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Contemporary Labour Market Policy and Poverty in South Africa

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Abstract

This paper outlines the recent labour market reforms in South Africa and discusses their likely impact on poverty and the working poor. Using an innovative framework developed elsewhere in the literature, the paper shows how labour market processes and outcomes can affect the level of household poverty in a country. The impact of post-apartheid labour market reforms on poverty is then assessed on the basis of their likely effect on unemployment, skill levels, the bargaining power of the workforce, and the “quality” of jobs. The analysis suggests that the recent labour market reforms are likely to contribute to a reduction in overall household poverty. However, their impact on poverty would be stronger if policies were adopted to assist the most vulnerable workers in the face of likely employment losses.

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Introduction

Amongst the major challenges that faced the new African National Congress (ANC) government in 1994 was the extent of poverty and inequality, which were largely a legacy of apartheid and past race-based policies. A household survey conducted in late 1993 to assist the new government by providing an empirical basis for its policies, found that 53% of the population lived in poor households, and among the poor, 95% were African (RDP, 1995). The survey also found that South Africa had one of the worst records in terms of social indicators (health, education, safe water, and fertility) and income inequality, even when compared to countries at lower levels of development.

Not surprisingly, the coming to power of an ANC-led government was accompanied by the adoption of policies that were intended to help eradicate poverty and reduce inequality as part of the Reconstruction and Development Programme (RDP). The RDP included policies that aimed to foster macroeconomic stability, meet basic needs of the population, create jobs, develop human resources, and provide social safety nets.

One of the important factors determining the extent and character of poverty and inequality in South Africa is the labour market. Analysis of recent household survey data suggest that labour market participation (and non-participation) by members of the household explain a significant amount of household poverty and inequality (Leibbrandt, Bhorat and Woolard, 1999). These results are hardly surprising but they elevate the importance of labour market policy and policies that impact on the functioning of the labour market as potential tools in efforts to reduce poverty and inequality.

Since 1994, the government has embarked upon a series of labour market reforms, which it claimed had efficiency and equity objectives. The aim of this input is to examine these reforms more closely, focusing on their potential impact on poverty and inequality.

The rest of this paper proceeds as follows: Section 2 outlines the recent labour market reforms; Section 3 discusses conceptual frameworks that help to assess the role of labour market policy in poverty alleviation; and in Section 4, these frameworks are used to assess the impact of recent labour reforms on household poverty. In Section 5 we consider the potential impact of these reforms on the position of low-paid workers and finally, Section 6 presents some policy recommendations.

Labour Market Reforms and Institutions in Post-Apartheid South Africa¹

The newly elected ANC government inherited a fragmented group of labour laws and an industrial relations system characterised by a high degree of adversarialism between employers and worker representatives. ² Legislation that governed collective bargaining, via the Industrial Councils, excluded sectors such as mining and agriculture. In the early 1990s less than 20% of workers were part of these Industrial Councils (MERG, 1993).

Labour legislation aimed at protecting workers where there was no collective bargaining also did not cover all sectors or all areas. Agriculture and domestic workers were excluded from the 1983 Basic Conditions of Employment Act until the early 1990s, whilst the entire system of

¹ The primary agency responsible for labour market policy in South Africa is the Department of Labour. This paper focuses on its legislative initiatives since 1994. However, there are other government departments whose work also directly affect the labour market but will not be discussed in any detail. These include the Departments of Education (education policy), Finance (macroeconomic policies), Trade and Industry (trade liberalisation and support for small and medium enterprises), Land Affairs and Agriculture (land reform and agricultural policies), and Public Works (National and Community-based public works programmes).

² For more detail on the apartheid legacy in the labour market and labour market institutions, see Bhorat and Van der berg (1999).

wage and working conditions determination (falling under the 1957 Wages Act) was largely discredited.

For example, it was described by the International Labour Organisation (ILO) country review as “a haphazard process, with almost arbitrary selective coverage, low wage minima, infrequent revisions and poor conditions of employment attached to them” (Sender, Standing, and Weeks, 1996).

Following the recommendations of a tripartite Labour Market Commission, the new government’s labour market policy response has consisted essentially of two approaches: the promotion of “voice” regulation and “regulated flexibility”.

Voice regulation commits the government to strengthening the role of its social partners, business and labour. Since 1993 the number of registered unions and employer organisations have increased (see Table 1) and a national-level bargaining forum, NEDLAC (National Economic Development and Labour Council) has been established. This forum deliberates on socio-economic and development policies and consists of representatives from employers, workers, government, and community organisations.

Union membership has grown more than 50% since 1994, while the number of registered unions has increased from 201 in 1993 to 463 in 1998. This trend can be attributed to the adoption of “union-friendly” policies and legislation. Surprisingly, the number of registered employer organisations declined in 1995 and in 1998, despite an overall increase since 1994. The changes in the number of bargaining councils also largely reflect a rationalisation and consolidation consistent with the demands of the new laws.

