required for numerous higher education qualifications, the number of learners dropped sharply, from 53 611 in 1991 to 35 959 in 2003.
- This represents a drop of 33% over the 12-year period. Owing to an improvement in the higher grade pass rate, the number of higher grade passes increased, but only slightly – from 20 677 to 23 412.
- This is only a fraction of what the country needs.
- The figures for physical science look much the same, and the number of higher grade passes increased from 23 109 to 26 067.
- When mathematics teaching is compared with that in other countries, the situation in SA appears dismal

TERTIARY EDUCATION NOT APPROPRIATE FOR THE NEEDS OF THE ECONOMY

- Qualifications in some the humanities (such as languages, social sciences, arts, communication and the like) still form a major part of all qualifications awarded, although the proportion has declined since 1992.
- There was a sharp increase in the number of qualifications awarded in business, commerce and management sciences.
- However, the proportion of engineering qualifications dropped from 8% to 5%, and there were also declines in the proportion of health, law, life and physical sciences.
- The long-term need for engineers and scientists is therefore not being addressed properly by tertiary training institutions.

## 9.5 SKILLS DEVELOPMENT IN SOUTH AFRICA

*LO5: Describe skills development in South Africa*

- South Africa has a short supply of skilled staff which results in a serious obstacle to the competitiveness of industry in South Africa.
- In order to address this issue Skills Development Act of 1998 was introduce and aims to:
    - Develop skills for the South African work force;
    - Increase investment in education and training, and improve return on investments in those areas
    - Encourage employers to promote skills development by using the workplace as an active learning environment;
    - Encourage workers to participate in learnership and other training programmes;

- Improve employment prospects by redressing previous disadvantages through training and education;
- Ensure the quality of education and training in and for the workplace, and
- Assist with the placement of first time work-seekers

## COMPLEMENTING INSTITUTIONS and MECHANISMS RELATING to the SKILLS DEVELOPMENT STRATEGY in SA

- A new framework for education and training in SA has been created by the SA Qualifications Authority (SAQA) and related legislation. SAQA is appointed by the
- Minister of Education in consultation with the Minister of Labour.
- SAQA is responsible for:
  - Establishing a single unified system of education and training qualifications in the country by overseeing and implementing the National Qualifications Framework (NQF)
  - Generating unit standards and qualifications for registration on the NQF
  - Creating and giving accreditation to the institutions to ensure that these qualifications are of a high quality, which means that the quality of training provided by training providers has to be monitored.

## NATIONAL QUALIFICATIONS FRAMEWORK

- The NQF is based on the principles of access, i.e. everyone in SA should have access to learning of quality and portability so that skills learnt are transferable across the different sectors of the economy.
- The NQF consists of eight levels along a continuum of learning.
- Each level represents a point at which national qualifications are awarded.
- The levels measure how difficult the learning for different qualifications is and allows for comparisons between courses.

## FRAMEWORK FOR QUALITY ASSURANCE

- SAQA accredits bodies to monitor the quality of training given by providers, according to the standards and qualifications of the NQF.
- These bodies are called Education and Training Quality Assurers (ETQAs) and they accredit education and training providers.
- The ETQAs check the courses or providers and accredit them if they can show that they have the staff and systems needed to support successful learning.

## LEARNERSHIPS

- A learnership agreement is a training agreement entered into by a learner, an employer, and possibly a training provider to train the learner to a set of agreed standards in a particular field.
- A learnership is a paraprofessional and vocational education and training programme that incorporates but also builds and improves on traditional apprenticeships.
- It is a mechanism through which qualifications that are registered on the NQF can be achieved.
- Like apprenticeships, learnerships combine practical work experience (in normal workplace conditions) and structured learning (which may be taught by and educational institution).
- There are also differences between learnerships and apprenticeships for example:
    - Learnerships apply to all parts of the economy not just “blue collar” trades
    - Learnerships fit into the NQF. They give the learner a qualification registered by SAQA

## SECTOR EDUCATION AND TRAINING AUTHORITIES (SETA)

- SETA’s have been created in different sectors of the economy (25 in total) by representatives from employers and employees in that sector as well as government departments.
- They are concerned with education and training and their job is to help implement the national skills development strategy and to increase the skills of people in their sector.
- They may establish chambers to ensure that the special needs within a particular industry are met.
- In order to achieve these objectives, SETAs have, among others, the following duties:
    - To develop and implement a sector skills plan
    - To develop and administer learnerships
    - To undertake quality assurance
    - To disburse levies collected from employers in their sector.

## FUNDING OF SKILLS DEVELOPMENT

- Skills development in SA is funded through a compulsory skills development levy, in terms of the Skills Development Levies Act.
- Every employer with an annual payroll in excess of R250 000 pays a skills levy of 1% of total payroll to the SARS.
- Of the funds collected, 20% goes to the National Skills Fund (NSF).
- Each SETA may get the remaining 80% of the money paid by the employers in its sector.

- The SETA uses a certain percentage of this funding (not more than 10%) to cover its administrative costs.
- The rest of the money can be paid back as grants to companies that comply with criteria that are mainly nationally set and to a lesser degree determined by SETA in terms of its sector skills plan.

