MINIMUM WAGE LEGISLATION, TRAINING AND PERSONNEL POLICIES : A COMPARISON BETWEEN LAW AND PRACTICE IN SOUTH AFRICA AND THE UNITED STATES OF AMERICA

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ABSTRACT

Amongst the manpower problems facing South Africa at the end of the 1970's, are the prevalence of poverty amongst a large proportion of the population, a shortage of skilled labour combined with a surplus of unskilled labour, and a need to establish equal opportunities for all members of the labour force in all sectors of the economy.

These same three problems (with some differences in emphasis) were also recognised in the United States of America in the period following the Second World War. Various groups, from social reform organisations to the Federal Government, initiated concerted and large-scale projects in an attempt to solve the problems. Voluntary efforts were made by both the public and private sectors, while legal measures were introduced to provide the necessary and relevant backing. Some twenty years later, poverty, under-utilisation of manpower and unequal employment opportunities, are no longer problems of such magnitude.

Because the US has not only experienced the same problems as South Africa, but has also found solutions to them, it was logical to study the US situation and to compare it with the South African one.

This research report concentrates on the use and effectiveness of minimum wage legislation in combating poverty; of training schemes in alleviating both aspects of the skill problem; and of personnel practices in creating an environment in which equal opportunities is a meaningful concept for all workers.

It was found that US minimum wage legislation does not, by itself, cause <u>general</u> unemployment, because not all sectors of the economy are subject to the laws. However, <u>certain groups</u> of workers have experienced higher rates of unemployment, and the relatively high minimum wage appears to have been a contributory factor.

The problem in South Africa is not only how to reduce large-scale unemployment, but also how to reduce poverty. There is, thus, a need to specify a wages 'floor' which will allow workers to earn at least a subsistence income, but, at the same time, this 'floor' must not discourage the creation of new employment opportunities. The writer's proposed solution to this dichotomy is that a low minimum wage should be legally enforceable in almost all sectors of the economy.

The need to effectively utilise all the manpower of the US, and especially to reduce the number of people totally dependant on welfare benefits, led to the introduction of a large number of public and private training schemes covering a wide variety of subjects, and catering for many differentiated target groups within the total labour force.

By contrast, the South African labour problem appears to be relatively simple, i.e. to train the surplus supply of unskilled workers in sufficient numbers to remove the shortages of skilled labour. Unfortunately, the large numerical size of the problem makes it a very complex task, not least because South Africa is not in a position to devote the necessary large-scale financial resources to numerous and varied training projects. As a result, it has only been possible to propose that State-run institutions concentrate on offering a wider range of courses than they do at present, and to rely on the private sector to continue to provide job-specific training at all levels, and to increase their investment in this field as resources permit.

With respect to personnel policies within individual firms, the emphasis in both the US and South Africa has been, and still is, on removing all instances of racial discrimination. The US has made overt discrimination impossible by enacting appropriate laws, while remaining instances of covert discrimination are fought by civil rights action groups. In South Africa, certain laws relating to labour legislation are currently being investigated by two

Commissions of Enquiry, and it is anticipated that they will recommend the introduction of legal powers prohibiting racial discrimination. Meanwhile, many private sector employers have already adopted non-racial employment practices in the recruitment and promotion areas, and they have indicated that it is their firm intention to continue with such policies until all racial barriers have been removed from the work situation.

The similarity between the labour situation in the US in the early 1960's and South Africa in the late 1970's, has proved invaluable. It has been possible to draw on US experience in dealing with the three aspects with which this report is concerned, discarding some ideas and actions as impracticable, while adopting or adapting those which have proved successful and also suit South African conditions.

One final point must be noted with respect to terminology. It has become common practice not to use the name 'Bantu' at all, but rather to refer to this section of the South African population as 'Blacks'. It must be understood that 'Blacks' do not include Coloureds and Asians. Moreover, in recent months, the South African government has also stated that the word 'Bantu' should be replaced by the word 'Blacks'. Hence, except where quotations are used, or official documents referred to, the writer has also used the name 'Blacks' to indicate that part of the population which is not White, Coloured or Asian.

DECLARATION

I hereby declare that this research report is my own work, except to the extent indicated in the text, the acknowledgements, references and comments.

I declare further that this research report has not been submitted to any other university for degree purposes.

The information used in this research report has not been obtained by me while employed, or working under, the supervision of any person or organisation other than the University of the Witwatersrand.