Table 1: Registered Trade Unions, Employer's Organisations, and Bargaining Councils (1993-1997)

Year	1993	1994	1995	1996	1997	1998
Unions	201	213	248	334	417	463
Union Membership	2 890 174	2 470 481	2 690 727	3 016 933	3 412 645	3 801 388
Employers Organizations	195	191	188	196	258	241
Bargaining Councils	68	86	80	77	73	76

Source: Department of Labour Annual Report, 1998

The government’s macroeconomic policy document, Growth Employment And Redistribution (GEAR), describes the policy of “regulated flexibility” as a strategy “to extend the protection and stability afforded by existing labour market regulations to an increased number of workers” (RSA, 1996a; 17). At the same time, the aim is to make sure that the labour market is regulated in a manner “that allows for flexible collective bargaining structures, variable application of employment standards, and voice regulation”.

Four major pieces of labour legislation have been enacted since 1994. These are the new Labour Relations Act (1995), the Basic Conditions of Employment Act (1997), the Employment Equity Act (1998) and the Skill Development Act (1998). Their main features are presented in Table 2.

The Labour Relations Act (LRA) was the first major piece of labour legislation to be adopted by the new government and it provides the framework for collective bargaining. The Basic Conditions of Employment Act (BCEA) sets up minimum conditions of work and is particularly aimed at protecting workers who fall outside collective bargaining.

Employment Equity legislation attempts to provide incentives for firms to redress past imbalances in the labour market. It abolishes discrimination at the workplace and provides for the implementation of affirmative action by firms and the monitoring and reduction of wage

differentials. The Skills Development Act (1998) is the last major piece of labour legislation adopted during the presidency of Nelson Mandela, and it provides for the setting-up of mechanisms to finance and promote skills development at the workplace.

Table 2: The new labour laws, 1994-1999

Name of Act	Key aims	Coverage	Institutional implications	Key provisions
Labour Relations Act, 1995	promote orderly collective bargaining, workplace democracy, and effective resolution of labour disputes	All workers excluding the defense force, secret services and essential services	New dispute resolution institutions include the Labour court and the Commission for Conciliation, Mediation, and arbitration(CCMA)	<ul style="list-style-type: none"> • Voluntary centralized industry-level collective bargaining through the setting up of bargaining, and statutory councils • Extension of bargaining council agreements to non-parties, and provision for exemptions • the establishment of workplace forums • regulations on unfair dismissals
Basic Conditions of Employment Act, 1997	<ul style="list-style-type: none"> • extend an improved "floor" of rights to all workers; • improve enforcement mechanisms 	all workers excluding defense force and secret services(including part-time and casual workers)	<ul style="list-style-type: none"> • Replacement of Wage Board by an Employment Conditions Commission(ECC) • Labour inspectorate to be improved and given responsibility for monitoring and enforcement. 	<ul style="list-style-type: none"> • Introduction of a 45 hour week(goal of 40hr week) • Increase in overtime payment, 21 days annual leave, 4 months maternity leave, and family responsibility leave • Changes to notice provisions, and new regulations on termination of employment. • Variation of Act allowed through collective bargaining or by Minister. • Sectoral determinations by Minister upon the advice of ECC
Employment Equity Act, 1998	<ul style="list-style-type: none"> • eliminate unfair discrimination • ensure the implementation of affirmative action 	Employees in "designated companies"	Commission for Employment Equity (CEE) will be responsible for advising the Minister on codes of good practice	<ul style="list-style-type: none"> • prohibition of unfair discrimination • Designated employers draw up employment equity plans that will be submitted to the Department of Labour. • Every designated employer must take measures to reduce wage differentials subject to such guidance as may be given by the Minister of

<p>Skills Development Act, 1998³</p>	<ul style="list-style-type: none"> provide an institutional framework to devise and implement national, sector, and workplace strategies to improve the skills of the South African workforce 	<p>Designated employers and sectors</p>	<ul style="list-style-type: none"> National Skills Authority, National Skills Fund Sector Education and Training Authorities(can be established for any economic sector) A skills development planning unit within the Department of Labour 	<p>Labour(upon advise of CEE)</p> <ul style="list-style-type: none"> establishment of a National Skills Fund that will be financed through the levies and state provision Sector Education and Training Authorities(SETA's) will develop sector skills plans and implement them by establishing learnerships Learnerships are to consist of a structured learning component and practical working experience. They will lead to a qualification tied to an occupation and recognized by the National Qualifications Framework(NQF)
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³ This law is accompanied by a Skills Development Levies Act (1999) which provides for a 1% payroll levy.

