

Study unit 1

Introduction

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Why do we study the labour market?

5 marks

Labour economics and the study of the labour market help us understand economic questions that we encounter on a daily basis.

Almost anyone 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. Some of the concepts that are dealt with in the study of labour markets include: unemployment, skills shortage, the brain drain, strikes, affirmative action etc.

Labour economics is also a vital field of study for those individuals planning to pursue a career in economics

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Name seven unique characteristics of the labour market.

7 marks

- 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 characterised 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

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Name the two important functions of labour markets **2 marks**

- Allocate human resources among alternative users
- Distribute incomes

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Name four objectives to which labour markets by their functioning, should contribute. **4 marks**

- Growth
- Equity
- Efficiency
- Social Justice

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Draw a diagram indicating the supply and demand curves for labour. Explain with the aid of the diagram how the equilibrium wage is determined. 8 marks

The horizontal axis is called the x-axis. This denotes the quantity of labour i.e. the number of workers. The vertical axis is called the y-axis and it denotes the price (the wage rate). The **S** curve represents the market supply of labour; it indicates the relationship between quantity and price. The higher the wage rate the higher the number of labourers supplied. This means that the supply curve is upward sloping to the right.

The market demand for labour is indicated by the curve **D**. The curve is downward sloping because as the wage rate increase, employers will try to reduce their cost by employing less labour, for instance by using machinery instead of workers. In a perfectly competitive labour market, there would be equilibrium where the number of labourers supplied is equal to the number of labourers demanded, and this would also be the number of workers employed. This is at point **E** in the graph.

By making use of the diagram drawn for the above question, explain the difference between a movement along the curves and a movement (shift) of the curves. 6 marks

6 marks

Movement along the curves

A change in wage rate causes a movement along the curves. An increase in wage rate from **W** to **W₁** along the **S** curve will generate an increase in the number of workers supplied from **L** to **L₁**. In the case of the demand for labour, such an increase in wages will decrease demand from **L** to **L₂** along the **D** curve.

There will thus be an oversupply of workers who want to work – the supply is **L₁**, whereas the demand is only **L₂**. Workers will then compete for the available jobs and accept lower wages in order to get work. Wages will then start declining, but when this happens, employers will employ more workers, until equilibrium is achieved at point **E**.

Shift in the curves

The supply curve can shift to the right or left if influenced by external (exogenous) factors, e.g. more women wanting to work or large immigration gains. Increases of labour will shift curve S to the right, which means that more workers will be available for work at the wage level W. There can be similar shifts in the demand curve, e.g. if exports suddenly increase, the demand for labour will increase, and the demand curve will shift to the right.

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

8 marks

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.

True statements

Study	Revision						
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1. Trade liberalisation has a negative impact on employment
2. Minimum wages have been introduced for farm and domestic workers in SA
3. A worker and the services that he/she supplies cannot be separated
4. There is not one single market or clearing house for labour as there is in some product markets
5. In a perfectly competitive labour market, it is assumed that full and perfect knowledge of the market exists
6. One of the assumptions of a perfectly competitive labour market is that workers are mobile
7. The market demand curve for labour slopes downwards
8. Poverty is not exclusively a rural phenomenon
9. Interracial income inequality (particularly between blacks and whites) has diminished substantially over the past two decades.

Definitions

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The labour market – is an imaginary market place where labour is bought and sold.

A perfectly competitive labour market – is a theoretical norm against which the performance of the actual labour market can be measured.

Study unit 2

The supply of labour

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Define the concept “economically active population”.

5 marks

The total labour force or the economically active population (EAP) is 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.

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Discuss in detail the labour force as the supply of labour.

12 marks

The total supply of labour is 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. the unemployed people.

The total labour force or the economically active population (EAP) is 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.

Supply of labour determined by:

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

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Define the labour force participation rate.

3

LFPR 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.

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Discuss the difference between the African and white population in South Africa by age.

5marks

The African population shows the typical pattern found in a developing country, which is that the population is relatively young. In contrast, the white population is typical of that found in many developed countries, which is an aging population. The African population has been very fertile over the years but that fertility has reduced recently. The white population is relatively small in the age group 25 to 39. This is a clear indication of the impact of the emigration of young workers, usually with skills, from the country.

Study	Revision						Pre Exam	Rating
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Discuss the total fertility rate in South Africa. Draw a diagram indicating the various stages of the demographic transition and describe the South African situation according to this theory. Also refer to the factors influencing fertility rates. 15 Marks

The 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”

S. A.’s population is currently progressing through various stages of the demographic cycle. The transition can be explained by way of a curve.

The first stage is characterised by high birth rates and high mortality rates. Because both are very high, the population may increase slowly or not at all. In some instances the birth rates could, because of strong cultural traditions and strong family ties, be at relatively moderate levels.

The second stage is characterised 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. Birth rates may increase because of a breakdown in cultural traditions and family life. The 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. Stage three is thus characterised by low fertility and low mortality rates. It has been found that birth (fertility) rates start declining only under certain circumstances, and these relate especially to improved living standard. 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.

At some stage birth rates decline to below the replacement level, and the population declines. Some highly industrialised countries are at this fourth stage of demographic transition, and white South Africans seem to be entering this phase.

Factors influencing fertility rates

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

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Discuss in full the possible consequences of HIV/Aids on the South African economy. 15 Marks

The following possible consequences of HIV/Aids can be identified:

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

- 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.

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What factors influence immigration and emigration?

7 Marks

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.

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

8 Marks

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

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Explain how the backward-bending labour supply curve for an individual can be derived. Show all relevant diagrams and define and explain all the concepts used in the derivation.

20 Marks

Assumptions:

- Individual can choose how many hours he or she wants to work
- Individual can choose to take a second job, work overtime, etc

The answer to whether the individual wants to work more or fewer hours as wages increase depends on the preferences of the individual – 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.

Working against this substitution effect is the **income effect** – as the individual becomes more well-off because of the higher wages, he might eventually afford more leisure time. His hours of work will then start declining owing to his higher income.

This is illustrated diagrammatically below.

Each higher wage rate results in a steeper budget line (W1, W2 etc.) The tangencies of these budget lines with the indifference curves result in a series of utility-maximising points (U1, U2, etc.). Initially, the individual may prefer to have less leisure time as wages increase, (e.g. moving from point U1 to U2). However, at some point he chooses more leisure time as wages increase, and moves from U4 to U5 – a wage increase at this point reduces rather than increases hours of work.

If leisure time can be plotted in a graph against wages (the line U1 to U5 in the above graph, it stands to reason that hours of work can similarly be plotted against wages. It will, however, be the mirror image of the leisure/wage curve. This is done in the following graph. Each of the points U1, U2, etc. is plotted against the relevant wage rate (W1, W2, etc.). If

wages exceed the level W_4 , the individual chooses to work fewer hours, i.e. the supply of labour declines.

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Draw a diagram and explain how the market supply curve for labour is derived.

6 Marks

When it comes to the market supply of labour, all the individual (i.e. backward-bending) supply curves need to be added together. However, other factors then also come into play: as wage rates increase, individuals who have not worked before might choose to enter the labour market or people might be attracted away from other labour markets to a labour market that pays higher wages. All these factors, together with the fact that different persons enter the labour market at different wage rates, result in the backward bending part of the labour supply curve disappearing. Therefore, for the labour market overall, higher wages normally result in a higher supply of labour.

For the labour market as a whole, the labour supply curve is therefore positively sloped as indicated by the line S_1 (for supply) in the graph below. Assume a wage rate of W_1 . Labour supply will be L_1 . If wages increase from W_1 to W_2 , the supply of labour will increase from L_1 to L_2 (this represents a movement along the curve S_1).

The supply curve as a whole will shift to the right or left if influenced by external (exogenous) factors, e.g. more women wanting to work or large immigration gains. An increase in the supply of labour will shift curve S_1 as a whole to S_2 , which means that more workers (L_3 instead of L_1) are available for work at the wage level W_1 . Emigration of workers will shift the curve to the left.

True statements

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1. The supply of labour is determined by an individual person's decision to work or not to work, as well as how many hours he/she prefers to work.
2. Not only quantity, but also quality plays an important role in the supply of labour.
3. The dependency ratio is the ratio of young people depending on other age groups for a living.
4. Declining birth rates have enabled more women (of all educational levels) to participate actively in the labour market for longer periods of time.
5. The difference between mortality and fertility rates is called the natural rate of population increase.
6. Population growth is a function of three demographic factors: fertility, mortality and migration.
7. Studies have indicated that the prevalence rates of HIV/Aids were the highest in the mining, transport, construction, government, accommodation and catering sectors.
8. Rapid rates of urbanisation can be a contributing factor to the high levels of HIV/Aids.
9. Skilled migrant tend to be net contributors to fiscal revenue: what they pay in taxes is greater than what they cost the state in welfare payments and education.
10. Labour migration to the urban areas has a negative economic effect on the production potential of rural areas.
11. A budget constraint line indicates the various combinations of income and leisure that an individual can enjoy, given a specific wage rate.
12. Utility maximisation occurs where the indifference curve just touches or is tangent to the budget constraint line.
13. Indifference curves that lie further away from the origin have higher levels of utility.

Definitions

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Economically active population (EAP) – is 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.

Labour force participation rate (LFPR) – is the percentage of the population of working age that furnishes its labour for the production of economic goods and service, whether employed or not.

Total fertility rate (TFR) – is the average number of children born alive to a woman in her reproductive years (15 to 49).

Temporary migrant workers – are workers who live in rural areas and neighbouring countries and who work and live in urban areas on a temporary basis.

Indifference curve – is a curve that shows the preferences of an individual to various combinations of income and leisure time.

Substitution effect – as wages increase, so the individual substitutes more work for leisure.

Income effect – as the individual becomes more well-off because of the higher wages, he might eventually afford more leisure time.

Study Unit 3

The demand for labour

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Describe the methods used to measure employment in South Africa, and discuss some of the shortcomings of these methods. 9 Marks

Employment data in SA are often poor and selective and not comparable over time. There are various sources of data such as the population census, sample surveys among businesses and household surveys. The level of employment in SA is difficult to measure because of the problems with the measurement of informal activities, small enterprise employment, irregular forms of employment and employment in some important service sectors.

According to the Labour Force Survey, slightly more than 70% of the total labour force (12,3 million people) was employed in the formal and informal sectors in September 2005. Labour Force Survey of September 2005 shows that the formal sector is still the main job provider, with nearly two-thirds of all employment being in this sector. The informal sector (including agriculture) is responsible for about a quarter of the number of jobs.

As far as changes in employment over time are concerned, it has been estimated that the number of jobs increased by about 1.4 million between 1995 and 2005. Most of these jobs (probably about 60%) were created in the informal sector, whereas the formal sector appears to have created jobs only after 2001.

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Discuss employment developments in various sectors of the South African economy. 10 Marks

- Employment increased in sectors linked to consumer boom
- Increased in sectors like construction, trade and finance
- Decreased in primary sectors, i.e. agriculture and mining
- Increased in tertiary or services sectors, transport, government, finance, non-government services and domestic services.

Study	Revision						
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Discuss the responsiveness of employment to economic growth and the labour absorption capacity of the South African economy. 8 Marks

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:

$$\text{Employment elasticity of economic growth} = \frac{\% \text{ change in employment}}{\% \text{ change in economic growth}}$$

If the elasticity is 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, but 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.

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Discuss developments in respect of the capital and labour intensity of production.

5 Marks

The extent to which an economy is becoming more capital or labour intensive is measured by changes in the capital to labour ratio.

The capital to labour ratio is defined as the ratio of the capital employed at any particular date to the number of workers at that date, as shown by the following:

$$\text{Capital/labour ratio} = \frac{\text{Fixed capital stock}}{\text{Total employment}}$$

It has been found that almost 2 million jobs were lost over the last two decades as a result of investment being channelled increasingly into capital-intensive sectors and technologies.

Disadvantages of capital-intensive production

- Reducing the labour-absorption capacity of the economy.
- Capital-intensive techniques are often less flexible than labour-intensive production.

Advantages of capital-intensive production

- Modern production structures are technology driven and they are capital intensive, SA's adoption of the most modern production techniques increases the country's competitiveness in overseas markets.
- Not spread over all industries only specific projects were responsible for the sharp increase
- The adoption of new technologies is partly a result of trade liberalisation.
- Trade liberalisation might indirectly be responsible for more job losses than might be apparent by simply considering the direct effect.
- Consumers prefer products produced by high technology.
- Microelectronic revolution has contributed to the increase in capital production.
- The relative price of capital is lower than labour.

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Describe some of the principal factors that affect the demand for labour in South Africa. 8 Marks

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

The 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.