THE NATIONAL SKILLS FUND

- The National Skills Fund (NSF) receives 20% of all the levies paid by employers.
- This fund is used to train unemployed and other vulnerable people in areas where there is a strong potential for growth and employment.
- This includes training people for jobs created by new investment or the expansion of existing enterprises, as well as jobs in the construction of new infrastructure.
- The funds can also be utilised for youth development, development of small, micro and medium enterprises (SMMEs) and learnerships of national priority.

## 9.6 SKILLED LABOUR SHORTAGES

*LO6: Discuss the skilled labour shortages in this country*

- South African Labour force is dominated by unskilled staff and less skilled staff.
- This has for so many years proven that SA has short supply of skilled staff which results in a serious obstacle to the competitiveness of industry and may indicate that the existing skills base is insufficient to support higher economic growth.
- Skills shortages are not easy to measure, although vacancy data are usually used as a proxy for skills shortages.
- The vacancy rate measures vacancies as a percentage of the total number of posts
- Vacancy data are, however, subject to serious shortcomings, for example:
    - Quality deficiencies are not measured, for instance vacancy data do not reflect workers being appointed to skilled occupations without proper training or ability to do the job.
    - Employers might indicate in the statistical returns that they have vacancies, but do not actively try to fill them or do not offer realistic remuneration.
    - Many employers do not formally record vacancies, even though they might wish to employ additional skilled workers in certain occupations.
    - Frictional vacancies can also exist, i.e. vacancies as a result of normal labour turnover.
- There are relatively few sources of information on skills shortages. One such source is surveys, for instance the survey undertaken in 1999 by the World Bank in conjunction with the Greater Johannesburg Metropolitan Area.

- According to this survey approximately 80% of large firms experienced extreme to moderate difficulty in finding managerial and professional staff; 70% reported the same with regard to service craft skills.
- According to the survey even semi-skilled workers were in fairly short supply, since 40% of firms experienced difficulties in finding “operators”.

# STUDY UNIT 10 – LABOUR MARKET INEQUALITIES AND DISCRIMINATION

**LEARNING OUTCOMES:**

i. Explain the definitions and types of discrimination
ii. Explain the theories of discrimination
iii. Discuss the inequalities in the South African labour market
iv. Explain how these inequalities can be addressed
v. Describe equal pay for work of equal value
vi. Explain affirmative action

## 10 LABOUR MARKET INEQUALITIES AND DISCRIMINATION

### 10.1 DEFINITIONS AND TYPES OF DISCRIMINATION

*LO1: Explain the definitions and types of discrimination*

DEFINITIONS

- Labour market discrimination refers to the inferior treatment of groups of workers with respect to employment policy or practice, through factors not related to the labour market, such as being female or black (Barker & Holtzhausen 1996).
- McConnel et al. (2006) describe economic discrimination as follows: “Economic discrimination exists when female or minority (i.e. black) workers – who have the same abilities, education, training and experience as white male workers – are accorded inferior treatment with respect to hiring, occupational access, promotion, wage rate, or working conditions.”

TYPES OF DISCRIMINATION

- There are four types of possible labour market discrimination:

  HUMAN CAPITAL DISCRIMINATION

  - Is discrimination in respect of education and training, which may include impaired access to education or training, or inferior quality education

  EMPLOYMENT DISCRIMINATION

- Occurs when some group bear a disproportionate share of the burden of unemployment.

WAGE DISCRIMINATION

- Exists when workers belonging to certain groups are paid less than workers belonging to other groups for doing the same work.

OCCUPATIONAL DISCRIMINATION

- Occurs when specific groups are underrepresented in skilled occupations, although they are as capable as other groups and also have the necessary qualifications.

- The human capital discrimination is referred to as before-the-market discrimination, i.e. it occurs before the individual seeks employment or, in the case of on-the-job training, before s/he is fully productive in the labour market.
- The other three categories are referred to as within-the-market discrimination, because they are encountered after the individual has entered the labour market.

## 10.2 THEORIES OF DISCRIMINATION

*LO2: Explain the theories of discrimination*

TASTE-FOR-DISCRIMINATION MODEL

- According to Becker, some employers prefer certain groups of workers, for example whites or males, even if this preference or prejudice means that they have to pay for their prejudice in terms of higher wages for such workers.
- Such employers are thus in effect saying that it imposes an indirect cost on them to employ black workers.
- The cost of employing a black worker will then for the particular employer be the wage of the black worker plus the psychic “disutility” of hiring black workers.
- The strength of the psychic cost of employing a black worker by the discriminating employer is called the discrimination coefficient, and varies from one employer to the next.
- Such employers will only be willing to employ black workers if their wage rate is below that of white workers, and then only if black wages are lower than white wages by the amount of the discrimination coefficient.
- If the wage rate of white workers is Ww and that of black workers Wb, then the discriminating employer will regard the cost of employing a black worker as Wb + d, where d is the discrimination coefficient.

- The employer will thus only be prepared to be indifferent with regard to black and white workers if Ww = Wb + d.
- Racial prejudice thus blinds the discriminating employer to the true monetary cost of employing a black worker, and he or she will be willing to pay a premium for white workers.
- For instance, if Ww = R100 and d = R10, then a discriminating employer will only employ black workers if Wb = 90.
- Another employer might be less discriminating and have a lower discrimination coefficient of R5, which means that this employer will be willing to employ a black worker at a wage rate of R95.
- The non-discriminating employer will pay the white and black workers the same wage.

