

**Analysing Wage Formation in the  
South African Labour Market:  
The role of Bargaining Councils**

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## **1. Introduction**

Bargaining councils – known as industrial councils before 1995 – are the key institutions involved in the statutory system of collective bargaining and wage determination in the South African labour market. A bargaining council can be established by one or more registered trade unions and one or more registered employer organisations for a specific sector and area.

Both trade unions and bargaining councils have been accused of contributing to labour market inflexibility, and specifically wage inflexibility. The extensions of wage agreements to non-bargaining council members and non-union members are deemed to be problematic and it has been argued that these extensions place unnecessary burdens on particularly small and new businesses and contribute to the high unemployment rate in the country.

The main objective of this study is to evaluate the role of bargaining councils in wage formation in the South African labour market. Specifically, the study aims to determine what premium is associated with bargaining council membership as distinct from union membership.

## **2. Institutionalised Wage Formation: A Brief Overview**

In terms of the LRA, a bargaining council may be established by one or more trade unions and one or more registered employer organisations. The state can also be a party if it is an employer. The legislation regulates the extension of collective agreements concluded in a bargaining council. In terms of the LRA, a bargaining council can request the Minister of Labour in writing to extend a collective agreement to non-parties which fall within its jurisdiction.

The LRA called for the establishment of a bargaining council for the public services as a whole, called the public service co-ordinating bargaining council (PSCBC). Before 1994, remuneration in the public sector was set by a commission. No formal negotiations took place, but staff associations representing white workers in the public service were consulted. The post-apartheid LRA gave the PSCBC the authority to designate sectors of the public service for the establishment of a sectoral bargaining council.

Industrial councils were first created in 1924 as a response to industrial action particularly in the mining sector and with the specific aim of establishing a system of collective bargaining. For most of the period up to 1996, African workers were excluded from industrial councils and when they were finally allowed to join in the 1980's the established councils were not adequately prepared to deal with the interests of African workers. With the advent of democratic rule in 1994, the system of industrial relations was incoherent, inconsistent and in many cases still racist. The period following the elections was characterised by a frantic process of recasting South Africa's labour regulatory environment. The outcome was a significant rewriting of laws, including the Labour Relations Act (LRA) and the Basic Conciliations and Employment Act (BCEA). Industrial councils became Bargaining Councils under the new legislation with the LRA and BCEA governing bargaining councils as well as wage determinations.

As we shall see in the analysis that follows, the PSCBC remains central to the understanding of the determinants of wages and wage formation in the post-apartheid South African labour market.

### **3. The Nature of Wage Formation in South Africa**

#### **3.1 Ways of Negotiating Wages**

Aside from bargaining councils, there are other forums in which centralised collective wage bargaining takes place. Apart from non-statutory centralised collective bargaining, non-statutory bargaining also takes place at a decentralised or single-employer level.

#### **3.2 Extensions and Exemptions from Bargaining Council Agreements**

The LRA sets out the procedures that have to be followed to have a collective agreement extended to non-parties. One of the main criticisms levelled against the extension of bargaining council agreements is that large firms dominate the employer party bargaining. When these agreements are extended to non-parties, they affect non-party small businesses. The extension to non-parties was the subject of fierce debate in the mid-1990s in terms of the unintended consequence it ostensibly had in increasing regulatory oversight and labour costs for small businesses. While it is generally difficult to accurately estimate the share of workers covered by extensions of bargaining council agreements, Godfrey et al (2006)

found that of the estimated 32,6 percent of formally employed workers (excluding all managers and professionals in the private sector) covered by bargaining councils, only 4,6 percent were covered by extensions to agreements. In other words, extended bargaining council agreements covered a very small share of the labour force. This initial evidence suggests that the extension to non-parties as a source of potential rigidity in the labour market may be overstated.

Similarly, a study looking at data on exemptions found that by far the majority were granted, either in full, partially or conditionally.

## **4. A Descriptive Approach to Evaluation of a Possible Wage Premium Associated with Membership of an Industrial or Bargaining Council**

### **4.1 The Level Of Coverage By Bargaining Councils**

First the number of workers covered by industrial councils in 1995 and by bargaining councils in 2005 had to be estimated. Information from agreements and various other sources was used to identify these markers covered by council agreements in the 1995 October Household Survey and the 2005 Labour Force Survey.

The authors found that bargaining council agreements, outside of union membership, only covered 15 percent of workers in 1995. A decade later, this figure, although more than doubling, stood at only 32 percent. Put differently, the system of bargaining councils in South Africa – designed to formalise the relationship between organised workers and employers with regard to wages, benefits, dispute resolution and other aspects of labour market regulation – remains relatively weak and unrepresentative at the national level.