Labour Market Policy and Poverty: A review of some tools for analysis

The aim of this section is to discuss different conceptual frameworks or tools for analysing the link between labour markets and poverty, and how they can be used to assess the effectiveness or relevance of labour market policies in poverty alleviation strategies.

Despite international evidence that suggests that poor households depend heavily on labour incomes (Lipton & Ravallion, 1995: 2591), the literature exploring the labour market-poverty nexus is fairly limited. A major weakness of the existing studies is that they tend to view the impact of the labour market from the lenses of employment and unemployment effects only, and there are only a minority of studies that consider the overall impact on household poverty.

Partial and general equilibrium analyses are among the tools that have been used to explore the link between labour markets and poverty (Rama, 1998). However, these approaches often fail to provide insights on the determinants of poverty at the household level and how these determinants interact with the labour market to produce certain economic outcomes.

Another way of examining the link between the labour market and poverty is to isolate those labour market factors and household characteristics that determine the level of poverty within a household.

Barros and Camargo (1995) have developed a simple framework for understanding the interaction between the labour market and poverty in the household. Based on a set of identities, where per capita family income (y) is used as an indicator of the poverty status of a household, they arrive at an equation where poverty at the household level is dependent upon one or a combination of the following factors:

- the unemployment rate of household members
- the dependency ratio within the household
- the bargaining power of working household members
- the skills of the average household's working member
- the quality of the job (i.e. how far workers can realise their potential qualification in a job)

The important assumptions of the framework are (a) that the household is the relevant unit to analyse poverty, (b) income inside the family is equally distributed, (c) there is a direct relation between income and basic need satisfaction and, (d) as already mentioned above, per capita income is a useful indicator of poverty. Income transfers are also not considered.

The per capita income of a household with 'n' members can be expressed in terms of average income for working members of the household (w) and the rate of unemployment and the dependency ratio (d). Therefore:

$$y = w(l-u)/(l+d).....(1)$$

where l = number of a household's working members.

The framework is developed further by examining the determinants of the average income of the household's working members.

It is assumed that the earnings received depend on the value of the marginal productivity of the workers (v) and their bargaining power (b).

Where bargaining power of the workers is defined as a ratio between average earnings of the households working members (w) and the value of the marginal productivity, it is possible to substitute into this equation. The poverty status of a household becomes:

$$y = b.v. (1 - u)/(1 + d) \dots \dots \dots (2).^4$$

The factors that contribute to the marginal value of productivity are considered in more detail with Barros and Camargo introducing firm-level characteristics, such as the capital stock (g(k)) and the quality of labour supplied by the average household working member(q). Where 'k' represents the capital/labour ratio, the average marginal value of productivity (v) can be written as:

$$v = g(k). q \dots \dots \dots (3)$$

Through substitution in (2) the final equation is arrived at, where the quality of a household's working members (q) is determined by the effort workers put into the job(e) and the extent to which they can realise their potential qualification in the jobs(p). Then we can write formally:

$$y = \{ (1-u)/(1 + d) \} . \{ b.g(k) \} . \{ e.p \} \dots \dots \dots (4)$$

The final equation (4) helps us to understand that determinants of household poverty include household demographic factors and labour market factors such as unemployment, bargaining power of workers, quality of the workforce, and quality of the job. Past household surveys in South Africa have shown the importance of some of the above factors in the characteristics of the poor. The poor often have higher dependency ratios, higher household unemployment rates, and poor quality of jobs (RDP, 95). Amongst the employed, the overwhelming majority of the working poor are not unionised (Leibbrandt & Bhorat, 1999:23), which further confirms the importance of bargaining power as a labour market determinant of poverty.

The advantage of this framework is that it can identify the multiple causes of poverty at both the household level and in the labour market. The potential role of labour market policies and the mechanisms through which they can impact on a household's poverty status are established clearly.

However, the framework does have important limitations. The most important of these is that the framework is descriptive and static and therefore does not allow for adequate recognition of the interrelationships between individual factors. For example, it does not consider the trade-offs that can exist between bargaining power and unemployment rates. In addition, for the last two decades the South African experience has generally been one in which the changes in capital stock have generally been associated with employment shedding and increased unemployment. The framework, however, appears sufficiently flexible to be expanded and improved upon. The introduction of household endowments - such as household assets, access to infrastructure and social capital - could be done, which would make it, potentially, a more powerful tool.

Labour Reforms and Household Poverty in South Africa: An assessment

The Barros and Camargo framework presented earlier has both advantages and disadvantages. So it is important to justify its use in exploring the possible impacts of labour market reforms on poverty in South Africa.