## STATISTICAL DISCRIMINATION

- According to the theory, agents make decisions about individuals based on their attributes and those of their group.
- In addition employers discriminate not because of a taste for discrimination, but because of their perception that on average, workers from certain groups are less productive.
- Statistically, therefore, there is a good chance that an individual from a certain group will have certain personal characteristics that might disadvantage the employer.
- This “statistical generalisation” of individual workers leads the employer to discriminate against those individuals.
- The characteristic of race or gender, for instance, is then used as an inexpensive substitute for determining the actual production-oriented attributes of workers. The proper selection of personnel is expensive.
- Employers therefore employ these cheaper “methods”, which are not accurate.

## MARKET IMPERFECTIONS

- There are specific circumstances where an employer may find it profitable to practice wage discrimination, i.e. to pay differential wages to equally productive groups of workers, for example whites and African workers, in cases where perfectly competitive conditions do not exist.
- This can be shown when the labour supply is less elastic and experiencing dual labour market.
    - LABOUR SUPPLY LESS ELASTIC
        - ✓ The employer will, for instance, find it profitable to pay lower wages to groups of workers whose labour supply is less elastic, i.e. less responsive to a wage reduction.

- ✓ This is particularly relevant in SA, as the labour supply of African workers in the past might have been less elastic than that of white worker
- ✓ There was an adequate labour supply at wages for which white workers were not prepared to work.

- DUAL LABOUR MARKET
  - ✓ The dual labour market theory is another possible explanation for continued discrimination.
  - ✓ African workers are often found in the secondary labour market, i.e. where wages are relatively low and there is little training or job security.
  - ✓ They are therefore tagged as unstable and undesirable workers, although this is because they are unable to enter the primary labour market.

CROWDING MODEL

- According to one variant of this model, the employer will, in the interests of labour peace, segregate white and African workers into different occupational categories and thereby avoid racial tensions in the workplace.
- White customers might also prefer white workers and this result in African workers being crowded into less attractive occupations.
- Another variant relates to the fact that women in particular are overrepresented in a small number of traditionally women's occupations (such as secretary, nurse).
- Being crowded into a limited number of occupations dives down the group's wage rates and results in inequalities.

TRANSACTION COSTS MODEL

- African people have their own languages and culture, and often lower educational qualifications than whites.
- The cost to the employer of restructuring the workplace to accommodate these differences, or to provide additional training or bridging courses, can be perceived to be substantial.
- If an employer employs African workers, he or she is forced to offset these higher transaction costs by paying lower wages.
- If this theory is valid, then education and other differences (and not necessarily discriminatory practices by the employer) can be the most important reason for discrimination.

LEGISLATION AND GOVERNMENT POLICY

- In SA a further explanation for inequalities is that for many years African people were discriminated against through official policy.

- Legislation such as job reservation, which reserved certain jobs for whites only, influx control which limited access to urban areas.
- Also the Group Areas Act which limited the availability of housing for African people and also restricted social interaction, and several other pieces of legislation resulted in the entrenchment of discriminatory practices.

## 10.3 INEQUALITIES IN THE SOUTH AFRICAN LABOUR MARKET

*LO3: Discuss the inequalities in the South African labour market*

### EDUCATIONAL LEVEL

- Only 34% of the African EAP had a matric or higher qualification in 2005, whereas the percentage for the other population groups was 64%.
- There has, however, been an encouraging improvement in educational levels over time, because less than 5% of the African labour force had at least a Grade 10 qualification in 1970.
- The shortcomings of SA's education system have compounded inequalities in SA.
- For instance, there were wide differences in the per capita education expenditure for white and African learners, with that for Africans comprising about a third of that for whites.
- Teachers of mainly African learners were furthermore often unqualified or underqualified.
- Unqualified or underqualified teachers are an important reason for inferior education, which is described above as one of the types of before-the-market discrimination.
- If educational quality is considered, differences are even larger, as access to quality education remains highly skewed.
- Thus the ratio of learners to teacher in mainly African schools was also much higher than in mainly white schools, which resulted in a lower quality of education.

### EMPLOYMENT AND UNEMPLOYMENT INEQUALITIES

- The unemployment rate, according to the LFS, is much higher among the African labour force than among whites.
- For African people, the official unemployment rate was approximately 32% in 2005, whereas it was only about 5% among whites.
- Although discrimination is an important reason for differential unemployment rates between African and white people, it should be remembered that inequalities in employment relate very closely to other factors such as inequalities in education, differential population growth rates and the level of urbanization

- If discrimination in employment is to be eliminated, these causes of much of the discrimination have to addressed
- A significant recent development is that the employment of whites has either been declining for many years or has not been increasing, whereas that of Africans has recently been increasing.
- Between 2001 and 2005, for instance, African employment increased by 5.2% per annum, whereas the employment of white people increased by only 0.3% per annum.
- This is even more significant if one takes into account that the increase in the employment of African persons was off a much higher base than that of whites.
- There was no corresponding increase in unemployment among whites, which means that many white workers either left the country or retired.
- It is also clear that women bear a disproportionate burden of the unemployment problem in SA. White women, for instance constituted two-thirds of total white unemployment, but form only a third of the white EAP.
- The expanded unemployment rate among African women is consistently much higher than that of African men, with an unemployment rate in excess of 50% among African women compared to about 40% among African men.