Study	Revision						
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Discuss the importance and size of the informal sector in SA.

10 Marks

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

What is the informal sector?

According to Barker (2007) the informal sector is economic activities that have the following characteristics:

- Unorganised
- Mostly legal, but unregistered and thus unregulated
- Individually or family owned
- Using simple labour-intensive technology

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.
- About two-thirds of the informal sector workers work for themselves

INCREASES OVER TIME

- Employment in the informal sector has increased sharply in recent years

INCOME

The average monthly income in the informal sector in 2005 was only one-third of the average income of the formal sector.

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Define the concept “law of diminishing marginal product”

2 Marks

The law of diminishing marginal product 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.

Derive the short-run demand curve for labour of a firm operating under perfect competitive conditions. Draw three diagrams and discuss the derivation in detail.

25 Marks

It is important to first define the law of diminishing marginal product. The law of diminishing marginal product states that as successive units of one input (e.g. labour) are added to a fixed amount of another input (capital), a level of total production is reached beyond which the marginal product of that variable input declines.

Assumption:

- Other factors such as physical space, machinery etc not increased

This can be illustrated graphically by the following graphs in Fig 1(a).

Fig 1 (a)

The increase in production by the addition of each worker is clear – the first worker produces five units, the first worker and the second workers jointly produce 15 units, and so on. In Fig 1(b), the marginal product curve shows how the marginal product increases with

Fig 1 (b)

the addition of the second worker. The marginal product of the first worker is five units, of the second worker ten units, of the third six units, and so forth. After the second worker, the increases in total production start to diminish – the marginal product starts to decline (the third worker only adds 6 more units of production, and total production is 21 units). If another worker is added after the fourth worker, the marginal product of that worker will be negative, i.e. that worker will cause total production to decline to lower than 23 units. The average production is also shown, which is simply total production divided by the number of workers.

The segment $x - y$ on Fig 1(b) is the basis for the short-term demand for labour, but only after the addition of another factor – the price of the product.

The short-run demand for labour

Prices are now added – of the product as well as of labour (the wage). By multiplying the price of the product with the physical quantity produced, one can derive the revenue of the producer.

Assumption:

The products are sold in a fully competitive market and prices do not change.

The marginal revenue product (MRP) is the change in total revenue resulting from the employment of an additional worker – in other words, the marginal product multiplied by the price of the product. Because of the operation of the law of diminishing marginal product, the increase in revenue (the MRP) becomes smaller and smaller as more workers are employed.

To maximise profitability, the employer will employ additional workers for as long as their contribution to the total income of the firm is more than they cost the firm. The firm will employ an additional worker for as long as that worker's MRP is higher than his or her marginal cost (i.e. the wage). Should marginal cost (the wage) decline, the employer would be willing to employ more workers, because the marginal cost would then be lower than the MRP, and the employer would make additional profits by employing additional workers.

The MRP in Figure 2 therefore has a downward slope, indicating that as each next worker is employed, his or her additional contribution to total production will be smaller than that of the previous worker.

Let us assume that the wage rate is R100, which means that the employer will employ five workers. The employer makes no more profit if he or she employs more than five workers because the MRP of the fifth worker is exactly equal to the wage rate, i.e. R100.

However, if the wage rate declined to R50, workers six to ten will each produce more than R50, which means more profit for the employer. When ten workers are employed, the employer cannot make more profit by employing more workers. At that point, the wage rate of R50 will again be equal to the MRP. The MRP will therefore also be the demand curve for labour.

The firm's short-run demand for labour can therefore be indicated by the downward sloping MRP curve.

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Draw a diagram and explain how the perfectly competitive long-run demand curve for labour for a firm is derived. On the same diagram, draw the short-run demand curve and explain the difference between the shape of the two curves. 12 Marks

The employer cannot really replace (or substitute) labour with machinery at short notice to compensate for any increase in wages. However, over the long term, the employer might replace labour with capital (machinery). These two effects are called the *output effect* and the *substitution effect*.

Output effect is the change in employment and output resulting from the effect of the wage change on the employer's costs of production. This is present over the short term and, as wages fall, the marginal cost falls below the marginal revenue product. This creates a profit incentive for the employer to expand output by employing additional labour.

Substitution effect relates to the change in employment when both labour and capital are variable, and a change in the relative price of labour results in a substitution of one resource (e.g. labour) for the other (e.g. capital) without a change in production. This effect occurs over the longer term because an employer cannot easily substitute over the short term. This means over the long term the demand for labour will be more sensitive (or more elastic) to changes in wages than in the short term. If wages increase, the employer might start replacing labour with machinery, which means that the wage change has had a greater effect on the demand for labour.

The short-term demand for labour is thus relatively unresponsive to changes in wages: it is inelastic. Because employer can respond to changes in wages in a more varied manner over the longer term, the demand curve for labour will be more responsive to wage changes in the long term than in the short term. The long-term curve is thus described as being more elastic than the short-term curve. This is indicated in **Figure 3.1** by a change in the gradient of the demand curve.

The line D_s represents the short-term (inelastic) demand for labour and D_l the long-term (elastic) demand. If wages increase from W_1 to W_2 then employment over the short term will move along the line D_s , i.e. will reduce from L_1 to L_2 . In the long term, however, employers might be able to switch to labour-saving technology, which will reduce employment even further. Employment will move along the line D_l , i.e. the demand for labour will reduce even further to L_3 .

The higher elasticity for labour demand over the long term has important implications for the labour market. To determine to what extent wage increases affect employment, account must be taken not only of short-term influences, but also of the longer-term effects of changes in the cost of labour and capital.

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Briefly describe the properties of isoquants

3 Marks

- 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

What is the difference between the demand for labour by the individual employer and the demand for labour by the market as a whole? Illustrate graphically. 12 Marks

The market demand for labour cannot simply be an aggregation of the individual demand curves, because as the output of the market as a whole changes, it will impact on the price of the product. Let us assume that the wage rate in an industry as a whole declines for some reason. The industry increases its output and thus its demand for labour (the MRP or demand for labour curve shifts to the right). However, the industry will have to reduce the price of the product to sell the higher output. The lower price reduces the MRP and thus shifts the labour demand of each firm to the left again.

Figure 3.2 can be used to illustrate this, with the labour demand curve being D1. Let us assume the wage rate is now reduced from W1 to W2. Individual employers increase their demand for labour. For the individual firm, this will increase the overall demand for labour from L1 to L2, and output will also increase. However, because the industry as a whole needs to sell this higher output, the price of the product is reduced to stimulate additional demand. Because the price of the product declines, the MRP curve (the demand curve) shifts left to D2. This means that the demand for labour increases only from L1 to L3, and not to L2. This is then the market demand curve for labour, which is steeper at D_{LM}. The market demand for labour is thus less responsive to both wage cuts and, wage increases.

The market demand for labour is thus less elastic than the individual firm's demand for labour.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the difference in the demand for labour by an employer in a perfectly competitive market and that of a monopoly employer. Illustrate graphically. 10 Marks

The market demand for labour cannot simply be an aggregation of the individual demand curves, because as the output of the market as a whole changes, it will impact on the price of the product. Let us assume that the wage rate for the firm operating in a competitive market declines for some reason. The firm operating in a competitive market increases its output and thus its demand for labour (the MRP or demand for labour curve shifts to the right). However, the industry will have to reduce the price of the product to sell the higher output. The lower price reduces the MRP and thus shifts the labour demand of for the firm operating in a competitive market to the left again. With regards to the monopolist, In the case of a wage reduction, the monopolist will employ more labour to produce more output, but will also reduce the price of the product to sell the higher production.

Figure 3.3 can be used to illustrate this, with the labour demand curve being D1. Let us assume the wage rate is now reduced from W1 to W2. The firm operating in a competitive market will increase its demand for labour. For the firm operating in a competitive market

firm, this will increase the overall demand for labour from L_1 to L_2 , and output will also increase. However, because the industry as a whole needs to sell this higher output, the price of the product is reduced to stimulate additional demand. Because the price of the product declines, the MRP curve (the demand curve) shifts left to D_2 . This means that the demand for labour increases only from L_1 to L_3 , and not to L_2 . The monopolist will employ more labour to produce more output, but will also reduce the price of the product to sell the higher production. D_{LM} is then the monopolist's demand curve for labour, which is steeper than D_{LM} . The monopolist's demand for labour is thus less responsive to both wage cuts and, wage increases. The monopolist's demand for labour is thus less elastic than the firm operating in a competitive market's demand for labour.

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

1. The demand for labour is a derived demand.
2. Over recent years there has been a sharp drop in the employment share of the primary sectors, that is, agriculture and mining.
3. Atypical employment is defined as employment that is not full-time.
4. The capital to labour ratio is the ratio of the capital employed at any particular date to the number of workers on that date.
5. The rate and nature of economic growth is a factor that influence the demand for labour
6. The informal sector can be regarded as the statistically unrecorded part of the economy.
7. The marginal product of labour refers to the change in production divided by the change in the number of workers.
8. The marginal revenue product (MRP) is equal to the marginal product multiplied by the price of the product.
9. The marginal product is equal to the change in total production divided by the change in the number of workers.
10. The long-run demand curve for labour is more elastic than the short-run demand curve for labour.
11. An isoquant indicates the various combinations of labour and capital that can be used to produce the same amount of output.
12. An isocost curve indicates all the various combinations of capital and labour that are equally costly, that is, given the costs of capital and labour and a given outlay.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Atypical (or “non-standard”) – Employment that is not full-time (part-time work) or is of limited duration (temporary). It could also be employment at a workplace other than that of the employer, for instance if labour brokers are used.

Employment elasticity of economic growth, or as it is also called, the **employment coefficient** – the degree of responsiveness of employment to changes in economic growth.

Labour absorption capacity – The percentage of new entrants to the labour force that find a job in the formal sector of the economy

Capital to labour ratio – The ratio of the capital employed at any particular date to the number of workers at that date

The informal sector – According to Barker (2007) the informal sector is economic activities that have the following characteristics:

- Unorganised
- Mostly legal, but unregistered and thus unregulated
- Individually or family owned
- Using simple labour-intensive technology

The marginal product of labour – Refers to the change in production associated with employing one additional employee.

The law of diminishing marginal product – 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.

The marginal revenue product (MRP) – is the change in total revenue resulting from the employment of an additional worker

Output effect – This is the change in employment and output resulting from the effect of the wage change on the employer's costs of production.

Substitution effect – change in employment when both labour and capital are variable, and a change in the relative price of labour results in a substitution of one resource (e.g. labour) for the other (e.g. capital) without a change in production.

Study Unit 4

Wages and the cost of labour

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly discuss the main methods of wage determination in South Africa. 20 Marks

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 demand and supply will determine wage levels.
- 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.

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.
- 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.

THE DUAL LABOUR MARKET

Characterised by two distinct non-competing markets, i.e. the primary and the secondary labour markets.

The 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

The 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 unionisation
- Low level of skills
- Low level of training, employers don't 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 centralised collective bargaining.

Communes and communism

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

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the theory of labour market segmentation (also known as the dual or internal labour market theory) 15 Marks

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.

THE DUAL LABOUR MARKET

Characterised by two distinct non-competing markets, i.e. the primary and the secondary labour markets.

The 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
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- Internal labour market tends to lack market mechanisms for the allocation and pricing of labour.
- Employers spend large amounts on training their workers
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- Trained workers can only be used by the internal market, utilised by the specific employer and close competitors

The 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 unionisation
- Low level of skills

- Low level of training, employers don't care about productivity
- Domestic workers, dishwashers in restaurants, cleaners, janitors and other menial jobs
- Trapped on the outside

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss the nonwage costs of labour

5 Marks

- Non-wage costs refer to worker benefits such as overtime pay, housing allowances, transport allowances and contributions to unemployment insurance, pension funds and medical insurance funds.
- Relatively high in SA compared to countries of the same development
- Total remuneration does not reflect worker's productivity or supply and demand conditions
- Benefit fund contribute to substantial long-term social gains for workers
- Protect against unstable economic circumstances
- Protect against dangerous working conditions
- Protect against high medical costs and other eventualities.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Define the concept “inflation rate” and describe what you understand by CPI headline, CPIX and core inflation. 12 Marks

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 shows how the average price level of all those goods and services bought by a typical household (a “basket” of goods and services) changes over time. It is generally used to determine the national inflation rate of the country.

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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

“From time to time various countries have implemented incomes policies to reduce inflation without generating unacceptable levels of unemployment.” Discuss this statement. 10 Marks

Countries such as Ireland, the Netherlands and Australia were able to reduce inflation significantly and at the same time substantially increase employment by wage moderating policies.