There is little doubt that more econometrically sophisticated methods would be attractive - but they would not be adequate because the reforms are very new. These reforms have also been implemented at different stages, making it too soon to set up models to explore their overall impact. In addition, there is a clear lack of adequate household statistics. The Labour Relations

⁴ This is possible because 'v' represents the average marginal productivity, and following the earlier assumption, then $w = b.v.$

Act, which came into effect earlier than the other laws – i.e., 1996 – cannot be properly evaluated yet, due to the unavailability of household survey statistics for 1996 to 1998.⁵

Our approach in the following section is to evaluate the likely impact of each piece of legislation on the “variable” presented in the Barros and Camargo framework. In presenting the likely impact of the legislation we do not use any empirical methods – due to the data and other problems identified above – but we refer to the relevant theoretical considerations, international experience and South African evidence that is available.

While this approach can be characterised as “speculative” and over-reliant on the international experience, one can draw comfort from the fact that other “more” influential assessments of recent labour laws have tended to be weaker. When not ideologically driven, these assessments have been ‘ad-hoc’ and not based on a coherent framework. Their failure to draw on insights from economic theory and international experience has also been a major shortcoming.⁶

Employment Creation

The decline in formal employment has been particularly pronounced since 1996 (see Appendix, Table 4). There is a consensus amongst analysts that unemployment and the failure of the economy to generate sufficient employment opportunities are among the major policy challenges that face the country. However, there is also considerable debate on the factors that underlie the lack of job creation, particularly the role of the recent labour market reforms.

In perfectly competitive models of the labour market, where all individuals can get a job at a wage equal in value to their marginal product and labour markets determine the Pareto-efficient levels of working conditions and training, then labour market regulations will lead to inefficiencies and increased unemployment.

However, as we all know, most labour markets do not function like those in the competitive models. Firms do possess some monopsony power because, in most cases, labour supply is not perfectly elastic. As a result, labour market regulation, which leads for example to a raise in wages, need not necessarily jeopardise employment (Gregg & Manning 1997: 413).

It is also important to note the argument that labour market regulations may not result in significant efficiency losses in developing countries because (a) the regulations may not be binding at the market equilibrium, or (b) even if binding, the relevant elasticities of demand and supply may be small, and (c) even if binding and the elasticities are sizeable, compliance may be low (Squire & Suthiwart-Narueput, 1997: 119).

The recent labour market reforms have contributed to employer perceptions that the South African labour market is inflexible (COSATU, 1999). Standard economic analysis, as presented above and where labour market regulation is viewed as distortionary, suggests that they may contribute significantly to employment losses by increasing labour costs (and hence reduce incentives for employers to hire labour). However, there are some important features of the new set-up that are sources of “flexibility”. Such aspects need to be strengthened and could improve the economy’s performance with regards to job creation in the long run. These include the LRA’s considerations for small enterprises and firms facing economic hardships, and the variation mechanisms in the BCEA.

In terms of the literature on collective bargaining, the new LRA could negatively affect employment by leading to a wage structure that deviates from “competitive” levels. The union-non-union wage has been shown to be relatively high (Moll, 1995) and unions are associated with lower returns to education and post-schooling experience (Mwabu & Schultz 1993).

⁵ This lack of adequate household data gives support to those who only evaluate labour laws on the basis of their impact on employment. However, South African employment statistics have also been the subject of much debate. See Sender, Standing & Weeks (1996).

⁶ For example, see Fallon and Lucas (1997).

Reduction of pay differentials, job protection regulations and restrictive working practices (e.g. job-grading systems and working time arrangements) are also features of centralised collective bargaining, such as that envisaged under the LRA, which could negatively affect employment (Marsden, 1995).

The LRA's provisions for the stronger "voice" of small and medium enterprises (section 30) in bargaining councils, and clear guidelines for "exemptions" from bargaining agreements for companies facing economic hardships, are sources of flexibility that have largely been ignored in the discussions.⁷ In addition, the setting up of workplace forums should lead to improved productivity and competitiveness, if taken seriously by both employers and trade unions. The literature on industrial relations systems suggests that where management and employees can jointly manage important areas of employee relations and foster workplace cooperation, as is the case in workplace forums, there is potential for increased firm competitiveness and, indirectly, employment creation (Marsden, 1995).

The BCEA has improved and extended minimum working conditions to all workers, including previously uncovered workers such as those in agriculture, domestic work, and atypical forms of employment (i.e. part-time, casual, and home-workers). It includes provisions on employment protection, labour utilisation and sectoral determinations.

The dominant view is that the BCEA has made the labour market less conducive to employment creation. As the influential business magazine, *Financial Mail*, was to comment during the passage of the law, "all the evidence shows that the government is destroying jobs".⁸

While there is little doubt that employer perceptions of the labour market have been affected, the impact of the BCEA's employment protection regulations on labour demand and jobs will depend on the extra costs of hiring labour (particularly in the formerly uncovered sectors) and the relevant elasticities of labour demand in the various sectors. It is possible that some of the potential job losses could be diluted by transitional mechanisms set-up to help employers in certain sectors to adjust over time, or the time taken by the Department of Labour to improve its enforcement capabilities.