## OCCUPATIONAL INEQUALITIES - inequalities by race and inequalities by gender

### INEQUALITIES BY RACE

- Blacks comprise just less than 80% of all workers in the formal sector. However, they make up a much smaller percentage of skilled workers.
- Blacks occupy only about 35% of senior official and management positions.
- The percentages for the other occupational groups are higher, for instance 65% of professionals and 50% of technical and related occupations.
- The percentage of blacks in artisan-related occupations is just more than 60%. Blacks occupy only slightly more than 20% of top management positions, and a quarter of senior management.
- There has been an improvement over the past few years, for instance from 18.5 to 21% in top management positions.

### INEQUALITIES BY GENDER

- Black women comprise 27% of all workers in formal employment.
- The percentage of women in most occupational levels is at about this figure, with the exception of top management and senior management, where they represent far less than 10% of all workers in these occupations.

## WAGES AND INCOME INEQUALITIES

- For most working SA citizen wages are their most important income.

- However, social security payments such as old-age pensions and child grants have recently become a more important source of income for many people.
- Income from property is also an important source of income for a number of white people.
- Recent studies in SA point to significant changes in inequalities in the country – income inequalities between the various race groups seem to be declining, whereas income inequalities within a particular race group seem to be increasing.
- There was a "dramatic decline" in interracial inequality between 1980 and 1993.
- In 1980, interracial inequality accounted for 65% of all earnings inequality; by 1993, this had fallen to 42%.
- By 1996, this had further declined to between 33% and 40%.
- Intraracial inequality has thus been responsible for the bigger portion of earnings inequality in recent years.

INTERRACIAL INEQUALITY

- The finding that interracial inequality has declined is confirmed by Van der Berg and Louw (204).
- They provide the following significant findings with regard to the period 1970 – 2000:
  - ✓ The total African share of total income almost doubled between 1970 and 2000 from 22% to 41%.
  - ✓ African per capita income increased continuously, although at a modest rate from R3134 pa in 1970 to R7720 pa in 2000.
  - ✓ About 3% increase pa compared to 1.5% for whites.
- In the 1970s African per capita income increased sharply owing to high economic growth, increase in wages and employment.
- In 1970, African per capita income was 8% of white income, and this increased to only 13% in 2000.

INTRARACIAL INEQUALITY

- Even though interracial inequality improved, Intraracial inequality among African workers, and African men in particular, increased considerably.
- Inequality increased, by all three standard measures of inequality normally used, by between 27% and 133%.

- Some of the reasons given for the increase in inequality within the African group are the following:

- Improvement in schooling for some and not for others, and presumably also differences in the quality of education.
- Some African employees being employed as atypical workers
- Slow economic growth and increased unemployment among many Africans
- Affirmative action and sharply increasing wage levels of some Africans
- Centralised bargaining
- High African population growth

## 10.4 ADDRESSING INEQUALITIES

*LO4: Explain how these inequalities can be addressed*

- The major inequalities in SA today are those between Africans and white people, between men and women, and between those with and without job, irrespective of race.
- Programmes to address inequalities should be aimed at the broader population and not only at the urban or unionised and employed elite.
- Care should be taken to reduce and not increase racial tension.
- For many decades into the future, whites will form a critical component of the labour force and any action aimed at reducing inequalities should not result in skilled whites leaving the country

### HIGHER ECONOMIC GROWTH AND EMPLOYMENT OPPORTUNITIES

- To a significant extent, inequality is driven by the gap between those without jobs and those in the wage employment.
- Van der Berg (2004) has made some projections to determine what the effect would be of a high economic growth rate in comparison to the effect of a rapid reduction in the wage gap.
- Van der Berg's (2004) conclusion is that even a very rapid reduction in the wage gap will have a smaller impact on per capita racial income distribution than economic growth on job creation.
- Through economic growth more employment opportunities will be created, especially for African workers, while it will also further assist in rapidly reducing the wage gap.
- With SA's high unemployment, generating jobs, even at low wages, will dramatically improve the overall income distribution.
- These findings are confirmed by Simkins (1991) – at a 4% economic growth rate, African per capita income would have increased by 2.2% per annum from 1985 to 1991, while that of whites would have declined by 0.07% per annum.
- A further consideration is that the white male labour force is no longer increasing, there is, in fact, a drop in the employment of whites.

- Higher economic growth will therefore lead to increased employment opportunities for disadvantaged people such as black people and women.
- If there are enough measures to assist the lower classes to improve their standard of living and there is an adequate so-called “social wage”, then the problem of inequality will be less serious than in the absence of these factors.
- The findings of Van der Berg and Simkins show that reduced economic growth has a negative effect on reducing inequalities.
- However, inequalities also seem to impact negatively on economic growth.

## EDUCATION AND TRAINING

- SA is experiencing serious backlogs in respect of its educational system, and these will have to be addressed if inequalities in society are to be reduced.
- Various educational programmes are at issue: literacy and numeracy training, vocational guidance, career education and an integrated educational system that enjoys credibility among the majority of learners.
- In respect of training, it is clear that SA enterprises do not provide enough, and attention should be given to, for instance, management training and accelerated training in various occupations.