Signed S. M. Coles
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According to classical theory, wage rates and the level of employment are determined by the forces of supply and demand. A firm's demand curve for labour will be affected, *inter alia*, by the demand for its product(s), by its technical and managerial ability, by its capital-labour ratio, and the relative costs of factors. In the context of labour demand, the marginal revenue product of labour (MRP_L) is weighed against costs, or wage (W_L). In equilibrium, MRP_L equals W_L.

Figure 1 represents an equilibrium situation, where at wage rate W_0, the number employed will be ON.

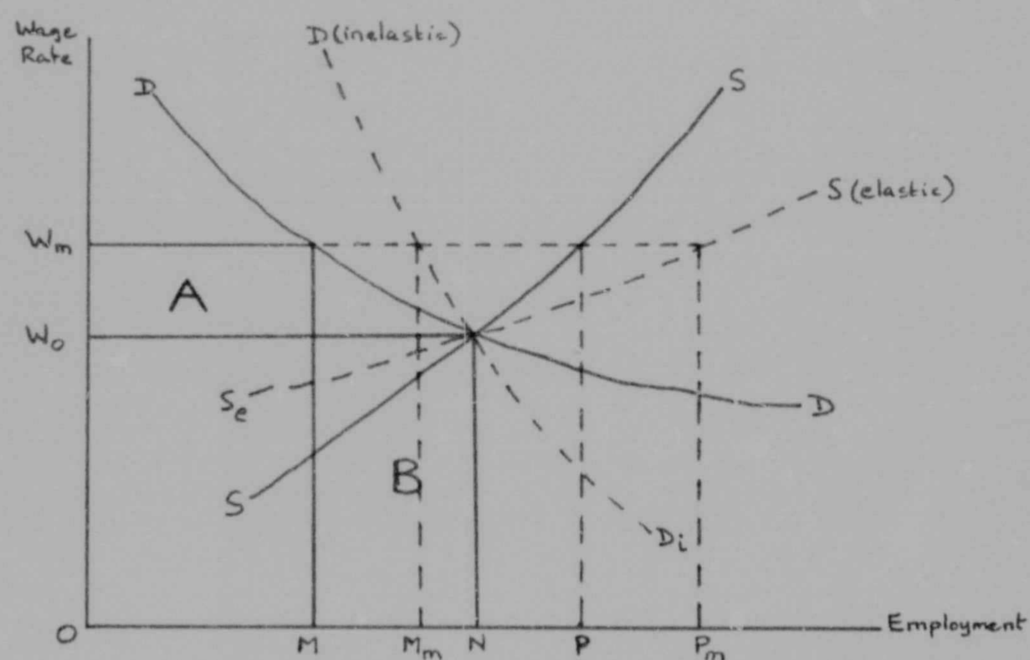

Figure 1 The Determination of Wages and Employment under Perfectly Competitive Conditions

Assuming that the wage rate rises from W_o to W_m, whilst other things remain unchanged, the firm will reduce the numbers employed to OM. For the firm, the total labour costs will change according to the elasticities of the two curves. If the rise in the wage rate, from W_o to W_m, is proportionately more than the reduction in employment, total labour costs will increase, and the firm will consider whether it can absorb the extra cost or whether it can alter its production process in such a way as to produce the same output with less labour, and thus maintain the total labour cost at, or near, the original equilibrium level.

From labour's point of view, the increase in the wage rate to W_m, is beneficial for the workers still employed. However, not only are there now some workers directly unemployed (MN), but the higher wage has also called forth a considerably greater number of potential workers (NP), effectively creating a pool of unemployed.

The more inelastic the demand curve for labour, the less is the effect on employment resulting from a rise in wage rates (OM_m). On the other hand, with a very elastic supply curve, a rise in wage rates has a large adverse effect on employment, i.e. the total supply of labour increases by NP_m.

The effect on labour's income varies with the elasticities of the two curves, and can be measured by the difference between the change in wages relative to the change in employment (rectangles marked A and B in Figure 1), i.e. the difference between OM x OW_m and ON x OW_o. However, as pointed out above, the additional income is only shared by a few workers, namely, those remaining in employment (OM).

1.2 General Effects of an Externally Determined Wage

In a competitive market, the equilibrium position is where ON workers are employed at a wage at rate of OW_o, and all resources are allocated in the most efficient way. Any deviation from this point causes an inefficient allocation of resources.