Income policies are defined as policies by which the government tries directly or indirectly to control or influence wage and price levels by specifying standards which should apply when wages or prices are changed.

There are three categories of income policies:

- Wage and price increase guidelines – voluntary compliance
- Mandatory wage and price controls – guidelines and control policies were a failure in the USA
- Incentive-based incomes policies – giving incentives to unions and employers not to demand or pay higher wages.

These measures don't address the source of inflation but the symptoms

Because they freeze prices and wages, income inequalities remain constant and cannot be addressed.

Can be disrupted when the exchange rate depreciates and there is imported inflation.

These measures were voluntarily introduced with very positive results in the above mentioned countries.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the reasons for wage differentials in the SA labour market, and possible measures to reduce them. 15 Marks

SAWODEDI

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 are 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-unionised 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.

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Briefly discuss occupational differentials in the SA labour market

6 Marks

- 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.

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Discuss the impact of wage increases on employment.

8 Marks

The impact of wage increases is as follows:

- When the demand for labour remains constant, any wage increase will tend to reduce employment.
- When the demand for labour rises, a wage increase will reduce employment below what it would have been in the absence of a wage change, and the rate of growth of employment will therefore be reduced.
- When the demand for labour falls, any wage increase will magnify the reduction in employment.
- A wage increase might adversely affect job prospects by reducing the number of jobs available, whereas a wage reduction might not necessarily improve job prospects by increasing the number of jobs.
- Some studies found that a 10% increase in real wages correlates with a 7% decline in employment levels, some say the decline would be 3%
- The wage increase would also lead to 4% drop in exports.
- If demand for labour is very inelastic, that demand is not very sensitive to wages, and wages might have to drop substantially before increasing the demand for labour significantly.
- Although a decline in wages will increase employment, the increase in income as a result of the increase in the number of workers may still be smaller than the decline in the total income of all workers, in which case workers as a group will be worse off.
- Unemployment is not necessarily caused by high wage levels

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Discuss the impact of the Basic Conditions of Employment Act (BCEA) and the Labour Relations Act (LRA) on the cost of labour. 12 Marks

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 unionisation, 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 unionisation 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Define the concept “discrimination monopsonist” 2 Marks

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Use a diagram to explain wage determination of a discriminating monopsonist. 9

Marks

The marginal cost (MC) of the discriminating monopsonist will be equal to the supply curve of labour – the employer simply pays the worker his or her reservation wage and can hire different workers at different wage rates. The marginal revenue product (MRP) of the monopsonist is also indicated in the figure below and equilibrium will be where the marginal revenue obtained by employing another worker is equal to the marginal cost of employing the worker – therefore where $MRP = MC$. This is indicated by point E. Only the last worker will earn this wage, and all other workers will earn a lower wage.

**Wage
rate**



Number of workers

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Draw a diagram and explain how the equilibrium wage of a non-discriminating monopsonist is determined.

12 Marks

A non-discriminating monopsonist is an employer who pays all his workers the same for the same job, even if he was able to recruit some at a lower wage rate. The cost of employing an additional worker becomes quite expensive for the non-discriminating monopsonist. First, the monopsonist has to pay the additional worker a higher wage to attract him or her. Second, as the monopsonist employer is also a non-discriminatory employer, he will, in addition, have to increase the wages of all his other workers to that same level.

The enterprise's total cost of employing one additional worker (the marginal cost) will therefore be the wage of the additional worker plus the cost of increasing the wages of existing workers. The marginal cost of employing the additional worker will therefore be higher than the wage of all the workers, which is the average wage.

This is reflected in the figure below, where MC indicates the marginal cost curve and AC the average cost curve. The MC curve lies above the AC curve to indicate the higher marginal cost involved in employing additional workers.

To maximise profits, the monopsonist enterprise must ensure that its marginal cost is equal to its marginal product (MRP). This means that it will employ L1 workers. Profits will be maximised because if the monopsonist employs fewer than L1 workers, the marginal product produced by the employment of an additional worker will be greater than the marginal cost and the employer can make more profit by employing more labour. However, if he employs more than L1 workers, the marginal cost of the last worker will be higher than the marginal product. The employer will then reduce the number of workers to reduce costs until the marginal cost of a worker is equal to the marginal revenue produced by that worker.

If an employer employs L_1 workers, he will pay the wage of W_2 to all its workers. However, if it were a perfectly competitive market, equilibrium would have been at point Q, i.e. where supply and demand intersect, in which case wages would be higher at W_3 and not W_2 , and employment higher at L_3 and not L_1 . It is clear that in a monopsony market both wages and employment could be lower than they would be in a perfectly competitive market.

**Wage
rate**



Number of workers

True statements

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

1. The primary labour market is characterised by high earnings, good working conditions and employment stability.
2. In the primary labour market, access is usually severely restricted, and is only possible at the bottom levels.
3. The secondary segment of the dual labour market is characterised by low paying labour-intensive jobs and unstable patterns of employment.
4. Nonwage costs refer to worker benefits such as overtime pay, housing allowances, transport allowances and contributions to unemployment insurance, pension funds and medical insurance funds.
5. The producer price index is a measure of inflation that may be used for specific purposes such as to determine the inflation rate for producers (as opposed to consumers).
6. Unpleasant physical working conditions or hazardous work could justify higher wage rates.
7. Educational level as well as the quality of education can cause wage differentials.
8. The large differences between the wage level of the average production worker and that of the chief executive officer of an enterprise are sometimes referred to as the wage gap.
9. Economic growth will not necessarily increase with a general increase in wages.
10. Labour costs associated with the number of hours worked can be regarded as the variable cost of labour.
11. The Labour Relations Act (LRA) can indirectly increase the cost of labour by making dismissals and retrenchments more difficult and expensive.
12. A bargaining council is also a form of monopsony, because all the employers in bargaining councils form a united front in respect of wages, and can thus be regarded as a single employer.
13. A monopsonist will face an upward-sloping labour supply curve.

14. The profit-maximising employment level for a non-discriminating monopsonist will be where $MC = MRP$.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Monopsony market – occurs when the employer is a wage setter and can set wages by adjusting the number of workers he or she hires

Dual labour market – is characterised by two distinct non-competing markets, i.e. the primary and secondary labour markets.

The primary segment – This segment is characterised by high earnings, good working conditions and employment stability.

The secondary segment – Workers “on the outside” often have little or no job security, little prospect of promotion and generally poor conditions of employment.

Inflation rate – Is the annual rate of increase in the general price level.

Income policies – are policies by which the government tries directly or indirectly to control or influence wage and price levels by specifying standards which should apply when wages or prices are changed.



Study Unit 5

Unions, collective bargaining and minimum wages

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the main factors that determine the relative power of the collective bargaining parties and therefore the outcome of collective bargaining. 10 Marks

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:

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

- 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.
- 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly discuss the factors that influence the strength and impact of unions. 6 Marks

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.
- **The capacity to mobilise** – extent to which unions, irrespective of numerical strength, have the capacity to mobilise labour successfully.
- **Labour institutionalisation** – extent to which worker and union rights as well as union participation in decision-making processes have been institutionalised through labour legislation, collective agreements and union participation in the administration of benefits.
- **Union structures** – extent to which unions have developed appropriate structures and capacity to deal with labour issues arising at local, regional and global level.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

The changing economic environment often linked to globalisation, has created a number of threats for unions and the unions have responded in a variety of ways to such threats. Discuss. 15 Marks

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.** Globalisation 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.
 - i) New entrants at the higher end of the labour markets
 - ii) Casual workers, who are either part-time or temporary
 - iii) Home-based workers and those in the informal sector
 - iv) 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the union movement in SA.

10 Marks

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 in formal 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 affiliates
- Founded in 1985
- Largest labour federation in S.A.
- In alliance with ANC
- Among the fastest-growing unions in the world
- Committed to a socialist economic system

The 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

The National Council of Trade Unions (Nactu)

- Claims a membership of about 230 000 and about 20 affiliates
- Non racial, but emphasise 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the possible positive and negative influences of unions on flexibility and productivity. **10 Marks**

Even if unions are responsible for an increase in wages, the cost effect can be neutralised or reduced if unions also bring about an equal or higher increase in productivity, as this will reduce unit labour costs.

Possible negative influences of unions:

- Unions may impose work rules that diminish productivity in an enterprise.
- They may engage in so-called “featherbedding” practices by forcing an employer to employ more employees in a particular occupation than required.
- Unions may refuse to have new shift systems implemented or may hamper the introduction of new technology.
- Unions may insist on promotion in line with certain criteria unrelated to merit and efficiency.
- Strikes can have a negative influence on output and eventually on productivity.

Possible positive influences of unions:

- Union wage increases may accelerate the search for cost-reducing and productivity-increasing technologies, and may prompt employers to ensure that workers are more productive.
- Unions may improve job satisfaction by acting as a collective voice for dissatisfied employees. Unions also tend to emphasise training by which productivity can potentially be increased.
- Enterprises may be forced to adopt better methods of dealing with personnel and production to meet union wage demand and to maintain profitability.
- A wage increase can, under certain circumstances, lead to an equivalent productivity increase (the efficiency wage hypothesis)

- Unions may also encourage further training initiatives by the employer either in response to union demand in this regard, or because the employer tries to improve productivity to counter the impact of high wage increases.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Although strikes and other industrial activities are a cost to the economy, this cost should not be exaggerated. Discuss. 6 Marks

The ultimate sanction of unions to enforce their demands for higher wages, i.e. strikes, has both costs and benefits.

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. 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Some elements of the SA labour market could be described as a bilateral monopoly. Discuss this statement **5 Marks**

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 wage may be either above, below or equal to the competitive wage rate.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the economic and social advantages and disadvantages of bargaining councils. **18 Marks**

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 characterises 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 levelled 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 industrialised economy.
- It seems that this type of mesocentralised 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the arguments for and against the determination of minimum wages.

15 Marks

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 “subsidised” 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

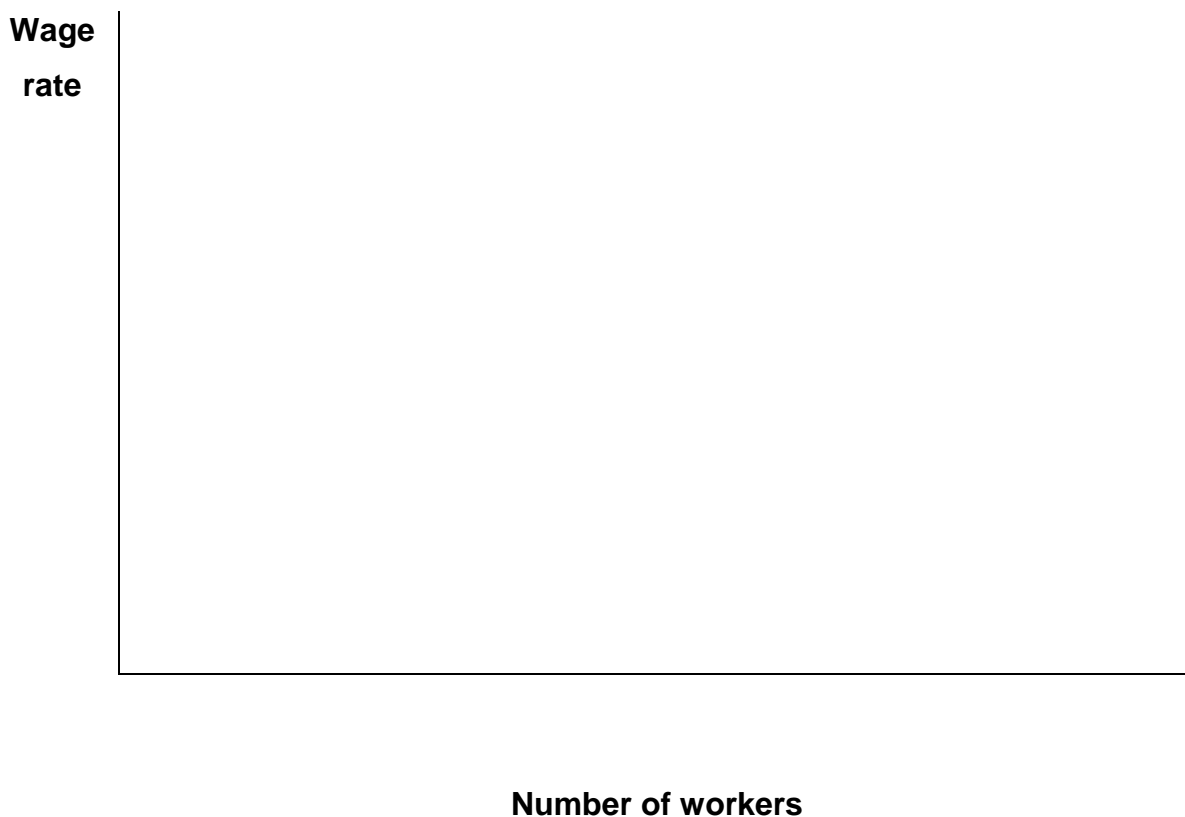
- An important argument against minimum wages is that they do not accommodate the specific circumstances of an individual enterprise.
- Entrepreneurs will usually be able to pass the increased costs resulting from minimum wages on to consumers in the form of price increases. This can create an inflationary 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Explain with the aid of a diagram how different labour demand elasticities can cause the introduction of a minimum wage to have different effects on unemployment.