## ENTREPRENEURSHIP

- Attention needs to be given to the accelerated training and development of entrepreneurs, for example through special training and financing programmes.
- Large contracts could also be broken up into smaller ones, which could be allocated to enterprises owned by disadvantaged groups.
- State tenders, subcontracting, franchising, and special housing programmes in which enterprises owned by disadvantaged groups are involved could also be considered.

## GOVERNMENT EMPLOYMENT AND TENDERS

- In some countries, including SA, the government prescribes codes of conduct or guidelines for reducing inequalities and implementing black-advancement programmes in respect of companies tendering for government contracts.
- Such measures also have disadvantages, for instance the government should give higher priority to the proper performance of the contract than to the enforcement of non-discriminatory or black-advancement provisions.
- Employers might also attempt to comply with the requirements by moving disadvantaged persons from non-governmental to governmental projects, which on balance would not benefit the disadvantaged groups.

## LEGAL REMEDIES - EMPLOYMENT EQUITY ACT

- SA's Employment Equity Act (Act No 55 of 1998) consists of the following main elements:
    - The Act prohibits direct or indirect unfair discrimination by any employer on any arbitrary ground, and lists a total of 20 grounds, among them race, gender, age and sexual orientation.
    - Excluded from the definition of unfair discrimination are affirmative action measures and preferential treatment on the basis of the inherent requirements of a job.
    - Affirmative action measures, which apply only to designated employers
    - The Act also compels employer to reduce disproportionate income differentials.
    - The Act also makes provision for a special body, the Commission for Employment Equity. It advises the
- The Act has been criticized on a number of grounds, for example that is reracialising SA society by categorizing racial groups that must receive preferential treatment, rather than individuals who have been discriminated against.
- Furthermore, the Act is said to deny employers the opportunity to apply merit in appointing or promoting persons, in that it will no longer be the best person for the job who is appointed or promoted, but a person from a designated group who is no more than suitably qualified.

## 10.5 EQUAL PAY FOR WORK OF EQUAL VALUE

*LO5: Describe equal pay for work of equal value*

- The phrase "equal pay for work of equal value" has replaced the older terminology "equal pay for equal work".
- Although it is relatively easy to determine if work is equal, this terminology was regarded as relatively restrictive.
- Equal pay for work of equal value is therefore a much wider term and is a principle whereby remuneration rates are established on the basis of job content.

ARGUMENT FOR

- The labour market is neither efficient nor fully competitive. There are many distorting factors in terms of the remuneration of workers.
- A system of job evaluation provides a better indication of worth than existing wages or job content.

ARGUMENTS AGAINST

- Even though there are distorting factors in the labour market, nevertheless it is reasonably competitive and wages are paid more or less according to productivity.

- Job evaluations, on the other hand, are subjective and arbitrary, and different systems are in operation, which often do not have the same outcomes.
- Furthermore, the introduction of this principle might even reduce the number of female or black workers in certain underrepresented occupations if it results in substantial pay hikes for these workers.
- There will be an efficiency loss for the whole economy.
- Wages are basically set according to productivity levels, and job evaluations do not necessarily measure productivity.
- In addition, the economy will not be able to adjust rapidly to changing circumstances.

CONSIDERATION

- It will apply to only a minority of skilled black workers. This will not address the problem of before the market discrimination.

## 10.6 AFFIRMATIVE ACTION

*LO6: Explain affirmative action*

- Affirmative action ensures that qualified people from designated groups have equal opportunities in the workplace.
- In South Africa, these groups are black people (including black, coloured and Indian people), women and people with disabilities.
- Also it is a policy and practice aimed at redressing social, economic or educational imbalances or inequalities arising out of unfair discrimination against certain groups.
- Some countries have successfully implemented a programme of affirmative action, and Malaysia is one such example.
- Even though affirmative action policies have generally been "quite successful in achieving their goals", one worrying aspect is that most countries that have adopted such policies have also experienced an increase in overall inequalities in personal income, this is also the case in SA.

THE CASE FOR AFFIRMATIVE ACTION

- Arguments in favour of introducing programmes of affirmative action are as follows:
    - The dismantling of discrimination cannot take place instantly, simply by getting rid of discriminatory legislation thus increasing diversity. After many years of such legislation, the people who were discriminated against are far behind in terms of ownership of the wealth of the country and the filling of skilled occupations.

- Affirmative action is not a form of reverse discrimination, but a method of providing reparation to benefit members of a group that has been discriminated against on account of race.
- From an economic point of view, the argument is that markets do not function properly. If discrimination is the result of, for instance, statistical discrimination intervention by government in the form of affirmative action might bring about a change in employers' perceptions that individuals from certain groups are less productive than those from others.

## THE CASE AGAINST AFFIRMATIVE ACTION

- Affirmative action programmes reduce economic efficiency because the best person for the job is not necessarily appointed.
- If standards are reduced over the long term or permanently, a positive economic outcome is much less likely. In fact, affirmative action will tend to push up the wages of the beneficiaries of affirmative action and, if this group forms the majority as is in SA, this could be especially harmful to employers and the international competitiveness of the country.
- Victims of discrimination may use affirmative action as a source of entitlement, in the same way as whites used the system of apartheid as a source of privilege. This could stigmatize those who do not need help by suggesting, for instance, that a person has been appointed to a position because s/he is black, and not because of merit.
- Affirmative action could also be problematic if it is applied in such a way that individuals are deprived of existing rights, although there may be ways to circumventing this problem. For example, preference may be given to a black applicant for a job if that applicant and a white applicant are nearly equally qualified. In this case, the white applicant will not be deprived of pre-existing rights.