Undoubtedly, the most controversial (and topical) regulations in the BCEA are those that relate to sectoral determinations and the powers given to the Minister of Labour to establish minimum terms and conditions of employment, including minimum wages.

Traditional economic analysis would suggest that an effective minimum wage reduces employment (Freeman, 1993). However, empirical evidence from a number of developing countries also suggest that when the enforced minimum wage is set at relatively low levels, the impact is mostly on the composition rather than the levels of employment (Inter-American Development Bank, 1998).

It has been argued that the Employment Equity Act and the Skills Development Act will negatively affect employment by leading to increased "non-wage" costs of labour (Schlemmer and Levitz, 1998). The magnitude of this impact should be small because of the sufficient warning provided for firms with respect to the implementation of both Acts. In addition, the two laws are aimed at improving the quality of labour and the optimal use of human resources. The longer-term benefits are expected to be substantial.

The Employment Equity Act also attempts to encourage a reduction of the wage differential within firms. The Commission of Employment Equity has yet to set out benchmarks for the appropriate wage differential. But there is a likelihood that by raising the price of wages of less skilled workers relative to that of skilled workers, this could lead to job losses amongst the less skilled in sectors where the demand for their labour is fairly elastic.

⁷ The applications for exemptions are to be decided upon by an independent body set up by the bargaining council. The Labour Relations Amendment Bill (1998) changes this body to one of appeal that should expedite the processing of applications for exemption (Department of Labour, 1998:63).

⁸ *Financial Mail* 4 July 1997, cited in Schlemmer and Levitz (1998).

Improving the quality of the job

In the present policy environment policies to improve the “quality” of the job, by upgrading informal sector and small enterprise activity, falls largely in the domain of macro-economic and industrial policies. More than a million workers are involved in the informal sector, while small businesses were responsible for 44% of total employment in 1995 (NEPA, 1997). The Department of Trade and Industry coordinates a supporting package of policies that includes both financial and non-financial support for small business.

The new labour regulations can be assessed in terms of how supportive they are for the state of small business and the informal sector. Many commentators expect that the new labour laws such as the BCEA can adversely affect these businesses and lead to a deterioration in the quality of the job, by raising labour costs substantially. However, a recent task team set up to investigate the impact of the BCEA on small enterprises found that its impact might not be so severe (ILO, 1999). It is also important to realise that small businesses are affected more by problems such as access to credit, high interest rates, lack of adequate training and issues related to marketing, rather than labour costs (COSATU, 1999).

Developing the skills of the workforce

The incoming ANC-led government found in place a training system that was racially segregated, “market-led and employer dominated”, and made up of fragmented training institutions and qualifications (Sender, Standing & Weeks, 1996) The new Act should change this significantly because it provides for improved coordination for skill development and training among the workforce.

A number of key institutions are to be set up, such as the National Skills Authority, Sector Education and Training Authorities (SETAs), a National Skills Fund, and a Skills Development Planning Unit in the Department of Labour.

The Skills Development Levies Act (1999) provides for skills development levies to be collected from employers⁹. Department of Labour officials indicate that at least 20% of the money in the National Skills Fund will be used for training projects for the unemployed and those in the labour market but falling outside of SETAs.¹⁰

The concept of learnerships is one of the innovations in the Act. Learnerships combine structured learning and work experience and culminate in nationally recognised qualifications, which signify job readiness. A minimum of 4000 people will have successfully completed learnerships by the year 2001 (Department of Labour, 1999).

The whole Act, if properly implemented, should contribute towards an improved skill profile within the workforce. It is generally argued that in the past the private sector under-invested in skills development, especially when South Africa is compared to other countries (COSATU, 1999). Through the imposition of the levy and the setting up of a national skills authority, all existing training schemes will be assessed and skills gaps identified. A recent company survey has found that 76% of companies felt that they did not have adequate skilled personnel (Grawitzky, 1999). The Act attempts to address these concerns through public-private sector partnerships to upgrade the skills among the workforce.

The bargaining power of the working members of a household

⁹ The excluded employers are those whose total annual wage bill is less than R250 000, or those not required to register for employees tax purposes. From April 1 2000 the levy will be 0.5% of employer’s payroll per month. This will increase to 1% from April 2001.

¹⁰ Telephone conversation with Adrian Bird, chief director : Human resource division, Department of Labour, Pretoria.

There is widespread consensus among analysts that the new labour market regulatory regime, particularly through the BCEA and the LRA, has greatly increased the bargaining power of workers relative to employers. A framework that provides for voluntary centralised bargaining with strong employer and worker organisations now covers all workers. Workers that fall into sectors or areas that are not covered by collective bargaining are protected by regulations on minimum conditions of work.