Such a deviation can be caused when governmental policy decrees that there should be a minimum wage for all workers, and sets that minimum rate above the equilibrium level, i.e. at OW_m. As explained above, where there is no change in the demand and supply curves, the high legislated minimum wage causes MN workers to be directly unemployed, and also encourages an additional number of workers (NP) to enter the labour market. The increase in the labour supply is based on either, or both, of two assumptions. Firstly, persons who did not seek work at the equilibrium wage are now looking for work, for example, housewives or inhabitants of rural areas. Secondly, persons who were previously employed for a normal working week are now prepared to work overtime. The overall employment effect, then, is to reduce the numbers employed to OM, and to cause MP workers to be unemployed.

The total income effect of an above-equilibrium level minimum wage cannot be calculated unless the coefficients of the labour supply and demand curves are known. However, from the point of view of individual workers, the income effect is easily measured. The MN workers who are now unemployed lose all their previous wage income, while the NP new entrants to the labour market cannot earn any wage income at all. Only the OM workers who remain in employment will gain, because they share all the higher income amongst themselves.

1.3 Minimum Wage Legislation

The actual effects of setting minimum wage rates at a level above the free market rates, are considerably more complex than a theoretical explanation would indicate. The reduction in employment, and the redistribution of wage incomes amongst a smaller number of workers, is not necessarily the only, and is certainly not the final, result.

1.3.1 Some Examples of Legislated Minimum Wages

Many countries operate minimum wage laws, but these differ in form and effect, and are not peculiar to either a particular type of political system, or to a particular stage in economic development.

The United Kingdom does not have such laws, although unemployment benefit rates and other social welfare measures provide an effective wage floor, below which wage rates do not fall. This is so simply because people will not work for less. Hence, machinery exists which effectively provides minimum wage rates. There is no explicit 'law', but since the outcome is the same, the system can be described as equivalent to minimum wage legislation. In Australia, on the other hand, there is a single national minimum wage applicable to all workers, which is strictly enforced and frequently updated to allow for changes in the cost of living. France has a guaranteed minimum 'subsistence wage' which provides a pivot for the whole wage structure of the nation.

Many developing countries have also adop[illegible] minimum wage legislation. Kenya and Uganda, for example, have legal minimum wage rates, the levels of which vary from one urban centre to another.[1)] Tanzania has a similar system, with the addition of minimum rates for workers in rural areas.[2)] Zambia provides statutory minimum wages only where employee and employer organisations are ineffective.[3)]

These few examples indicate the widespread adoption of the concept of a minimum wage for workers. They also show the variety of forms such laws take, from the single rate covering the whole labour force in Australia, through the several rates applicable to only certain groups of workers in Zambia, to the reliance on welfare benefits acting as a lower limit on all wage rates in the United Kingdom.

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1) R D Scott, The Determination of Statutory Minimum Wages in East Africa: A Case Study in the Politics of Resource Allocation, Canadian Journal of African Studies, Vol. 1, No. 2, Nov. 1976, Loyola College, Montreal; pp.146-148 passim.

2) Ibid; p.148

3) J B Knight, Wages and Zambia's Economic Development, in Charles Elliott (Ed), Constraints on the Economic Development of Zambia, O.U.P., Nairobi, 1971: pp.98-99.

The difference in the extent of minimum wage legislation between countries, is partly a result of the economic, social and political forces which brought such legislation into being in the first place, and partly a result of the effects of the original legislation on those same economic, social and political forces. In other words, there is not always a clear line of cause and effect.

1.3.2 Social Forces Influencing Minimum Wage Legislation

During the period when Western European countries were industrialising, social reformers were the leading forces behind the movement to raise wages above the then prevailing subsistence levels. Briefly, their argument, as expounded by J B Clark, one of their most influential spokesmen, was that it was morally unjustifiable that workers should not receive a share of total revenue which was equal to the value they added to the final product. In effect, they were saying that wages should equal the value of labour's marginal product, and that the owners of capital should not appropriate more than their share, at the expense of labour. Clark expressed this in terms of neo-classical economic theory.[4)]

The social reformers also argued that it was morally wrong for any part of the population to suffer poverty, ill-health and malnutrition unnecessarily, and low wages had exactly these ill effects. In economic terms this argument translates as low paid workers are less productive than better paid (and therefore healthier) ones. Subsequently, social reformers succeeded in preventing children under a certain age from being employed at all, and in limiting the hours of work of young people and women. Again, their arguments were based on moral grounds, but the economic effect was to reduce the supply of labour which, with no factor

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4) John Bates Clark, The Distribution of Wealth, MacMillan and Co. Ltd, London, 1925; pp.1-10

substitution or technical changes, automatically led to a higher wage for the fewer number of available workers. Moreover, the supply of unskilled, low paid labour was also reduced by prohibiting women and young people from doing certain dirty, dangerous and/or strenuous jobs.