10 Marks

Different labour demand elasticities can cause the introduction of a minimum wage to have different effects on unemployment as illustrated by the diagram below:



The line D_{el} represents a relatively elastic (responsive) demand for labour. If a minimum wage is introduced at the level of W_m , then unemployment to the extent of $L_1 - L_2$ will result. However, if the demand for labour is relatively inelastic (such as at D_{in}) unemployment to the extent of only $L_3 - L_2$ will result.

An international workshop that examined the various studies regarding the impact of minimum wages on general employment came to a consensus that “the minimum wage has at best a moderate or no impact on employment”.

However, empirical studies also show that labour demand is much more elastic for disadvantaged groups such as youths, Africans and women than for other workers.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss SA’s dual system of minimum wage determination.

8 Marks

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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss the concept “social wage”

4 Marks

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.

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

1. Labour unions negotiate wages and conditions of employment with one or more employers. This is known as collective bargaining.
2. The outcome of collective bargaining is not only determined by the respective bargaining powers of the union and employer involved. Market forces and the economic environment also play a role.
3. Recent decades have seen profound changes in the political and economic environment in many countries, which have had a negative effect on the position and influence of trade unions.
4. The threats to the union movement have become particularly apparent in the worldwide decline of union membership.
5. Trade union density is defined as the proportion of the total labour force represented by unions.
6. The four largest trade unions in SA (NUM, Ncwame, Sadtu and Numsa) are all affiliated to Cosatu.
7. The elasticity of labour demand will be higher if the demand for the output is more sensitive, i.e. more elastic, to price changes.
8. Stockpiling of production before the commencement of a strike, overtime worked after the strike or replacement workers who continue production during the strike can reduce the losses of a strike.
9. Bargaining councils can be regarded as a form of bilateral monopoly in the sense that employers act as monopsonists and unions as monopolists.
10. A disadvantage of bargaining councils is that they introduce an element of inflexibility and disregard the fact that circumstances could vary from one enterprise to the next and from one region to another.

11. An argument in favour of minimum wages is that because of increased wage costs, the employer will use labour more efficiently and productivity will therefore be improved.
12. Labour Force Surveys conducted in SA have revealed that employment of female domestic workers declined by about 10% after the introduction of a minimum wage.
13. The Bureau of Market Research at Unisa undertakes regular subsistence surveys. The purpose is to determine the minimum subsistence level, that is, the minimum financial requirements of a family to enable members to maintain their health and have acceptable standards of hygiene and sufficient clothing.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Spillover effect – Refers to decline in non-union wages caused by displaced union workers supplying their services in the no-unionised labour market – they will “spill over” to the non-unionised sector.

Threat effect – Refers to the increase in the non-union wages that is offered by an employer in the non-unionised sector in response to the threat of unionisation.

Superior worker effect – the higher wages paid by the union firms will cause workers to queue up for the “good” union jobs. This will enable the employers to select the most productive workers and, in time the firms will benefit.

Voice regulation – Employers and employees determining without government interference, conditions of employment through collective bargaining.

Bargaining councils – Are permanent collective bargaining institutions established on a voluntary basis by employer and employee organisations in a specific industry to negotiate wages and other conditions of employment and to resolve disputes.

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.

Social wage – is the total sum of all social benefits received free or partially free or partially free, such as state transfers, subsidies and services (unemployment insurance, state old-age pensions, free public health services, etc) and kinship and community transfers.

Study unit 6

Productivity and labour market flexibility

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

How is productivity measured? Discuss some of the shortcomings of this method of measurement. 8 Marks

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:

$$\text{Productivity} = \frac{\text{Quantity of output}}{\text{Quantity of input}}$$

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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the relationship and interaction between labour productivity, capital productivity and the replacement of labour by capital in SA. 8 Marks

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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Wage costs cannot be regarded in isolation because labour productivity must also be considered. What instrument is used to determine the combined influence of these variables, and what were the recent developments in this regard in SA.

10 Marks

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.

Change in unit = Change in average remuneration per worker

Labour cost 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.

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Use the efficiency wage hypothesis to discuss the following statement: “Under certain circumstances a wage increase could lead to an increase in productivity.”

7 Marks

Under certain circumstances a wage increase can lead to an equivalent productivity increase. This is called the efficiency wage hypothesis.

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	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Discuss the main factors that affect productivity in SA and suggest how productivity could be improved. 15 Marks

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 reorganisation and decision-making abilities is a major constraint on productivity improvement.

The lack of competition in the SA'n 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Define labour market flexibility

3 Marks

Labour market flexibility – refers to the extent to which an enterprise can alter various aspects of its work and workforce to meet the demands of the business, for example the size of the workforce, the content of jobs, working time, etc.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Define labour market flexibility and discuss its main elements in detail.

25 Marks

Labour market flexibility refers to the extent to which an enterprise can alter various aspects of its work and workforce to meet the demands of the business, for example the size of the workforce, the content of jobs, working time, etc.

Four types of flexibility have been identified by the ILO:

- Contract of employment flexibility
- Wage flexibility
- Working time flexibility
- Work organisation flexibility

Flexibility in contracts of employment: 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.

Job security for those workers already in employment may be to the detriment of labour intensity and therefore to the disadvantage of workers trying to enter the labour market for the first time.

On the other hand, greater job security may encourage employers to invest more in workers in terms of training, and workers may develop a greater loyalty towards the enterprise. It may encourage more selective recruitment by the employer and thus ensure better job matching, which increases productivity. It can result in workers being less resistant to technological change. Workers who have greater job security will be more amenable to operational changes.

Many countries have relaxed job security regulations, for example by extending the authorised probationary period, moving away from government approval for retrenchments and making temporary employment contracts possible.

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.

If enterprises can restructure only with difficulty and after relatively long time delays, it will serve as a further disincentive to job creation. At the same time, excessive freedom to hire and fire will not be in the interests of either the employee or the employer.

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 utilisation 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.

Flexibility in contracts of employment: atypical employment

Employers increasingly appear to be less inclined to employ workers on a full-time, permanent basis. Regular full-time employees who are part of the corporate family and who receive fringe benefits are referred to as the core workers. They have a long-term relationship with their employer. Atypical or contingent employment is a more flexible type of employment, where the workers are not part of the corporate family and do not have a long-term relationship with an employer.

Atypical employment is work that is temporary, part-time, outsourced, dependent contractor, specialised subcontracting, labour broking and home-workers.

The development of atypical employment is normally through one or more of the following processes:

- **Casualisation** – standard employment is displaced by employment that is temporary or part-time
- **Externalisation** – employment of independent contractor and/or employed by intermediary brokers.
- **Informalisation** – unregulated work in part or altogether.

SOUTH AFRICA

Surveys in SA have shown that the resort to temporary or casual labour has been quite widespread, and a total of 82.5% of enterprises in an ILO survey had employed temporary or casual labour in 1996. This increased to 89% in 2003. Outsourcing and subcontracting is the second most prevalent form of atypical employment. Part time work was used much less (26% of the firms) as was flexitime (10% of the firms).

REASONS FOR THE USE OF ATYPICAL EMPLOYMENT

Atypical employment has several advantages for the employer:

- **It reduces labour costs** – no fringe benefits
- **Sidestep burdensome labour regulations** – increased use of labour brokers
- **More flexibility** – fluctuating demands for labour
- **Freedom and flexibility for workers.**

Driving forces behind flexible forms of employment:

- More flexibility of product markets and hence increasing demands for flexibility by employers.
- Increasing employment rate of women
- Deregulation of the labour market
- A new mix of education and work
- New lifestyle requirements

DISADVANTAGES OF ATYPICAL EMPLOYMENT

Research in SA seems to indicate that the increasing use of non-standard employment is eroding labour standards in the following manner:

- **Wages** – lower wages
- **Conditions of employment** – no protection by law in practice
- **Health and safety** – determined by the client of brokers
- **Training** – might be neglected
- **Social security** – sometimes not registered with bargaining councils and no retirement funds
- **Employment security** – Temps can be dismissed unfairly and BCEA not helpful
- **Trade union rights and collective bargaining** – enjoy the same right only in theory

- Dysfunctional for the employer – not able to attract and retain skilled workers.

Wage flexibility

Wage flexibility means that wages should be responsive to economic and market conditions, whether in the country as a whole, a sector or the economy, or an individual enterprise. Wages are usually rigid downwards and flexible upwards i.e. responsive to price increases and unresponsive to unemployment.

Wage flexibility also relates to the extent to which wages are linked to the productive effort of the individual worker or a group of workers, and to the productivity and profitability record of the sector or the enterprise. This is referred to as *performance-related pay*.

Wage flexibility is important for job security because it has been found that where flexible wages constitute a large proportion of labour costs employees are less likely to be laid off.

The level of collective bargaining and the extent to which provision is made at such levels for flexibility arrangements, directly influence wage flexibility.

It seems as if there is a so-called “U-shaped relationship” between a country’s economic performance and the level of collective bargaining – meaning that both highly centralised and decentralised bargaining perform better than intermediate forms of bargaining. It also seems as if decentralised but highly coordinated bargaining has a positive effect on economic performance.

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.

Working time flexibilities

Working time flexibility concerns the adjustment of total working time within a given period and the possibility of rearranging working time within a given period. Time flexibility can take various forms, such as:

- Overtime
- Flexitime (flexible starting and finishing times)
- The averaging of hours over a certain period, e.g. 12 months
- Shift work
- A shortened work-week.

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 flexitime 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 annualisation of working time

Some countries have introduced legislative changes authorising collective bargaining partners to agree upon innovative working time arrangements.

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.

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

Discuss the various types and increasing prevalence of atypical employment in SA and other parts of the world. 20 Marks

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- Increasing employment rate of women
- Deregulation of the labour market
- A new mix of education and work
- New lifestyle requirements

DISADVANTAGES OF ATYPICAL EMPLOYMENT

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- **Conditions of employment** – no protection by law in practice
- **Health and safety** – determined by the client of brokers
- **Training** – might be neglected
- **Social security** – sometimes not registered with bargaining councils and no retirement funds
- **Employment security** – Temps can be dismissed unfairly and BCEA not helpful
- **Trade union rights and collective bargaining** – enjoy the same right only in theory
- **Dysfunctional for the employer** – not able to attract and retain skilled workers.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the advantages and disadvantages of atypical employment 10 Marks

ATYPICAL EMPLOYMENT HAS SEVERAL ADVANTAGES FOR THE EMPLOYER:

- **It reduces labour costs** – no fringe benefits
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- **More flexibility** – fluctuating demands for labour
- **Freedom and flexibility for workers.**

DISADVANTAGES OF ATYPICAL EMPLOYMENT

Research in SA seems to indicate that the increasing use of non-standard employment is eroding labour standards in the following manner:

- **Wages** – lower wages
- **Conditions of employment** – no protection by law in practice
- **Health and safety** – determined by the client of brokers
- **Training** – might be neglected
- **Social security** – sometimes not registered with bargaining councils and no retirement funds
- **Employment security** – Temps can be dismissed unfairly and BCEA not helpful
- **Trade union rights and collective bargaining** – enjoy the same right only in theory
- **Dysfunctional for the employer** – not able to attract and retain skilled workers.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Describe the possible positive and negative effects of labour laws on flexibility.

8 Marks

The BCEA allows relatively little scope for the variation of its provisions through collective bargaining and even less through individual contracts of employment between employer and employee.

This contrasts with the LRA, which has as one of its primary aims the promotion and facilitation of collective bargaining.

In contrast to the limited scope for variation through collective and individual agreements, substantial powers are given to the Minister or Labour to vary the conditions of the BCEA upwards or downwards.