Union membership has increased over time, although its share of the labour force has declined (see Table 3). However, this is a trend in the region. It is also possible that the demise of apartheid could lead to slower mobilisation and growth of unions. In addition, there are still some sectors where unions are still relatively absent, such as agriculture and domestic work.

Table 3: Trade Union membership 1990-1995

Country	No. of Central Unions	No. of National Unions	Total Membership (in thousands)		Membership as % of labour force	
			1990	1995	1990	1995
South Africa	3	213	2900	3154	23	19
Botswana	1	25	53	45	12	7
Zambia	1	21	477	274	18	7

Source: Fashoyin (1998)

Summary

The overall assessment of the recent reforms, in terms of the criteria developed in Section 3, is that they are likely to contribute to a reduction in household poverty. However, the only weak area is in terms of their impact on employment creation and the dependency ratio in the household. In (a) we have sought to highlight aspects of the legislation that may be harmful to job creation whilst recognising the importance of equity in the labour market. The recent Jobs Summit and reviews of the various pieces of legislation point to a realisation that access to the labour market is an important mechanism for reducing household poverty levels.

Labour Reforms and the “Working Poor”

The framework developed in Section 3 allows us to examine the impact of the labour market and labour market policy on household poverty. In addition, we are also interested in the likely impact on low-paid workers, particularly the so-called “working poor”. The following evaluation of the reforms is less dependent on a coherent framework but draws insight from the theoretical and empirical literature, and available information on the position of low paid workers in the South African labour market.

The nature and characteristics of South Africa’s working poor is sensitive to the definition used for “low pay”. Bhorat and Leibbrandt (1999) provide analysis of recent household survey data, where low pay is measured with respect to two “absolute” standards, R293 and R650 per month, which generates an interesting and largely similar picture of the working poor.¹¹

At least a quarter of all employed workers earn less than R650 per month, while the proportion is reduced to less than 10% if the R293 per month standard is used. Since our

¹¹ The two standards are the per capita adult equivalent (R293 per month) and the wage required to meet the household poverty line, given the mean number of employed workers in a household (R650 per month). It should be noted that these standards are significantly less than “relative” standards, such as the 25th percentile of all wages of the employed (R800 per month).

concern centers on reducing poverty at both the household and individual level, the R650 per month standard is appropriate as it is the wage required to meet the household poverty line.

The majority of the working poor are African (82%) and Coloured (15%). They are mostly men but women (particularly African women) tend to be over represented among them. Using educational attainment as a proxy for skill levels, one finds that the incidence of low pay is higher for unskilled workers. At least two-thirds of the working poor have only primary schooling or less.

The agricultural sector has the highest share of low-paid workers (37%), closely followed by domestic work (34%). The fast growing retail, wholesale trade and accommodation services sector also has a considerable share of the low paid workers (14%). Not surprisingly, white-collar occupations are relatively high-paid, with the majority of the low-paid falling among agricultural labourers (31%) and domestic workers (23%). The incidence of low pay is also much higher in non-unionised compared to unionised sectors. While the data is not available, one would expect a many of the worker poor to be found in small enterprises compared to larger ones.

Low-paid workers are unlikely to benefit from the new LRA, at least in the short to medium-term, because an overwhelming majority of them are found in non-unionised sectors, whatever standard we set for low pay.¹²

Historically, it has proved difficult to organise effective worker organisations in the agricultural sector or among domestic workers. Although setting up the mechanisms for collective bargaining in the domestic sector would be impractical (i.e. in the absence of employer organisations), in the case of the agricultural sector it is feasible. The LRA however fails unions in this sector and the working poor, because it does not regulate for situations where worker representatives can have access to workers and use the employer's facilities without first having to become representative. Hence many a farmer can stifle union growth and collective bargaining in this sector by hindering the access that is necessary to become representative (LAPC, 1997).

The LRA also excludes many of the working poor from benefits of Workplace Forums by insisting on such forums only where there are more than 100 employees. This has been shown to effectively exclude 98% of farms and more than 60% of firms in the wholesale and retail trade sector.¹³ At the same time, the LRA has been praised for its accompanying dispute resolution mechanisms such as the CCMA. There is considerable anecdotal evidence that domestic and other vulnerable workers, particularly in Gauteng, have utilised these mechanisms.

By far, the most important piece of labour legislation for the working poor is the BCEA. To the extent that it is effectively enforced, the BCEA will vastly improve working conditions for low-paid workers through its regulations on employment protection, labour utilisation (i.e. working time and leave) and sectoral determinations. Some concerns have been raised about the potentially negative effects of the BCEA's employment protection legislation on workers in agriculture and the domestic sector (Fallon and Lucas, 1997). By raising labour costs, such regulation could lead to employment losses and increasing levels of poverty among workers, it is argued.