A further social factor was the belief that all children should be educated, again, because it was their right. The result was a better educated labour force, capable of doing better quality work and, therefore, worth higher wages because their output was greater and/or of better quality.

Emphasis on the health, education and general well-being of the family as a whole, led to the belief that wages paid to an adult male worker should be sufficient to maintain his well-being and that of his wife and children.

Although the early social reformers were mainly interested in workers being paid a 'decent' wage, the same arguments are still being used today to support claims for legally enforced minimum wages. The change from social pressure to legal force is, however, also explained by two other forces, i.e. political and economic interest groups.

1.3.3 Political Forces Influencing Minimum Wage Legislation

The three main parties comprising the political forces are governments, employers and trade unions.

1.3.3.1 Governments

Governments represent the interests of the people who vote them into power, and maintain them in power. Eighteenth century Western European governments usually represented only the wealthy, land-owning classes. Not unnaturally then, their interest in industrial problems was limited to the realisation that the growth of factory work provided their agricultural labourers with an alternative means of earning a living, and was, therefore, a threat to their labour supply. Nevertheless, urban areas which grew up around factories attracted people away from the land. Thus, governments had a vested interest in keeping industrial wages low and urban conditions unpleasant. By doing little to assist urban industrial workers, they hoped to maintain a large supply of farm labour willing to work for low wages.

In time, two factors changed this attitude. Firstly, farming became more capital-intensive. Hence, the demand for labour in this sector was reduced, and the higher output per worker allowed wages to rise in the agricultural sector. Secondly, electoral reforms brought a wider range of interest groups into government. Representatives of industry and labour began to push their own interests, and gradually governments became involved in the problems of all sections of the population.

1.3.3.2 Employers

As industrialists entered the government, they formed an increasingly powerful pressure group for their own interests. The pace of industrialisation was increasing, and with the increased supply of labour from the agricultural sector, the demand for labour in the modern sector continued to rise rapidly. Some industrialists adopted some of the attitudes of the social reformers, such as the promotion of a better educated, better housed and healthier work force. This resulted in a stable and more productive labouring class. Many employers could afford to pay higher wages, and with demand increasing at a faster rate than supply, competition between firms pushed up the market-determined rates. Until the beginning of the 1960's, the result was not only an increase in wage rates, but also an increase in total employment.

It cannot be said, however, that employers generally support legally enforced minimum wage rates. Legal minima interfere with the free interplay of demand and supply forces. In a competitive economy, wages will tend to equal the value of labour's marginal product.

An externally imposed change in the price of labour upsets this position and causes, at least in the short run, a period of disequilibrium. Moreover, employers are no longer free to reduce wages during cyclical downswings. Instead, market conditions force them to reduce the numbers employed and/or to change the relationships amongst all factor inputs. While some firms may be able to absorb the higher labour costs, others will not, and may even be forced out of business. Less competition between firms in the same industry may, as a result, put some firms into a monopolistic position, which leads to a sub-optimal allocation of resources.

1.3.3.3 Trade Unions

The third force involved in minimum wage determination is organised groups of workers, i.e. unions.[5] Their political power has grown rapidly since the beginning of the twentieth century. In countries where labour is scarce, their influence on the whole economy is usually great. But even where there is a large surplus of labour, organised workers, especially in urban areas, are a strong political force. This has been evident in the newly independent countries of Africa and Asia, where often it is their support which keeps governments in power. In many cases, urban workers were a strong political force who helped to bring about independence. In such countries, governments cannot afford to lose the workers' votes and are, therefore, willing to support their demands for higher wages.[6]

In most countries today, governments represent both workers and employers, but since there are more workers

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5) John T Dunlop, Wage Determination under Trade Unions, The MacMillan Co., New York, 1944; pp.45-73