However, a key conclusion is that the 1995-2005 period reflects a rapid rise in the bargaining council system for the public sector. Driven by the formalisation of teachers, nurses and other public sector professionals into the PSCBC, this sector is now the bedrock for institutionalised bargaining in the labour market. The flip side of the coin is that bargaining councils within the private sector have at best stagnated and at worst are in secular decline. Where there has been significant growth, it has been within state-owned enterprise related sectors.

This poor performance within the private sector alludes to a worrying trend – that of the failure to resort to established practices of institutionalised bargaining and

dispute resolution within new or fast-growing sectors. This is particularly important when those sectors or industries have low levels of unionisation and employers' organisation, as it often provides the seedbed for fractious industrial relations.

#### **4.2 Earnings in the Bargaining Council System**

At the aggregate level there was no significant remunerative advantage offered to being associated with a bargaining council. When the average earnings of workers covered by agreements are compared with the earnings of workers outside of the bargaining council system. Closer inspection of the mean earnings of bargaining council members, however, revealed significant premia associated with membership of public sector bargaining councils. Hence, at the aggregate level, public sector bargaining council members not only earned more than their private sector counterparts, but also on average more than workers who did not belong to a bargaining council. This result holds true for males and females, as well as Africans and coloureds. The same trend emerges when examining average earnings by occupation group.

### **5. Bargaining Council Membership And Wages – A Multivariate Analysis**

A wide variety of other variables (including education and experience) also influence earnings and the objective of the multivariate analysis is to estimate the impact of these variables as well as bargaining council coverage on earnings.

The result from the analysis suggest that in 1995, a formal sector worker who was a member of both a bargaining council and a union did not enjoy a wage premium as a consequence of his membership of the two institutions. However, workers covered by a bargaining council agreement but not a union did enjoy a wage premium relative to those not covered by a wage agreement. Bargaining council members were likely to earn almost seven percent more than those not covered by a wage agreement. Membership of a union in 1995 provided a much larger wage premium, with workers that belonged to a union, but not a bargaining council, enjoying a union wage premium of almost 20 percent.

Ultimately, this result for 1995 suggests that bargaining councils affected an individual's mean wages only in the absence of union membership. Institutionalised wage formation in 1995 was therefore characterised by a strong union-wage effect

and a significant – albeit lower – bargaining council effect. Importantly, the latter was only true for those bargaining council members who were not unionised.

The results for 2005 suggest that a formal sector worker covered by a bargaining council agreement but not a member of a union, did not enjoy a wage premium in 2005. However, union membership on its own is associated with an earnings premium of about 17 percent. For workers who were members of bargaining councils and unions as well, the results suggest an earnings premium of almost 16 percent.

The result was primarily driven by the fact that all non-managers in the public sector now belonged to the public service bargaining councils, with a large share of these individuals unionised. Membership of a private sector bargaining council did not yield any premium, but membership of the public sector bargaining councils was associated with a wage premium of 28 percent.

In both years, workers enjoyed a wage premium associated with their union membership, irrespective of bargaining council membership.

The results from the multivariate analysis confirm the tentative conclusions from the descriptive overview. Wage premiums associated with union membership remained strong in both 1995 and 2005. In addition, it is evident that public employees that were members of a bargaining council enjoyed high and significant returns to their earnings in 2005.

### **5.1 Results from Quantile Regressions**

When the impact of union membership and bargaining council agreements was considered at different points of the wage distribution, it was found that in 1995, union membership awarded a wage premium to all workers but this premium was highest for the lower skilled and lower paid workers at the bottom of the wage distribution.

In 2005, membership of a public service bargaining council offered a wage premium of between 18 percent and 34 percent. Again across the wage distribution, this public service bargaining council wage premium increased from the 5<sup>th</sup> percentile to the 35<sup>th</sup> percentile, before declining to the lowest point at the 95<sup>th</sup> percentile.

Again, union membership offered a wage premium across the distribution, with a relatively higher premium at the bottom of the distribution.

In both years, union membership not only awarded wage premia across the wage distribution, it also served to reduce wage inequality and particularly so in the bottom half of the wage distribution.

## **6. Conclusion**

The main objective of the paper is to estimate the wage premium – if any – associated with industrial or bargaining council membership in the South Africa labour market. As this was done for both 1995 and 2005, it enabled the authors to comment on the changing patterns of institutionalised wage formation in the post-apartheid South Africa.

Bargaining council membership rose from 15 percent of formally employed workers in 1995 to 32 percent in 2005 – meaning that less than a third of the formally employed were covered by bargaining councils. The rise in membership was driven by the public sector. In the private sector, bargaining councils have stagnated or declined between 1995 and 2005.

While at first glance, bargaining council membership did not appear to be associated with wage premia in either 1995 and 2005, closer inspection reveals that public sector workers did enjoy significant wage premia. This was the conclusion from descriptive analysis as well as the wage premium associated with union membership remained strong between 1995 and 2005.