There is extensive cross-country evidence to suggest that employment protection legislation, as provided in the BCEA, may not have a significant impact on employment. It tends, rather, to dramatically affect the composition of employment¹⁴. The changing composition of employment is often not in favour of low-paid and unskilled workers. Empirical studies for OECD countries have shown that the elasticity of employment with respect to labour costs is higher for "low-

¹² However, it is useful to note that the share of the working poor in unionised sectors increases slightly when low pay is defined as R650 per month, as compared to R293 per month.

¹³ LAPC (1997), and own calculations based on NEPA (1997).

¹⁴ See Inter-American Development Bank (1998), and Di Tella and MacCulloch (1998) for some of the evidence from various countries.

skilled” workers than for high-skilled ones (OECD, 1997). It is then quite realistic to expect the working poor in South Africa to suffer, through employment losses, as a result of these particular regulations in the BCEA.

The minimum wage provisions of the BCEA, and future sectoral determinations, are also likely to affect the working poor by reducing the demand for their labour. However, there is also evidence to suggest that if set at reasonable levels the minimum wages could actually be beneficial for the working poor. In a survey of recent studies on the minimum wage, the Inter-American Development Bank concludes that:

“Overall evidence on the impact of minimum wages on income distribution points to some positive but small declines in inequality and somewhat larger positive effects on poverty” (Inter-American Development Bank, 1998)

An empirical study of 30 developing countries has also found that increases in the minimum wage may be associated with declining poverty levels (Lustig and Mcleod, 1996). While acknowledging that minimum wages may negatively affect employment and thus contribute to poverty amongst workers in the long term, it concludes that “eliminating or reducing minimum wages in developing countries may hurt the poor”. If the Minister of Labour goes through with modest sectoral determinations for agriculture and the domestic sectors, it can be expected that a greater proportion of the working poor will be lifted out of poverty.

The Skills Development Act provides for the establishment of sectoral education and training authorities that should develop skills among the workforce. The working poor are unlikely to benefit from this aspect of the law unless authorities go out of their way to set up a SETA for the agricultural and retail sectors. This is because these sectors do not have strong unions or a history of tripartism. However, the educational attainment level among these workers is very low and they are definitely in need of mechanisms to equip themselves for the globalised economy and its uncertainties.

The National Skills Fund will allocate monies for the development of skills programmes not only for the unemployed and workers in rural areas but also domestic workers and service sector workers. However, the details of this process have not been mapped out clearly so far.

The Employment Equity Act, as it stands, is unlikely to benefit the working poor. The working poor are to be found in the non-unionised and often small enterprises. The success of this legislation is largely dependent on effective worker organisation and mechanisms such as the workplace forums through which employment equity plans can be discussed and monitored. However, the Act is definitely irrelevant for most employees in agriculture and domestic work.

In summary, we can note that the new labour market regulatory framework, through the BCEA and LRA, will improve the working conditions for the majority of low-paid workers and the working poor. The proposed sectoral determinations, if set at appropriate levels, are likely to significantly reduce poverty amongst workers. However, it is also to be expected that the working poor will experience employment losses due to a reduced demand for their labour. By excluding the working poor from the focus of the Skills Development Act, and the Employment Equity Act, the new labour laws have also meant that low-paid and unskilled workers will face the burden of these changes alone.

Policy Recommendations: The labour market as a tool for poverty alleviation

The centrality of the labour market, in the determination of poverty and inequality among households, necessitates that we consider labour market policy to be a potentially powerful tool in the battle to eradicate poverty and inequality. In Section 4 we noted that recent labour market reforms could contribute towards poverty alleviation by increasing the bargaining power of

workers relative to employers and by increasing the skills and quality of the labour force. The introduction of an Act promoting affirmative action is also potentially an important mechanism for reducing the enormous racial inequalities in the labour market. However, we also noted that a major weakness of the reforms is that they have not paid particularly strong attention to potential disemployment effects.

The recent labour market reforms, particularly the BCEA and the LRA, can lead to a reduction in poverty amongst workers, especially if sectoral determinations are implemented and enforced cautiously. Since the legislation extends coverage to all workers one can expect that inequality between workers, in terms of employment protection and job stability, can be significantly reduced. Nevertheless, it is also to be expected that there can be significant employment losses for low-paid workers, affecting some workers (e.g. women and youth) more than others.