6) J B Knight, Op.Cit; pp.99-101 passim; R D Scott, Op Cit; p.150; and S Watanabe, Minimum Wages in Developing Countries: myth and reality, International Labour Review, Vol.113, No. 3, May-June 1976; p.346

than employers, the former's voting power is greater. In tri-partite discussions on wages, government representatives may be in a mediating position. This is often the case in African countries, and the government party may need to consider the voting power of each of the other two parties, as well as the possible consequent urban social unrest if wages are set low. In such instances, governments have tended to support wage levels nearer the workers' claims, rather than nearer the levels which employers are prepared to offer. However, there are indications that this attitude is changing. Many African countries are experiencing serious economic difficulties and, to some extent, these have been exacerbated by the post-independence tendency to grant high minimum wages, which created a small, relatively wealthy, urban class, in sharp contrast to the majority of poor, rural workers. Moreover, high urban industrial wages tended to discourage investments from the developed countries of the world. The need to maintain the inflow of foreign capital, and to redistribute the nation's wealth more equitably, has led these countries to question the long term effects on the national economy of legislated high minimum wages.

In general, unions are strong supporters of setting high legal minimum wages, but their reasons are mostly selfish. Well organised labour is usually found in industries which are, themselves, well organised, i.e. they are well established, use modern production methods, have strong internal markets and, probably, good existing or potential export markets. For example, in South Africa, there are strong trade unions in the metal and printing industries and in foundries. Such industries tend to pay above-average wages, regardless of the existence or non-existence of legislated rates, largely because their employees command specific skills. Examples of such industri in other parts of Africa are the Zambian copper mining companies. These firms have not only transplanted Western methods of production, but also

Western attitudes towards collective bargaining with unions.[7)]

In spite of claims to represent workers in general, trade unions, in fact, usually represent their own members' interests first, and non-members' interests only incidentally, if at all.[8)]

During tri-partite discussions on minimum wages, it is usually representatives of the strongest and largest unions who plead the case for raising the rates. One of the reasons for wanting a higher minimum is so that they can use it later to bargain with employers' associations in their own industries to raise their own skilled members' wages further, in order to maintain the differentials between their rates and the legal minimum rates.[9)] If they operate in industries which can afford an increase, without cutting back on employment, their members gain. But unskilled workers in less well organised, or unorganised, industries are likely to be made unemployed as a result of the higher minimum wage rates. Alternatively, unions attempt to shift the burden of maintaining full employment onto the State, by calling for appropriate economic growth-stimulating policies. As Friedman points out, trade unions favour higher minimum wage rates because workers who already receive well above the minimum, benefit from reduced competition from unskilled workers.[10)] As a result, unionised workers often gain at the expense of the non-unionised sector.[11)]

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7) J B Knight, Wages in Africa: What should a Foreign Firm do?, Oxford Bulletin of Economics and Statistics, Vol.37, No.2, May 1975; pp.74-75.

8) D Bell, The Minimum Wage Reconsidered, The Rand Corporation, Santa Monica, California, August 1974; pp.2-3.

9) H G Ringrose, The Law and Practice of Employment, Juta & Co. Ltd, Capetown, 1976; p.9 (refers to Australia).

10) Milton Friedman, Minimum Wage Rates, in Paul Samuelson, Readings in Economics Sixth Edition, 1970, McGraw Hill Book Co., New York; p.247.

11) D Bell; Op. Cit; p.3

On the other hand, where a few large industries are regarded as wage leaders, union activity resulting in higher wages within their own industries, has had the effect of 'pulling up' wages in other industries. In the 1960's, the Zambian copper mining unions succeeded in obtaining large wage increases, which were followed by all other industries in the modern sector, and also by the government, who not only raised its own public employees' wages, but also raised the legal minimum wage for unskilled workers by about 33 per cent.[12] During the same period, unions in East Africa also succeeded in raising the wages of most urban male workers, including the unskilled, mainly by organising strikes and general industrial unrest.[13]

In the industrialised countries of Western Europe, where unions are not only numerically strong, but also politically and economically powerful, some governments have found it necessary to maintain continual contacts with them, as well as businessmen, in order to ensure their policies are in line with union and business strategies. A prime example is the United Kingdom's National Economic Development Office, where representatives of government, industry and unions meet regularly to discuss not only economic ends and means, but also all other matters affecting the nation as a whole.

1.3.4 Economic Forces influencing Minimum Wage Legislation

It is difficult to separate the purely economic forces, resulting in minimum wage legislation, from the social and political factors. This is largely because the economic forces in favour of such legislation are represented by unions and some political groups, while the arguments against are put forward by employers and different pressure groups.

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12) J B Knight, Wages and Zambia's Economic Development, Op.Cit; pp.100-102

13) S Watanabe; Op.Cit; p.347