## EEA as an INSTRUMENT to ACHIEVE EMPLOYMENT EQUITY, with SPECIFIC REFERENCE to AFFIRMATIVE

- Employment Equity Act stipulates a duty to apply affirmative action to so-called "designated employers" – those with more than 50 employees and those with less than 50 employees but with an annual turnover above a defined amount.
- Designated employers must introduce affirmative action measures to ensure that suitably qualified people from designated groups (black people, women and disabled people) have equal employment opportunities and are equitably represented in all occupational categories and levels in the workforce.

- The Act specifically excludes the imposition of a quota system. However, the employer must set numerical goals to achieve equitable representation of suitably qualified persons from designated groups and a timetable for achieving the goals.
- The Director-General of the Department of Labour can review an employment equity plan to determine if an employer is complying with the Act.
- Factors that the Director General must take into account include:
    - Whether suitably qualified persons from designated groups are "equitably represented" within each occupational category and level
    - The profile of the national and regional EAP
    - The pool of suitably qualified persons from designated groups from which the employer can appoint or promote person
    - The economic and financial circumstances or the employer and of the particular sector in which the employer operates
    - Present and planned vacancies and the labour turnover of the employer
    - Progress made by other employers in the same sector and operating under similar conditions
    - Reasonable efforts made by the employer in achieving employment equity
    - The extent to which the employer has eliminated employment barriers that adversely affect persons from designated groups.

## STUDY UNIT 11 – SOCIAL DIALOGUE AND CODETERMINATION

**LEARNING OUTCOMES:**

i. Explain corporatism as a form of social dialogue
ii. Discuss the National Economic Development and Labour Council (Nedlac)
iii. Discuss other national consensus-seeking bodies
iv. Explain codetermination in the workplace
v. Discuss international consensus seeking in the labour arena by briefly describing the International Labour Organisation (ILO)

# 11 SOCIAL DIALOGUE AND CODETERMINATION

## 11.1 CORPORATISM

*LO1: Explain corporatism as a form of social dialogue*

- Corporatism is an institutional framework that incorporates to varying degrees the pinnacles of employer and employee organisations in the economic and social decision making of society (Barker & Holtzhausen 1996).
- It therefore refers to the institutionalized process of negotiation between sectors of the state and powerful organisations, such as employer organisations and trade unions movements, whose cooperation is indispensable if public policies are to be credible and capable of implementation.

TWO FORMS OF CORPORATISM CAN BE DISTINGUISHED:

- State corporatism
    - It is characterised by the institutional incorporation of the leadership of capital and labour organisations within state apparatus and state administration to represent such class interests.
- Social or bargained corporatism
    - Refers to a situation where labour and employer organisations retain their autonomy and have greater independent influence on government policy.
    - This type of corporatism is also referred to as neo-corporatism.
- SA appears to have defied the international trend of diminishing corporatism in the 1990s, when it created various forums for bargaining corporatism, particularly Nedlac.
- However, this might have changed more recently.
- Some people might argue there might even be a few elements of state corporatism in SA, in the sense that the trade union federation, Cosatu, is in alliance with the governing party.
- In that role it enjoys many privileges not available to other stakeholders, for instance involvement in policy planning sessions with the governing party, even in Parliamentary committees.
- The social or bargaining corporatism is more characteristic of the various negotiating bodies found in the country, the most important of which is probably Nedlac.
- The RDP White Paper refers to Nedlac as a mechanism of consultation, coordination, engagement and negotiation by key stakeholders.
- Institutions for building consensus are important determinants of the level of labour market stability and, therefore, economic viability.
- The importance of creating democratic institutions capable of managing this restructuring is vital, especially in SA where the process of transformation requires major economic restructuring.
- Such bodies reduce the transaction costs of solving conflict between social partners.

- They also help in finding the balance between equity and efficiency as perceived by different interest groups and in reducing tensions.
- These institutions not only deepen democracy and involve more stakeholders in policy formulation, but can also have positive effects in terms of managing the process of transformation.
    - First, they can help reduce unrealistic expectations, whether from the underprivileged regarding the speed with which their circumstances will be improved, or from the economically privileged concerning the extent to which they will have a say about the effects of transformation.
    - Second, such institutions can foster a better understanding of divergent viewpoints, and therefore help to break down resistance to change.
    - Finally, such institutions can conceivably provide information to ensure better government decisions.
- Government and social partners should be aware of the short-comings of tripartite or multipartite forums.
    - Business and labour represented in such institutions by definition represented in such institutions by definition represent vested interests and not the interests of everyone.
    - It is practically impossible to have certain interest groups represented on such bodies, e.g. consumers, the unemployed, rural workers and small enterprises. The democratically elected representatives of government represent all people and should give special consideration to the interests of groups not represented on these forums.