Changing working conditions for operational reasons might be necessary some times for instance if the employer is experiencing financial difficulties. LRA states that it will automatically be unfair to dismiss workers in order to compel them to accept a change in working conditions. A case called "Fry's Metals" found in favour of the employer when the employer retrenched workers who refused to work in terms of the new conditions. The judgment said retrenchment was not used as a threat to get employees to accept the changes, but as final in order to hire new workers who would agree to the new conditions.

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

1. Productivity is normally defined as the relationship between real output (i.e. the quantity of goods and services produced) and the quantity of input used to produce that output.
2. A better quality product may be produced without increasing its price. This would imply a productivity improvement.
3. Productivity is a highly elastic concept because it changes with the business cycle.
4. Productivity data in various sectors during the period 1996 to 2004 reveal that multifactor productivity increased in all sectors.
5. An increase in unit labour cost implies that the remuneration of workers is increasing more rapidly than labour productivity. This will have a negative effect on the cost of production and therefore on competitiveness.
6. Discouraging labour intensive firms and shedding low wage jobs is not one of the principal ways of improving productivity. If these ways are used, it will be accompanied by significant readjustments, which might lead to instability.
7. Labour market flexibility refers to the extent to which different elements of the labour market can adjust to changing circumstances and is said to be an important element in the battle against unemployment.
8. According to the provision for closed-shop agreements, and employer can hire only persons belonging to one or more specified unions.
9. Temporary and casual employment, as well as outsourcing and subcontracting, are forms of atypical employment.
10. Atypical workers do not have a long-term relationship with an employer.
11. Subcontracting in the construction industry is a form of atypical employment.
12. Wage flexibility also relates to the extent to which wages are linked to the productive effort of the individual worker or a group of workers. This is referred to as performance-related pay.

13. The Basic Conditions of Employment Act (BCEA) contains certain “core rights” that may not be varied under any circumstances, for instance, a maximum working week of 45 ordinary hours.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Productivity – the relationship between real output (i.e. the quantity of goods and services produced) and the quantity of input used to produce that output (McConnell et al. 2006:504).

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.

Labour market flexibility – refers to the extent to which an enterprise can alter various aspects of its work and workforce to meet the demands of the business, for example the size of the workforce, the content of jobs, working time, etc.

Atypical employment

- Temporary or casual employment
- Part-time employment
- Outsourcing
- Dependent contractor
- Specialised subcontracting
- Labour broking or labour-only subcontracting
- Homeworkers or outworkers



Study unit 7

Globalisation and the labour market

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

How competitive is SA internationally, and what factors should be taken into account when considering SA's competitiveness? 8 Marks

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

SRI international (1998) 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
- Secondary school enrolment – 5th
- Tertiary school enrolment – SA second from bottom
- Availability of skilled labour – SA last
- Labour cost – Middle
- Availability of competent senior managers – near the bottom
- Strike activity – third highest strike level

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.

study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Describe what the effect of international trade is likely to be on the labour market, including per capita income, inequalities and poverty. 12 Marks

Impact on economic growth and income per capita

CROSS-COUNTRY COMPARISONS

Berg and Krueger (2002) refer to various research studies that have found that the huge differences between countries in the level of income per capita are systematically and importantly related to openness. However, the research has also found that institutional quality is another important determinant of the differences in income per capita between countries. Institutional quality is defined broadly as factors such as the rule of law, the effectiveness of government and so forth. If this institutional quality is better, it is likely that per capita income will also be higher.

CHANGES OVER TIME WITHIN PARTICULAR COUNTRIES

This type of research examines the relationship between changes in openness and changes in income per capita over time within countries.

The general conclusion from the research studies is that changes in trade volumes are important determinants of changes in economic growth. Dollar and Kraay estimate that if the share of trade in GDP increases from 20% to 40% over ten years, it will increase real GDP per capita by 10%.

China and India are probably the most well known examples of countries that have benefited hugely from opening up their markets

However the rest of the developing world, representing some 2 billion people, actually trades less today than 20 years ago. Among them are the sub-Saharan African region, which have shown a decline in average GDP per capita.

Impact on inequality

INEQUALITIES BETWEEN COUNTRIES

The per capita income of countries that opened their economies grew at a much faster rate than those that did not open up to international trade – in fact, the per capita income in countries that did not globalise barely increased at all. The increasing inequality in the world is thus not directly linked to globalisation.

The general conclusion seems to be that globalisation has reduced inequalities between countries. There seems to have been a reduction in the extent of inequalities between rich and poor countries.

Even though globalisation can and has greatly benefited numerous developing countries, the fact remains that there are still many poverty-stricken countries. However many of these seem to have failed because they are dysfunctional states torn apart by civil strife, authoritarian governments, and states with democratic governments but severe inadequacies in terms of policies and institutions required to support a well-functioning market economy. Many African countries furthermore do not have the prerequisites to be able to trade successfully, such as a well-developed transport infrastructure, functioning ports, functioning financial and credit markets, and skilled workers.

INEQUALITIES WITHIN COUNTRIES

When it comes to research about inequality within countries, the results are inconclusive. In some countries, such as the Philippines and Malaysia, inequality has in fact declined. In Latin America, trade liberalisation has further widened wage inequalities, although this is probably due to earlier extreme inequalities in educational attainment.

ILO (2005) found that the impact of globalisation was not always positive for all workers. It states that the positive impact is biased towards the high-skilled occupations and has less impact on the unskilled. It speculates that even though low-skilled wages may not have increased, the initial impact of globalisation and growth may have resulted in more jobs being created; in other words, rather than wages increasing, previously unemployed or underemployed people will have obtained jobs in the formal 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Describe the possible impact that globalisation has had on the SA labour market. 8 Marks

SA's trade liberalisation initiatives have been relatively recent, and the effect on employment takes years to materialise. 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 globalisation 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Compare the experiences and outcomes for the labour market of the USA and that of Europe in addressing the challenges of globalisation. 12 Marks

Countries face a choice in addressing the challenges of globalisation – 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 channelling 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	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly describe the economic initiative Nepad, which was launched in Africa to improve economic performance. 5 Marks

The New Partnership for Africa's Development (Nepad) is a framework that sets out certain conditions that will ensure the socioeconomic development of Africa. By 2015, Nepad hopes to demonstrate growth rates averaging at least 7% across the entire continent. It seeks to set African countries on a road to sustainable development and targets areas of debt relief, poverty reduction, the provision of health care and reduction of mortality rates. It aims to promote the role of women in all activities.

Nepad contains some preconditions for sustainable development namely:

- Peace, Security, Democracy and Political Governance – emphasises political stability, institutional reform and capacity building, as well as good governance.
- Economic and Corporate Governance – recognises that the private sector is a critical element in leading economic growth.
- Regional Cooperation and Integration – refers to the importance of the countries working together to achieve synergies and thereby their objectives.

Some of the other key points contained in the Nepad framework are the following:

- Capital Flows Initiative – identifies the critical need to attract foreign direct investment (FDI).
- Market Access Initiative – seeks the diversification of economies through sectoral linkages and the removal of business constraints.
- Human Resource Development Initiative – Examines the critical issues of poverty reduction, education, reversing the brain drain and health.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly discuss the arguments in favour of and against a social clause in international trade agreements linking trade and labour rights. 8 Marks

Social clause is the inclusion of provisions in bilateral or multilateral trade agreements by which trade is conditional on the respective countries ensuring that acceptable labour standards and basic worker rights are maintained in their countries (Barker & Holtzhausen 1996).

Arguments in favour of the social clause:

- It will promote fair competition between exporters of the relevant countries, and that without it conditions of work all over the world may very well deteriorate.
- Unfair international competition will increase the pressure for increased protectionism, which will not be in the long-term interests of the world as a whole.
- Low labour standards violate the human rights of workers in developing countries.
- Countries whose comparative advantage lies in low labour costs will only be able to compete in the long run by continuously depressing labour standards, at the cost of a longer-term loss of productive efficiency and job quality.

Argument against the social clause:

- International trade is not the root cause of poor labour standards.
- The social clause is used as a smokescreen for raising protectionist trade barriers, because it is designed to increase the costs associated with the most important source of comparative advantage of developing countries.
- It will not achieve its objective as it is more likely to hurt people from developing countries than improve their living standards
- Trade sanctions may result in even more acute balance of payments problems in these countries.
- If certain strategic raw materials are produced in only a few (developing) countries, refusing their importation because of poor labour standards in those countries may hurt the importing country more than the exporting one.
- It has been rejected as interference in domestic affairs and opposed on the grounds that it cannot be brought up in isolation from the broader issues of imbalances in the world trade structure, including access to markets.

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

14. SA has a relatively open economy with regard to trade, investment and the mobility of labour.
15. According to a survey conducted in 1998 comparing SA with 11 benchmark countries, SA had the highest unemployment rate of all these countries.
16. In general, an increase in the cost of labour will impact negatively on a country's international competitiveness, unless compensated for by an increase in productivity.
17. Trade liberalisation can increase national welfare if countries succeeded in exploiting their comparative advantage. This increased welfare and economic growth can lead to an increase in employment.
18. "The real losers from globalisation are those developing countries that have not been able to seize the opportunities to participate in this process." This remark applies to sub-Saharan African in particular, which for the most part, has not seen any benefits of globalisation.
19. Studies have found that trade liberalisation has had the largest negative impact on the wages of semiskilled workers, with the wages of unskilled workers least affected.
20. Countries in Africa and the former Soviet Union were unable to improve living conditions and alleviate poverty as a result of globalisation because these countries rely heavily on the export of a narrow range of primary commodities.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Globalisation – refers to the widening and deepening of international trade, finance, information and culture (e.g. movies) in a single integrated world market (El Toukhy 1998)

Social clause – the inclusion of provisions in bilateral or multilateral trade agreements by which trade is conditional on the respective countries ensuring that acceptable labour standards and basic worker rights are maintained in their countries (Barker & Holtzhausen 1996).

Study Unit 8

Unemployment in South Africa

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Describe how unemployment is generally defined and compare this definition with the two definitions used in the Labour Force Survey. 9 Marks

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.

The definitions used by the LFS are as follows:

Strict definition

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, and
- 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

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,

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Describe some of the problems in the definition and measurement of unemployment in general, but also with regard to circumstances in SA in particular. 12 Marks

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 underutilisation 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

What type of unemployment does SA generally experience, and what are the characteristics of the various types of unemployment? 12 Marks

SA has a problem of structural unemployment

Structural unemployment –generally 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. Even during periods of high economic growth, job opportunities do not increase fast enough to absorb those already unemployed and those newly entering the labour market. There are various reasons for this, for example the rapid growth of the labour force, the use of capital- or skills-intensive technology, or an inflexible labour market. Structural unemployment could also refer to a skills mismatch, i.e. between the skills that employees offer, or a geographic mismatch, i.e. between the locations of job vacancies and those of job seekers.

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. Frictional unemployment is one of the factors that determines the natural rate of unemployment.

Cyclical unemployment – (or demand deficient unemployment) arises during recessionary periods, when aggregate demand, and therefore also the demand for labour, is low. During recessionary periods few or no jobs are created for new entrants to the labour market, and even existing workers might lose their jobs through retrenchments. Once the economy improves, however, the cyclical unemployed again find jobs.

Seasonal unemployment – is due to normal expected changes in economic activity during the course of a single year. It is found in many sectors, with agriculture and retail trade probably the best examples. Persons working during peak periods and unemployed in off-peak periods and unemployed in off-peak periods are described as seasonal workers or seasonally unemployed.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the general characteristics of unemployment in SA. 12 Marks

Labour Force Survey

The LFS is a household survey that Stats SA uses to determine various labour market characteristics, including unemployment.

TOTAL UNEMPLOYMENT

The official unemployment rate in September 2005 was 26.7, which represented 4.5 million people. The strict unemployment rate in 1995 was 16.9%, which means that the unemployment rate has increased by about 10 percentage points over the last ten years. However there are various reasons why the OHSs and the LFSs cannot be validly compared over time. In particular, the size of the informal sector and subsistence agriculture was underestimated in the OHS – the underestimation did not affect the unemployment figures, but total employment was thus underestimated in 1995.

The global unemployment rate was 6.3% in 2005

According to the Stats SA, there were 3.3 million discouraged work-seekers in September 2005. If these people are regarded as part of the unemployment problem, the expanded unemployment rate in SA is 38.8%, rather than the official rate of 26.7%.

CONTROVERSY ABOUT THE EXTENT OF UNEMPLOYMENT

Schlemmer and Levitz argue that the unemployment rate in SA was overstated in the past and they give three reasons for their view.

First, 5% of the unemployed during the mid-1990s were in fact unfit for work, and should not have included themselves as economically active.

Second, the unemployed were more likely than others to be selected for interviewing by the survey interviewers because they were at home.