A careful reading of the ANC-led government's policy documents, including GEAR, would tend to suggest that it has adopted a particular vision of the desirable labour market, i.e. as one characterised by equity and efficiency. This vision of the labour market implies that inequalities in the labour market, in terms of opportunities, working conditions, and incomes, need to be reduced. At the same time by promoting "flexibility", and improved labour productivity, the aim is to strategically position South Africa in an increasingly interdependent world economy. This approach reflects the historical objective, within the ranks of the democratic movement, to address the legacy of apartheid. At the same time it reflects the strength of the Congress of South African Trade Unions (COSATU) within the ANC-SACP-COSATU alliance.

However, there are costs associated with implementing the above vision. Our earlier assessment of the potential impact of new labour laws on household poverty, and the working poor, can direct us to policies that could minimise some of these costs, particularly as they affect disproportionately the poorest workers.

Employment creation

It is generally acknowledged that the determinants of employment are not only to be found in the functioning of the labour market and labour market institutions. Macroeconomic and industrial policies are also important. Nevertheless, as a tool against poverty in this country, labour market policy can be used to facilitate increased labour absorption.¹⁵

The employment impacts of the recently introduced labour reforms need to be monitored closely and the new laws continuously reviewed. In terms of collective bargaining under the LRA, more emphasis (and promotion) of the "flexibility" mechanisms and aspects that can improve productivity, (such as workplace forums), can dilute some of the disemployment effects. The proposed sectoral determinations (BCEA) need to be effective but cautious.

The regulations concerning the reduction of wage differentials, in the Employment Equity Act, need to be reviewed because of their likely impact on unskilled workers whose wages may rise artificially while their employment declines.

The links between the Department of Labour and small-scale traders, farmers, and the informal sector could be improved with the aim being to assist them to comply with the labour laws (where applicable), and to assess the skills needs of this sector and the impact of labour laws.

If the employment losses take place mainly in sectors where the working poor are to be found, and due to their weak skills profile they are unable to obtain jobs in newly growing sectors, it may be necessary for government to adopt targeted employment subsidies, to

¹⁵ The Presidential Jobs Summit held in October 1998 included agreements on projects for employment creation. These included the special employment programmes, youth brigades, and promotion of small businesses. Our focus is largely on labour market policy.

stimulate demand for unskilled labour. These subsidies could be targeted to particular sectors where low-paid workers are facing greater hardships.

Training for the unskilled and “working poor”

The poverty and inequality reducing objectives of recent labour reforms will come to naught if no support is provided for workers in previously “uncovered” sectors who are likely to face employment losses, and the working poor. Training and re-training can improve the employability of these workers and their job mobility, thus reducing potentially negative social impacts.

The present training institutional framework appears to be fairly weak for addressing the needs of these workers. It remains to be seen whether the new Skills Development Act will be able to cover the gaps. However, the targets being set thus far by the Department of Labour appear to be rather small and are not explicitly targeted to the most needy groups.

Social Safety Nets

The existing social security system is presently under review and one should hope that an immediate outcome of the new system should be improved social protection for workers. The present Unemployment Insurance Fund (UIF) does not cover all workers, especially the working poor such as domestic, farm workers, and workers in the informal sector. An improved social safety net system (such as a basic income grant) should not only promote job mobility but it will also reduce social costs associated with employment losses.¹⁶

¹⁶ It is commendable that parties to the Job Summit Declaration committed themselves to “achieving the implementation of an effective comprehensive social security system”. Unfortunately no time frames were set for the implementation of the new system.

Conclusion

Poverty and inequality are among the major challenges that face South African society today. The ending of apartheid and racial-domination has been accompanied by the implementation of labour market policies that were generally aimed at addressing apartheid-induced imbalances in the labour market. Such policies are also potential tools in the battle against poverty and inequality, and the lives of low paid workers will improve in the presence of the LRA and BCEA.

However, our argument is that the implementation of these labour laws should take into account the potential loss of jobs and the fact that the most vulnerable workers are likely to feel the biggest brunt of employment losses. Apart from adopting policies to increase job creation, the new government has a duty to ensure that the working poor do not pay the costs of change on their own. The costs of future employment losses should be socialised – such that the state can consider policies to encourage greater employment creation for low-paid workers, preparing them to deal with these changes by improving their skills, and through adequate social safety net mechanisms. It is thought that such an approach will not only ensure that the overall vision of the labour market is maintained but will contribute to reductions in both poverty and inequality.

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Appendix

Table 4 : Employment, Productivity, and Earnings in South Africa (% change)

	1994	1995	1996	1997	1998
Formal employment (private sector)	-0.9	0.5	-2.6	-2.5	-6.0
Formal employment (public)	0.5	-4.2	3.4	-0.3	-1.4
Remuneration per worker ¹⁷	4.8	1.7	2.7	2.4	7.6
Labour productivity	3.2	5.3	4.0	4.2	5.3
Nominal unit labour costs	10.8	6.1	7.1	6.3	9.9

Source: South African Reserve Bank

¹⁷ At constant prices.