## 11.2 NATIONAL ECONOMIC DEVELOPMENT AND LABOUR COUNCIL (NEDLAC)

*LO2: Discuss the National Economic Development and Labour Council (Nedlac)*

STRUCTURE, FUNCTIONS AND EFFECTIVENESS OF THE NEDLAC

- The National Economic Development and Labour Council (Nedlack) was formed early in 1995 to facilitate cooperation and seek consensus between organised business, organised labour and government on economic, labour and development policy issues.
- The objective of Nedlac is to reach consensus and make agreements on matters pertaining to social and economic policy, including macroeconomic policy, labour policy and developmental issues.

- It will also consider proposed labour legislation, as well as significant legislation affecting economic and development policy, prior to its being introduced in Parliament.
- It is a statutory body and it as well as the Secretariat is financed by the government.
- All agreements of Nedlac are made public and all reports are tabled in parliament, unless Nedlac itself decides otherwise.
- It is a multipartite body, with the principal participants being business, labour and government.
- It was also decided to include "community and development constituency" Three organisations were accepted; they represent women's, youth and the civic organisations.

## THE STRUCTURES OF NEDLAC ARE:

- Executive Council
  - It meets quarterly with the aim of reaching consensus and making agreements between the parties.
  - It consists of no more than 80 members, with government, labour and business having equal representation. The development constituency is also represented.
- Chambers
  - Four have been established, the Public Finance and Monetary Policy Chamber, Trade and Industry Chamber, Labour Market Chamber and Development Chamber.
  - They draft reports and make recommendations for agreement in the Executive Council
- Management Committee
  - It oversees and coordinates the work of Nedlac.
  - It consists of a maximum of 16 members from the various constituent organisations, with an additional four members it deemed necessary.
- Nedlac annually convenes a national summit, which is chaired by the Executive Deputy President.
- Its function is to involve as many groups and forums as possible and to give feedback on Nedlac's activities in a transparent manner, to obtain inputs from organisations or persons not normally involved and to establish broader ownership of Nedlac.

## DISILLUSIONMENT WITH NEDLAC

- The following are the main points of criticism that have been raised against Nedlac:

- Nedlac has been unable to provide a shared economic vision, and policy measures have been considered in an ad hoc fashion, without being fused into a broader economic strategy.
- There is much criticism against the unrepresentative nature of the participants in Nedlac. Organised labour, organised business (mostly dominated by big business) and government make compromises, many of which directly affect the vast number of interests not represented at Nedlac negotiations.
- Many of these parties are those that are the least able to afford the cost of trade-offs involved in the Nedlac deal making
- Another criticism is the nature of the compromises reached in Nedlac. The capacity that the interests in Nedlac have to block one another has resulted in fudged compromises at a time when the economy needs dynamic initiatives.
- Nedlac has often been involved in negotiating legislation clause by clause, and presenting Parliament with a fait accompli. Parliamentarians understandably have felt aggrieved that their prerogatives as the democratically elected representatives are being challenged.
- There have been excessive expectations as to what he social dialogue in Nedlac could achieve. It has been impossible for Nedlac to meet these expectations in the high levels of mistrust arising from the legacies of the past.
- Many other tripartite bodies have been created by Nedlac agreements or by government policy for instance CCMA, the Employment Conditions Commission (ECC), the Commision for Employment Equity (CEE) and others. This has detracted from Nedlac's role as a central policy-coordinating forum, and created the danger of duplicating structures that frustrate cohesive policy making.

## IMPACT OF BUSINESS AND LABOUR ON GOVERNMENT POLICY

- The labour movement initially achieved several successes through its involvement in Nedlac, these include:
  - Achieving a relatively progressive Labour Relations Act, despite certain weaknesses
  - A degree of success in putting human and labour rights on SA's trade agenda, by convincing the government to require trade partners to sign a "side letter" to trade agreements in which they commit themselves to respect human rights and to commit themselves to work towards the ratification of core international labour conventions.

- Through the Social Clause Framework Agreement compelling the SA government to ratify certain core international labour conventions.

- As far as business community is concerned, Hadley (2000) finds that the SA'n business community is probably the largest and most independent-minded private sector in the continent, yet its ability to lobby government successfully does not reflect this.
- She concluded that the major weakness of the SA's business community is that it has put too much emphasis on building consensus with organised labour.
- This approach caused big business, time and time again, to concede to organised labour on SA's industrial relations framework, instituting a rigid system that prices the unemployed out of the job market.
- It is an approach to policy making that attempts to minimise potentially damaging conflict, and this had been off great value.
- It may be that there are some issues enough to risk a scrap over.

## 11.3 NATIONAL CONSENSUS-SEEKING BODIES

*LO3: Discuss other national consensus-seeking bodies*

### Millennium Labour Council (MLC)

- It was formed in 2000 as bilateral structure between business and labour.
- The objective of the MLC is to develop a shared analysis of the crisis of unemployment and poverty in the country and to pursue potential solutions with the government and Nedlac.
- It comprises 12 members each from business and from trade union constituencies.
- The trade unions are generally represented by the leadership of the three main trade union federations in the country, i.e. Cosatu, Fedusa and Nactu.
- The business representation is more ad hoc, and consists of a number of individuals, as well as the chief executives of some business associations, i.e. BUSA and others.
- Its objective was to develop a shared vision to address current unemployment, job losses and lack of job creation, together with alleviating the current levels of poverty and inequality.