Finally, at least 20% of those who claimed to be unemployed were involved in various kinds of ad hoc, informal or casual employment.

UNEMPLOYMENT BY RACE, GENDER AND AGE

The highest unemployment rate, according to the strict definition, is found among Africans and especially African women. The unemployment rate among Africans was 31%, in 2005 compared to 5% among whites. A total of 3.9 million Africans are regarded as unemployed.

The unemployment problem is particularly serious among women, with an unemployment rate of 32% compared with only 23% among men. Among African women, the official unemployment rate is 37%, compared to only 27% for African men.

Three quarters of all unemployed persons are younger than 35 years of age.

UNEMPLOYMENT BY EDUCATIONAL LEVEL AND SKILLS CATEGORY

Unemployment among the educated is increasingly becoming a phenomenon in SA. A total of 34% of the unemployed in 2005 had at least a matriculation certificate, compared to only 21% in 1995.

The unemployment rate among Africans with tertiary qualifications went up from 10% in 1995 to 26% in 2002 – an increase of about 160%. However, if only those with a degree or post-graduate degree are taken into account, the unemployment rate is much lower at 10%.

Formal job creation for the unskilled and semi-skilled categories of labour has been dismal. More than 1.3 million jobs were lost between 1981 and 1999. The unemployment rate for this group, which was quite low in the 1970s, surpassed 50% in 1995 and has continued to climb even further.

OTHER CHARACTERISTICS OF THE UNEMPLOYED

Urban areas. The official unemployment rate in non-urban areas is higher than in urban areas. However, when using the expanded definition, there is a much larger difference. This is because the highest incidence of discouraged work-seekers is in the rural area, in particular Limpopo province.

Period having searched for work. By far the largest proportion of the unemployed (60%) have been searching for work for longer than a year, and more than half of these have been looking for work for three years or more.

Previous employment. About 65% of the unemployed have never held a job. They would therefore not have contributed to an unemployment insurance fund, and will not qualify for such benefits.

Population census

Certain questions are usually inserted in the population census questionnaire to determine the economic status of the population of SA. The measurement of unemployment in this manner is, however, subject to severe shortcomings, for example:

- Only a limited number of questions can be included in the questionnaire and these questions are not detailed enough to pinpoint the complex phenomenon of unemployment.
- The census is conducted at most every five years and there is a substantial lag between the data collection and the release of the results.

- The definitions change over time, for instance in the 1970 census African men in rural areas were classified as employed in subsistence agriculture, although they regarded themselves as unemployed.

Registered unemployment

The data on registered unemployment do not relate in any way to the unemployment figures calculated according to other methods. The reasons for this are:

Not all unemployed persons register, as registration does not hold much benefit and the chances of being placed in employment are relatively small.

Many workers are not eligible for unemployment benefits, for example workers unemployed for longer than six months, new entrants to the labour market and person who have not worked long enough to qualify.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss some of the main elements of a strategy to create jobs in SA.

15 Marks

Economic growth and development

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 industrialising countries.

GROWTH, EMPLOYMENT AND REDISTRIBUTION POLICY (GEAR)

In 1996 the government announced its GEAR, which recognises 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, while strengthening the redistributive effect of expenditure.
- A redistribution in tariffs to contain input prices
- The gradual relaxation of exchange controls
- Anti-inflationary monetary policy
- Tax incentives to stimulate new investment
- Small and medium-sized enterprise development
- Restructuring of state assets (which among others includes privatisation)
- Expansionary infrastructural investment
- Structured labour market flexibility within the collective bargaining system
- Enhanced HR development
- A social agreement to facilitate wage price moderation.

The government's employment strategy specifically proposes measures to promote investment and exports, among other.

Employment growth is to come from three sources:

- One-third of the increase in jobs is to be accounted for by economic growth
- Special government programmes are to add another quarter of the new jobs
- Some 30% of increased employment is envisaged from institutional reforms in the labour market, employment-enhancing policy shifts and private sector wage moderation. Regarding the later, the policy emphasises that wage and salary increases should not rise faster than productivity growth.

ACCELERATED AND SHARED GROWTH INITIATIVE OF SOUTH AFRICA

The ultimate objective of the ASGISA, announced by the President in 2005, is to halve unemployment and poverty by 2014. It is not intended to cover all elements of a comprehensive development plan, rather it consists of a limited set of interventions to complement GEAR.

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, optimising 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.

The Joint Initiative for Priority Skills Acquisition (JIPSA) is a new structure led by a committee of relevant Ministers, business leaders, trade unionists and education and training providers or experts. Its job will be to confirm the urgently needed skills and find quick and effective solutions.

4. Interventions in the second economy. The intention is to create sustainable bridges between the first and second economies to enable growth and graduation to a sustainable economy, by focusing on
 - Growth cooperatives
 - Unlocking the value of assets in poor people's hands
 - Small business (funding, procurement from, regulatory environment)
 - Public works programmes especially training
 - Women (training etc.)
 - The youth (unemployed graduates).
5. Public administration issues:
 - More attention to implementation

- Better response to the public
 - Better skills at local government level
6. Macroeconomic issues:
- Improve budgeting in government, particularly at a macro level where revenue is often underestimated and expenditure overestimated
 - A new capital expenditure management information system.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Define active labour market policies and discuss their principal elements, with specific reference to SA. 10 Marks

Active labour market policies are those policies that aim to improve the operation and results of labour markets so as to maximise quality employment and minimise unemployment and underemployment.

There are many programmes that can be classified as active labour market policies. Such policies can normally be classified under three main headings:

- Programmes intended to enhance the quantity or quality of labour supply or to alter its distribution across occupations or locations.
- Policies that act primarily to influence the structure, composition or level of the demand for labour, for instance wage subsidies.
- Programmes that can improve labour market processes and institutions, such as placement services, skills and aptitude testing, vocational guidance and counselling, provision of job search skills, labour market information on vacancies and hiring requirements, restructuring unemployment benefit programmes, placing the long-term unemployed in short-term jobs to avoid deskilling and the loss of work habits, and promoting labour market flexibility.

The authors of the ILO Review raise two points of concern with regard to active labour market policies with regards to SA:

- They are strongly opposed to the concept because of the directional tone of the phrase and the pejorative tone of the opposite, namely a passive labour market policy.
- They warn that there is limited capacity to implement an interventionist labour market approach in this country, whether through labour market training, employment services, public works or subsidised job creation efforts.

There are also some other problems that need to be considered when designing and implementing active labour market policies:

- *Dead weight loss* – which is when some action is subsidised which would have occurred in any event.
- *Displacement* – which occurs when the programme participant displaces someone who was in a particular job or would have obtained that job.
- *Creaming* – which occurs when employers employ the best of the target population, or when the providers of training or job search assistance provide such service to only selected individuals in the target group.
- *Stigma* – If a particular programme is targeted as the unskilled or long-term unemployed, graduates of such a programme may face even greater difficulties in finding regular employment than their peers who have not participated in the programme.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss public works programmes as a short-term job creation strategy. Refer to the arguments against and in favour of such programmes. 12 Marks

Public works programmes have been introduced with varying levels of success in SA and in other countries.

The history of PWP in SA started in the 1930s, when the government launched ambitious initiatives to combat unemployment among unskilled white workers. In the 1980 it was used to address unemployment in general. Renewed attention was given to PWPs after the transition to a new government and with the implementation of the RDP.

According to the RDP, the key area in which special measures to create jobs can lead to building the economy and meeting basic needs is in redressing infrastructural disparities. Amenities such as water supply, sanitation, clinics and childcare facilities should, according to the RDP, receive special attention. The government employment strategy refers to the following:

- Clean Cities Campaign
- Working for water
- Land care campaign
- Municipal infrastructure programme
- Welfare programmes
- Community-based public works programmes

Arguments against

- They can play only a temporary role and SA's structural unemployment problem cannot be addressed through such programmes.
- Such programmes usually involve the denial of resources to some other programme. By launching such programmes, either government expenditure will be increased or other important programmes will be neglected.
- Such programmes might conflict with the fiscal and monetary policy required at that specific time from the point of view of stabilisation.

Arguments in favour

- Unemployment can be reduced through the creation of productive labour-absorbing jobs through labour-intensive approaches.
- Programmes can be targeted specifically at long-term unemployed persons, which cannot happen through general stimulatory measures.

- Workers on such programmes can gain marketable skills, life skills or exposure to the world of work, thereby increasing their employability.
- The programmes can be linked to specific development initiatives and might therefore fit in well with the government's role in uplifting certain communities, for example by the provision of infrastructure among others.
- The creation of dependence and indigence commonly associated with anti-poverty welfare programmes are avoided.
- In contrast to general stimulatory measures, these programmes usually have a negligible effect on the balance of payments, owing to the minimal import content of the projects themselves and the fact that any consumption expenditure by the participants will also have a very small import content. They will also have only a small effect on inflation because of relatively low wage rates, and on demand-led or supply-push inflation.
- The capacity of communities to manage their own affairs can be increased, local government and other institutions strengthened and sustainable economic development generated.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss wage subsidies as a method of addressing unemployment. 5 Marks

A wage subsidy reduces the price of labour relative to the price of capital or that of non-targeted workers, and in this way encourages enterprises to substitute targeted workers for unsubsidised 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the pros and cons of unemployment insurance, and South Africa's system of unemployment insurance.

8 Marks

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss the possible benefits and disadvantages of a Basic Income Grant.

6 Marks

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

1. Unemployment not only affects an individual's dignity and self-respect and erodes his or her standard of living, but also affects society as a whole, because of high crime rates.
2. If little work is available, unemployed people may have lost hope of finding a job and for that reason do not take active steps to seek employment, even though they might desperately want to work. These workers are regarded as discouraged work-seekers.
3. Cyclical unemployment (or demand-deficient unemployment) arises during recessionary periods, when aggregate demand and hence also the demand for labour, are low.
4. A shortcoming of the definition of unemployment is that it does not measure underemployment, that is, when a person's employment entails less than normal hours of work.
5. The most dependable source of unemployment statistics in SA is probably the Labour Force Survey (LFS).
6. Statistics on registered unemployment are obtained from returns submitted on a monthly basis by the different placement centres of the Department of Labour.
7. One of the reasons for SA's high unemployment is the relatively slow growth of the economy, compared to countries such as China, India and Malaysia.
8. The cost of labour includes not only money wages, but also indirect costs, such as fringe benefits and employer-provided entitlements to cover contingency risks.
9. Flexibility in the utilisation of labour encourages labour-intensive production techniques, and inflexibility tends to encourage higher capital intensity.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

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.

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, and
- Have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.

The **expanded definition** of employment simply excludes the third criterion.

Frictional unemployment – arises as a result of normal labour turnover that occurs in any dynamic economy and the time lags involved in the re-employment of labour.

Cyclical unemployment (or demand deficient unemployment) – arises during recessionary periods, when aggregate demand, and therefore also the demand for labour, is low.

Structural unemployment – 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.

Seasonal unemployment – is due to normal and expected changes in economic activity during the course of a single year.

Visible underemployment – persons involuntarily work less than normal hours and are seeking, or have the desire for, full-time or additional work.

Invisible underemployment – is a misallocation of labour resources, for example the underutilisation of skills, or workers having very low productivity.

Social plan – refers to policies designed to deal with the negative social implications associated with economic restructuring, and more specifically, large-scale job losses (Barker & Holtzhausen 1996:137).

Inward industrialisation – refers to a process whereby the effective demand for locally produced basic goods and products increases because of various factors operating together.

Active labour market policies – are those policies that aim to improve the operation and results of labour markets so as to maximise quality employment and minimise unemployment and underemployment.

Study Unit 9

Human capital and the demand for skilled workers

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the human capital theory as a possible explanation for higher earnings being associated with increased education and training, and investment in education and training being “profitable”. Use diagrams to illustrate your answer. 20 Marks

People with higher educational qualifications consistently earn higher salaries. The reason why a person with a higher educational qualification earns a higher salary is that skills development enhances a person’s stock of human capital and therefore increases that person’s productive potential. 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.

Why would anyone not educate himself to the highest level?

The answer is that there is a cost involved in improving education. This cost consists of direct and indirect elements. The direct cost is the cost of tuition, books and related expenses. The indirect cost is the earnings foregone because the individual has decided to study instead of working and earning a wage.

The decision to invest in education thus depends on the monetary return on education and training. According to the human capital theory, this is the net return, which is arrived at by taking into account both the costs and the benefits of education and training. It is thus a cost benefit analysis of education.

Calculating rates of return

The total direct and indirect cost of education should thus be compared with the increased earnings of the individual over the working life of that individual, in order to determine the “profitability” or rate of return of an investment in education and training.



This is reflected in the above diagram. If the individual (A) starts working immediately after school (at age 18), he or she immediately earns a salary, and his or her earnings profile is HH. Another individual (B) decides to go to university, which entails a direct and indirect cost. However, upon entering the labour market three or four years later, that individual can immediately enjoy a higher earnings level than individual A. Individual B's earnings profile will thus be line CC.

If the area of the incremental earnings (area 3) is greater than the total cost (the sum of areas 1 and 2), the investment in education will have been worthwhile from an economic point of view. However, for various reasons future money has less value than present money, for example because present money can be invested and will be worth more in future. Therefore, the costs and benefits should be translated to some common point in time, the most obvious being the present value. The net present value of future costs and earnings is calculated by using certain econometric techniques to discount the future values to the present. The result will be the rate of return ("profitability") of education.

Private and social rates of return

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

due to lower unemployment and more intergenerational benefits because the 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.

Research evidence

Gary Becker (1979), found that college graduates in the USA earned a private rate of return of about 13% to 14%. Other estimates have put the private rate of return to college education at between 8.5% and 11%, with the social rate of return being slightly lower. However, private rates as high as 80% for primary education in certain developing countries and as low as minus 2% to plus 3% for certain types of graduate education in the USA have been reported.

Social rates of return have been found to be quite comparable to the private rates of return.

Denison estimated that 38% of increase in output in the USA economy from 1929 to 1957 could be credited to improvements in the quality of labour. Fedderke (2005) has shown that even though human capital is important in explaining economic growth in SA, it is only very specific types of investment in human capital that contributes positively to productivity growth. It is thus the production of quality human capital that is important, not simply the production of human capital.

The theory also concludes that income inequality in society could be reduced by ensuring a more equal distribution of human capital, by concentrating education and training efforts on the poorer and disadvantaged sections of society.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly discuss the distinction between the private and social rates of return to education.

6 Marks

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 due to lower unemployment and more intergenerational benefits because the 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Give a detailed discussion of the criticisms against the human capital theory.

12 Marks

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

Family background and financial status 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, for example 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 of 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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the main problems facing the education system in SA.

15 Marks

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 rate 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.

Some factors that have been responsible for this state of affairs are the following:

- Training institutions reduced
- Image of the profession was damaged by severe restructuring and large-scale retrenchments.
- The impact of HIV/Aids
- Better career and salary opportunities for skilled African workers elsewhere
- Racism, violence and other manifestations of antisocial values or behaviour in some schools discouraging teachers from entering the profession.
- The lack of bursaries and/or loans

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 inequities 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.

The impact of the HIV/AIDS on the education system

HIV/Aids is likely to have a severe effect on education. Firstly, the expenditure of households and government alike will probably be redirected from education and training to medicine and health, or for basic necessities where the breadwinner has died because of Aids. Mortality among breadwinners and other parents will weaken families, which will damage the acquisition of human capital by children. Children are likely to be absent from school more often to tend the sick. There will also be many more orphans who will have to fend for themselves, with the result that they will never attend school and will not receive material or emotional support to attend school.

The expensive investment in education will also be lost since a substantial number of secondary school learners – perhaps of the order of 500 000 will be HIV positive and likely to die before they are able to apply their knowledge in the work situation properly. The personal and economic returns from years of investment in schooling and higher education will be cut off before any returns are able to accrue to the individual, family or society.

Indications are also that many teachers are likely to die from Aids, thereby increasing the shortage of skilled staff.

It has been estimated that in 2000 more than half the teachers being trained would replace Aids victims. By 2010, this is expected to increase to nearly 80%.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the most important institutions and mechanisms relating to the skills development strategy in SA. 15 Marks

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 accrediting the institutions necessary 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). The ETQAs 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 para-professional 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 an educational institution).

There are also differences between learnerships and apprenticeships, e.g.:

- 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'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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss data on vacancies as a measure of skilled labour shortages and the shortcomings of such an indicator. 10 Marks

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:

$$\text{Vacancy rate} = \frac{\text{vacancies}}{\text{employment} + \text{vacancies}} \times 100$$

Vacancy data are, however, subject to serious shortcomings, e.g.:

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”.

True statements

Study	Revision						Rating
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	

1. SA has an oversupply of unskilled workers and a shortage of skilled workers.
2. The direct costs of education consist of the cost of tuition, books and related expenses.
3. The indirect cost of education is the earnings foregone because the individual decided to study instead of working and earning a wage. It is also termed the opportunity cost of education.
4. The production of quality and quantity human capital is important.
5. The private rate of return to education will differ over time depending on demand and supply conditions in the labour market.
6. The social rate of return takes into account the broader costs of education, for example, all educational subsidies and broader societal objectives such as lower unemployment among people with ah higher qualification, lower poverty levels and higher economic growth.
7. Family background and financial status may lead to both higher educational qualifications and higher earnings, without there necessarily being a direct relationship between education and earnings.
8. According to the radical approach, inequalities can be changed only if the power relations in society are changed, that is, the power of the capitalist class should be eliminated.
9. Illiteracy is usually defined as an educational level representing less than seven years of formal schooling.
10. Fewer matriculants are enrolling for teacher qualification courses in mathematics and physical science and the entry of these teachers is not even keeping up with retirements and resignations in these subjects.
11. Learnerships, like apprenticeships, combine practical work experience and structured learning.
12. A shortcoming of vacancy data is that quality deficiencies are not measured.
13. In SA, the services SETA has identified management and leadership as well as business-related skills as specific scarce skills that should be addressed when deciding on training interventions.

Study Unit 10

Labour market inequalities and discrimination

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the various types of discrimination found in a labour market. 8 Marks

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. (2006:248) 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.”

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 he or she 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.

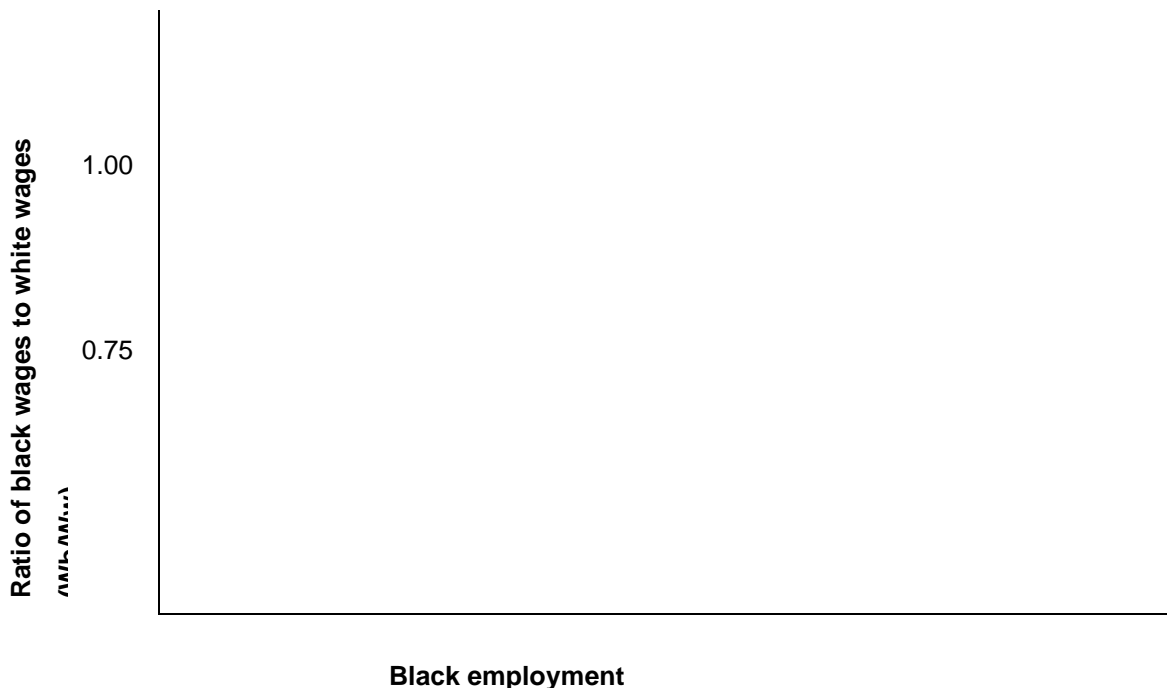
Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss Becker's taste-for-discrimination model by using two diagrams. 12 Marks

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 W_w and that of black workers W_b , then the discriminating employer will regard the cost of employing a black worker as $W_b + d$, where d is the discrimination coefficient. The employer will thus only be prepared to be indifferent with regard to black and white workers if $W_w = W_b + d$. 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 $W_w = R100$ and $d = R10$, then a discriminating employer will only employ black workers if $W_b = 90$. 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.

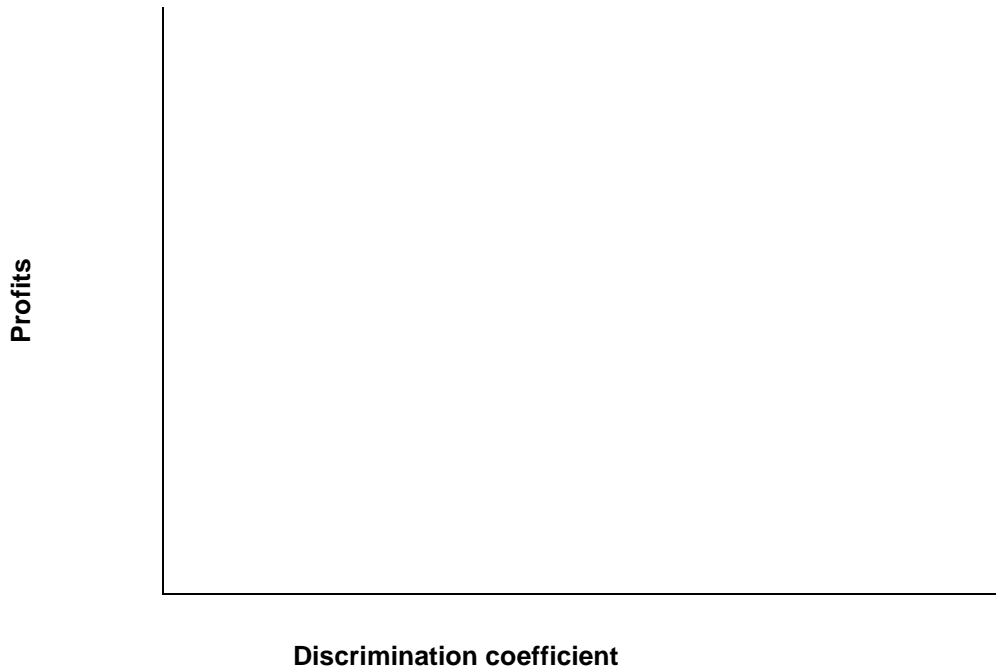


This can be reflected graphically. The vertical axis of the above measures the ratio of black wages to white wages – the higher along the axis, the higher the black wage relative to the white wage. At the level of 1.00, white and black wages are equal. The horizontal axis indicates the number of black workers employed in a specific occupation by all employers.

The non discriminating employers will pay white and black workers the same, which means that their discrimination coefficients (d) are zero. Their employment of black workers is reflected by the portion AB on the graph. After point B, black employment will increase only if discriminating employers employ black workers, and they will do so only if the wages of black workers are lower relative to those of white workers. A movement along the curve from B to C indicates discriminating employers whose discriminating coefficients (d) are increasingly higher. At point C, employers are pure racists and will not appoint black workers at any cost.

The supply of black workers can now be added to the graph – S_b . The intersection of the two curves establishes the ratio of black wages relative to white wages, i.e. 0.75, which means that black workers will earn 75% of that of white workers owing to discrimination.

It should be clear that non-discriminatory employers will be at a competitive advantage because they need not pay a premium to employ white workers. By employing equally productive black workers, they thus gain in terms of profits. This is illustrated below. At point AB, the non-discriminating employers (with discrimination coefficient zero) make maximum profits. Thereafter, and as the discrimination coefficient increases, employers make less and less profit. At some point, racists refuse to employ any black workers, and their profits take a plunge due to the excessive premium they pay to employ white workers only.



In a perfectly competitive market, the discriminating employer will have to charge higher prices to cover the wage premium paid to white workers. The discriminating employer will thus either disappear or will have to end discriminating practices. According to the theory, in a perfectly competitive market, the wages of black and white workers will equalise, and discrimination should be eliminated in the long run.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Briefly explain statistical discrimination.

5 Marks

According to the theory, 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss in detail the various theories of discrimination. Use diagrams where applicable.