### National Skills Authority (NSA)

- The National Skills Authority (NSA) was established in terms of section 4 of the Skills Development Act, 1998
- The functions of the NSA are to:
    - advise the Minister on a national skills development policy, a national skills development strategy, guidelines on the implementation of the National Skills

Development Strategy, the allocation of subsidies from the National Skills Fund, and any regulations to be made

- liaise with Sector Education and Training Authorities (SETAs) on the national skills development policy and the National Skills Development Strategy
- report to the Minister in the prescribed manner on the progress made in the implementation of the National Skills Development Strategy conduct investigations on any matter arising out of the application of the Act
- Exercise any other powers and perform any other duties conferred or imposed on the NSA by the Act.

## Unemployment Insurance Board - UIF

- The purpose of this Act is to establish an unemployment insurance fund to which employers and employees contribute thus employees pay 1% of their salary and employers contribute another 1%.
- And also from which employees who become unemployed or their beneficiaries, as the case may be, are entitled to benefits and in so doing to alleviate the harmful economic and social effects of unemployment.
- Insurance Board, the functions of the Board and the designation of the Unemployment Insurance Commissioner; and to provide for matters connected therewith.

## Commission for Conciliation, Mediation and Arbitration (CCMA)

- Refers to an independent body in South Africa that is charged with resolving disputes in labour relations.

### Functions of the CCMA

- When it comes to the objective resolution of an employee/employer dispute, the CCMA is mandated to:
    - Try to resolve disputes through conciliation (finding a compromise between the two parties) or arbitration (acting as the objective third party to resolve the dispute)
    - Help in forming workplace forums
    - Publish information on its activities and guidelines for dispute resolutions
    - Advise on getting legal advice
    - Determine dispute resolution fees, if applicable
    - Make rules to regulate its own procedures, processes, documentation, calculate costs and then publish these rules in the Government Gazette

## 11.4 CODETERMINATION IN THE WORKPLACE

*LO4: Explain codetermination in the workplace*

- The LRA introduced a new concept, the workplace forum, in an attempt to facilitate a movement away from distributive collective bargaining towards integrative bargaining.
- The broad objectives of workplace forums were to promote the interests of all employees irrespective of union membership, to enhance efficiency in the workplace, and to consult and participate in joint decision making with the employer.
- They are intended to encourage joint problem solving and participation on matters related to productivity and production. For this purpose the workplace forum is entitled to:
    - Be consulted on a number of workplace issues
    - Participate in joint decision making on a limited number of identified issues
- Although some of the principles embodied in the Act are sound, other approaches in the legislation are questionable.
- The biggest shortcoming is that a majority union initiates the establishment of a forum.
- While the Act intended to prevent unions from being bypassed, it has resulted in the forums being union based, which will probably reintroduce hostility in these forums.
- There is also the question of whether the distinction between collective bargaining and the organisation of work is not simply artificial, especially if unions initiate workplace forums.
- The forums might also result in factionalism between unions and other groups of employees, or between employees themselves, because the whole workforce must elect representatives to the forum.
- Furthermore, the employer is obliged to provide resources for the forum, which might result in these forums having more resources than collective bargaining forums, and possibly undermining the union.

THE GERMAN MODEL OF CODETERMINATION CONSISTS OF TWO PARTS:

a) At the production unit level, workers elect a works council, which has its legal basis in the Labour- Management Relations Act originally enacted in 1952 and extensively amended in 1972.
    - Works councils are meant to be established at every enterprise with five or more employees.
    - They are elected by all the employees and have a range of legal rights consensus with the works council on numerous matters affecting labour in the enterprise.

b) The workforce in medium-sized or large companies can influence company policy through their representatives on supervisory boards.
    - All labour members on supervisory boards are elected by direct ballot or, in some cases by delegates.
    - Workers in companies with more than 200 workers have a 50% representation on the supervisory boards, but the chairperson of the board, who is normally an employer representative, has a second, casting vote.
    - In companies with between 500 and 2000 workers, workers have a 30% representation.
    - This codetermination in supervisory boards extends to all company activities.
    - Thus the supervisory board, for instance appoints the members of the management board.
    - It may also revoke their appointment, demand information on all company matters, and have the last word on important business decisions, for example with regard to major investments or rationalisation measures.
- Available research literature shows that in past decades the German economy has had a positive experience with codetermination.

## INTERNATIONAL LABOUR ORGANISATION (ILO)

*LO5: Discuss international consensus seeking in the labour arena by briefly describing the International Labour Organisation (ILO)*

- The ILO is a tripartite body and its purpose is to promote social justice in the context of the world of work.
- It has its headquarters in Geneva, Switzerland. The ILO adopts conventions and recommendations, which can be regarded as international standards on labour matters.
- Through ratification by member states, conventions are intended to create an obligation on these states to put the provisions of the convention into effect.
- One of the obligations on members is to submit all conventions adopted by the ILO to their appropriate legislative authority (which is the parliament in SA) within a specified time.
- The ILO has about 170 member states and employs approximately 2000 people in its Secretariat.
- Each member country has two government delegates and one employer and one worker delegate to the Annual International Labour Conference.
- The governing body of the ILO is elected every three years and consists of 56 members (28 government, 14 employer and 14 worker representatives).

- The ILO also conducts an extensive programme of international technical cooperation to help promote national economic and social development.