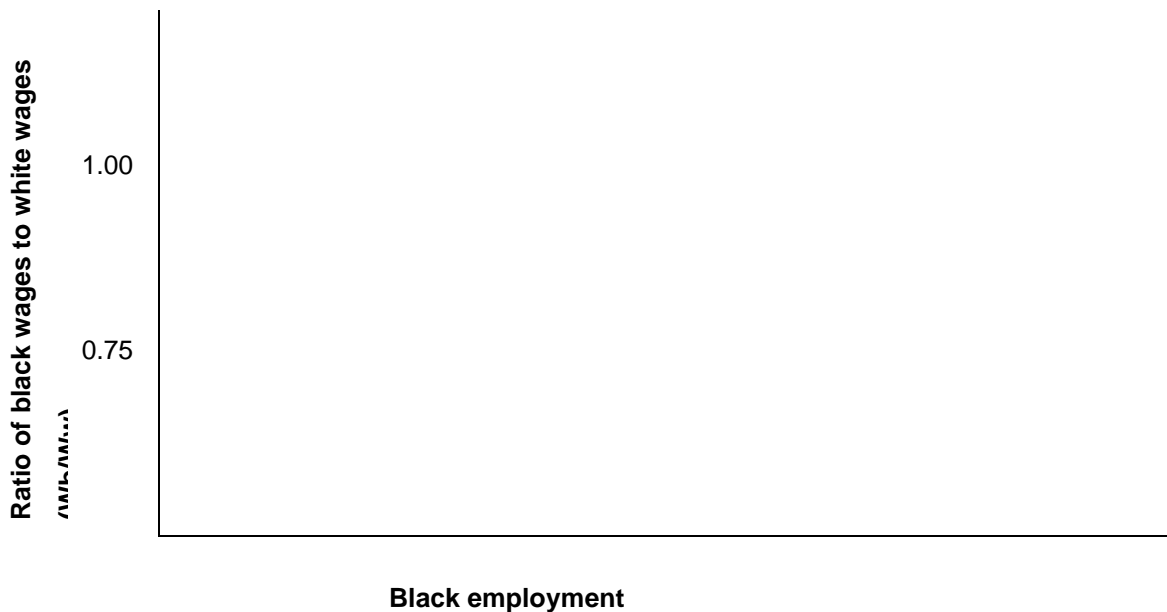
25 Marks

Taste-for-discrimination model

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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.

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.

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.

The 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 results 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 drives 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, 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss market imperfections as a theory of discrimination. Indicate the relevance of this theory to the SA situation.

7 Marks

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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.

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Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the inequalities and discrimination prevalent in the SA labour market.

15 Marks

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.

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 urbanisation. If discrimination in employment is to be eliminated, these causes of much of the discrimination have to be 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

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 SA'ns, 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%. Intra-racial 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 (2004: 547). 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, Intra-racial 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

As regards the gap between rich and poor, there has been little or no improvement in the overall distribution of income in SA since the mid-1970s. In 1993, the poorest 40% of households earned less than 6% of the total income, while the richest 10% earned in excess of half.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the main characteristics of wage and income inequalities in SA. 10 Marks

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	1 hour	1 day	2 days	1 week	1 month			

Discuss the various measures to address labour market inequalities in SA. 15 Marks

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 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 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. The government, for instance, should give hither 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 Minister on issues relating to employment equity, relevant codes of conduct and regulations. It may also do research and make awards recognising achievements of employers in furthering the purpose of the Act. This body does not deal with any workplace disputes. These are dealt with by the CCMA, while complaints may also be lodged with the labour inspector.

The Act has been criticised on a number of grounds, for example that it is reracialising SA society by categorising 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss arguments for and against policies to ensure equal pay for work or equal value.

7 Marks

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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

What are the possible advantages and disadvantages of affirmative action? Use a diagram to highlight your discussion.

15 Marks

Affirmative action refers to policies and practices 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.

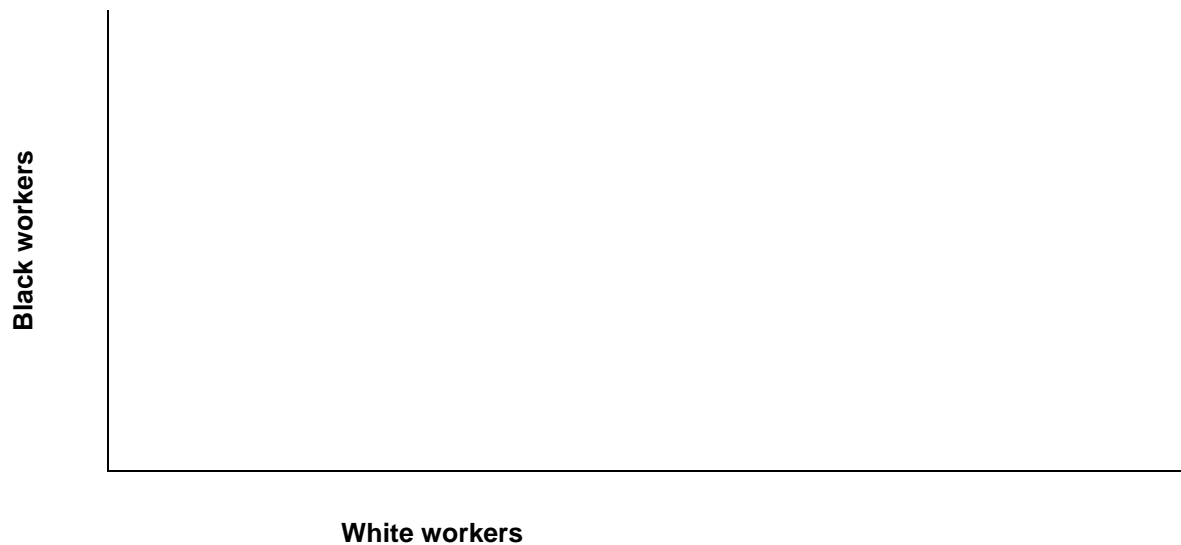
The case for affirmative action

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. 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.

An example of the first type of discrimination and the positive impact of government intervention is provided in the following diagram. This is an adaptation of the isoquant and isocost curves. In this case, the option that the employer has of choosing either capital or labour as production factors is now replaced with the option of white or black labour. These are reflected along the vertical and horizontal axes respectively. The isoquant Q indicates the various combinations of white and black labour to produce a specific level of output. The isocost curve shows the cost combinations of using black and white labour. Profit maximisation takes place where the isoquant and isocost curves just touch, i.e. are tangent.

The discriminating employer will employ more white than black workers, even if this is more expensive. This is indicated by the point D in the diagram. This provides less profit than point P, because it lies on a higher cost curve. Government policy to force employers to employ more black labour will bring about a movement from D to P, the profit maximising position.



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 stigmatise those who do not need help by suggesting, for instance, that a person has been appointed to a position because he or she 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the Employment Equity Act as an instrument to achieve employment equity, with specific reference to affirmative action. 8 Marks

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 DG must take into account include:

- Whether suitably qualified persons from designated groups are “equitably represented” within each occupational category and level, and the following factors will determine this:
 - 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 of 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.

True statements

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

1. 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.
2. Human capital discrimination is an example of before-the-market discrimination.
3. The strength of the psychotic cost of employing a black worker by a discriminating employer is known as the discrimination coefficient. This coefficient varies from one employer to the next.
4. A non-discriminating employer will pay white and black workers the same wage, which means that this employer's discrimination coefficient (d) is equal to zero.
5. According to Becker, non-discriminatory employers will be at a competitive advantage because they can employ equally productive black workers at the same wage rate as white workers and thus gain in terms of profit.
6. According to Becker's theory, the wages of black and white workers will be equalised in a perfectly competitive market and discrimination will therefore be eliminated in the long term.
7. According to the statistical discrimination theory, employers discriminate not because of a taste for discrimination (they are therefore not prejudiced against blacks), but because of their perceptions, that on average, workers from these groups (blacks) are less productive.
8. According to the transaction costs model, an employer who has to restructure the workplace to accommodate language and cultural differences, or has to provide additional training or bridging courses to employees belonging to a specific group, will be forced to offset these higher transaction costs by paying lower wages.
9. According to the Labour Force (LFS), the unemployment rate is much higher among the black labour force.
10. The Gini coefficient is the most common measure of income inequality.
11. Inequality is mainly driven by the gap between those without jobs and those in wage employment.
12. A discriminating employer can bypass the provisions of the legislation of "equal pay for work of equal value" by applying the crowding model and therefore not employing men and women to do the same job.
13. The concept of equal pay for work of equal value will not address the problem of before-the-market discrimination, i.e. human capital discrimination.
14. The Malaysian example has indicated that high economic growth and education are indispensable to successful affirmative action. These programmes should also be introduced over a relatively long period to ensure success.
15. The Employment Equity Act excludes the imposition of a quota system to force employers to employ only people from previously disadvantaged groups.

16. The education and training system in SA will probably not be able to provide enough highly skilled black people.

Definitions

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Before-the-market discrimination – occurs before the individual seeks employment or, in the case of on-the-job training, before he or she is fully productive in the labour market.

Within-the-market discrimination – discrimination that is encountered after the individual has entered the labour market (even if still unemployed)

Study unit 11

Social dialogue and codetermination

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss corporatism as a model for involving stakeholders in decision making.

8 Marks

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 institutionalised 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, which 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, which 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 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the structure, functions and effectiveness of the National Economic Development and Labour Council (Nedlac). 15 Marks

The National Economic Development and Labour Council (Nedlac) 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 the 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 Commission 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.

Grawitsky (2005: 32) lists the following achievements of Nedlack:

- It has created a forum where the social partners have been able to work on their relationship and build some level of trust. It is through informal relations that the consolidation of democracy has been strengthened.
- It has been an important instrument to strengthen democratic government and transparency in the decision-making process.
- It has given birth to a range of tripartite bodies and has thereby extended the concept of social dialogue.
- It has created a central place where greater consensus has been achieved among key stakeholders on a diverse range of issues.

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'n 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.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Briefly discuss the objectives and composition of the Millennium Labour Council (MLC). Also mention some of the criticisms against this body. 10 Marks

The Millennium Labour Council (MLC) 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.

It has been criticised in labour circles. Jansen (2001) for instance criticises the MLC processes on the following grounds:

- **Compromising trade union independence.** By agreeing to a joint vision about the economic future of the country, he accuses the trade union representatives of having taken on board the agenda of “monopoly capita”. The MLC vision refers to capital and labour acting together to make SA the leading emerging market and the destination of first choice for both domestic and foreign investment. Jansen argues that this can be achieved only by lowering wages, shedding jobs and allowing working conditions to deteriorate in order to be able to compete with countries such as China, Indonesia and Vietnam, which, according to him, is the capitalist agenda.
- **Damaging trade union unity.** The MLC agreement on the labour law amendments entrenches a two-tiered labour market in legislation. It provides for distinctly different rights and remuneration for workers, depending on numerical thresholds, in the areas of retrenchments, payment for Sunday work and workers on probation.
- **Ignoring principles of trade union democracy.** Because the MLC consists of “members’ and not delegates or formal constituency representatives, it undermines the principle of worker control. In addition, the MLC discussions are confidential and unmandated, which further undermines trade union democracy.

Jansen (2001) also makes the telling point that the rationale for the MLC’s existence in relation to Nedlac has never been fully explained.

Study	Revision						Pre Exam	Rating
	1 hour	1 day	2 days	1 week	1 month			

Discuss the pros and cons of workplace forums in South Africa in the context of the codetermination model used in Germany. 12 Marks

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.

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

Discuss the structure and functions of the International Labour Organisation (ILO).

6 Marks

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). It meets three times a year.

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

True statements

Study	Revision						
	1 hour	1 day	2 days	1 week	1 month	Pre Exam	Rating

1. The involvement of employer and employee stakeholders in negotiations and consultation on national policy issues beyond parliament is sometimes referred to as corporatism.
2. Societal or bargained corporatism is sometimes also referred to as neo-corporatism.
3. 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.
4. Nedlac is a multipartite body whose principal participants are business, labour and government.
5. The business representatives on the MLC do not only function without a mandate from business, but also without the implicit support of a large part of business.
6. One of the principal reasons for the establishment of the MLC was the fact that certain key leaders, especially senior business leaders, were not actively participating in the social dialogue in the country.
7. In SA, workplace forums are not entitled to negotiate wages and conditions of employment, which are regarded as part of collective bargaining.
8. A workplace forum in SA is entitled to participate in joint decision making on a limited number of identified issues such as disciplinary codes, affirmative action and changes to social benefit schemes.