

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

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Introduction

- Bargaining (Industrial) Councils = key institutions involved in the statutory system of collective bargaining and wage determination in the SA labour Market
- Claims: BCs + Trade Unions contributing to LM inflexibility, particularly wage inflexibility
- Extensions to non-BC and non-TU members, place unnecessary burden on small & new businesses -> Godfrey et al (2006) found that of 32,6% percent of formally employed covered by bc, 4,6% covered by extensions to agreements
- LRA – procedures for exemptions -> evidence shows that 80% of requests granted → Extensions not major source of LM rigidity
- AIM: Determine wage premium associated with BC & TU 1995 & 2005

History and Functions of BCs

- 1995 LRA: All ICs became BCs
- BC: 1/more TU & 1/more employer organisations can apply to establish a BC for a sector & area, voluntary bargaining
- NB: LRA provides for the establishment of the Public Service Coordinating BC (PSCBC)
- Private sectors BCs potential cover all semi-skilled and unskilled workers in formal employment (LFS 4 - 9)
- PSCBC includes Professionals & some Managers

Past Research

- Past research:
 - positive, significant wage premium for TU members
 - only 1 study on impact of BC -> Butcher & Rouse (2001) found that African workers belonging to IC earned 10% higher than those not covered, 30% if TU members too

Methodology: Estimation of Coverage

- 1995 OHS & 2005 LFS
- IC/BC coverage: By sector, occupation, area
- Some over-estimation – but 2005 figure compares well with other research

Estimated Bargaining Council Coverage

	1995	2005
Total Formal Employment	8,120,279	8,039,401
Total BC Coverage	1,193,597	2,580,331
Total BC Coverage (% of Total Formal Employment)	14.70%	32.10%
Private Sector Bargaining Council Coverage	1,193,597	1,072,399
Private Sector BC Coverage (% of Total Formal Employment)	14.70%	13.34%
Government Bargaining Council Coverage	----	1,507,932
Government BC Coverage (% of Total Formal Employment)	----	18.76%

Occupational Share in BC Coverage

	1995	2005
Managerial	0.21%	0.14%
Professional	1.91%	28.92%
Clerical	4.58%	10.20%
Service	13.48%	14.98%
Agr. & Fishing	0.00%	0.30%
Craft & Trade	34.91%	17.16%
Operators	32.78%	13.25%
Elementary	11.80%	15.04%

Sectoral Share in BC Coverage

	1995	2005
Agriculture	0.00%	0.35%
Mining	0.00%	0.05%
Manufacturing	49.54%	18.86%
Utilities	0.00%	0.55%
Construction	19.29%	4.43%
Trade	22.74%	12.89%
Transport	6.38%	6.94%
Financial Services	0.10%	3.26%
Community Services	1.95%	52.64%

Real Mean Monthly Earnings by Race and Bargaining Council Membership, 1995 and 2005

Rands	1995			2005			% change	
	BC	Non-BC	Ratio (BC to Non-BC)	BC	Non-BC	Ratio (BC to Non-BC)	BC	Non-BC
African	2043	2077	1:1.02	2997	2159	1:0.72*	46.66**	3.94
Coloured	2313	2070	1:0.90	3225	2795	1:0.87	39.47**	34.99**
Asian	2842	4001	1:1.41*	3909	3428	1:0.88	37.52	-14.33
White	5681	6222	1:1.10	5619	6961	1:1.24*	-1.09	11.88
Total	2674	2982	1:1.12	3439	3272	1:0.95	28.58**	9.71

Real Mean Monthly Earnings by Race: Private vs Public Sector Bargaining Council Membership, 2005

	Non BC	Private BC	Public BC	Ratio Priv BC: Pub BC	Ratio Non-BC: Pub BC
African	2159	1738	3829	1:2.20*	1:1.77*
Coloured	2795	2511	4017	1:1.60*	1:1.44*
Asian	3428	3383	4583	1:1.35	1:1.34
White	6961	4482	6221	1:1.39*	1:0.89
Total	3272	2287	4257	1:1.86*	1:1.30*

Real Mean Monthly Earnings by Occupation Group: Public & Private BC Membership 2005

	Ratio Priv BC: Pub BC	Ratio Non-BC: Pub BC
Managers		
Professionals	1:1.54*	1:0.82*
Clerks	1:1.36	1:1.25*
Service Workers	1:2.00*	1:2.38*
Skilled Agr Workers		1:0.77
Craft & Trade Workers	1:0.98	1:1.09
Operators & Assemblers	1:1.44	1:1.50
Elementary Workers	1:1.06	1:1.82*
Total	1:1.86*	1:1.30*

Bargaining Council Membership and Wages: Multivariate Analysis

- Estimate participation probit, then employment probit, then earnings – accounted for sample selection
- The earnings function:
$$Y_i = \alpha + \beta X_i + u_i$$
- Included standard controls for race, gender, education, province, occupation group, industry, experience and hours worked.
- 1995 – bc/union, bc/non-union, union dummy
- 2005 – private sector bc, public sector bc, union

1995: OLS Regression

Bargaining council/union member	0.0236
Bargaining council/non-union member	0.0694*
Union	0.1959*

2005: OLS Regression

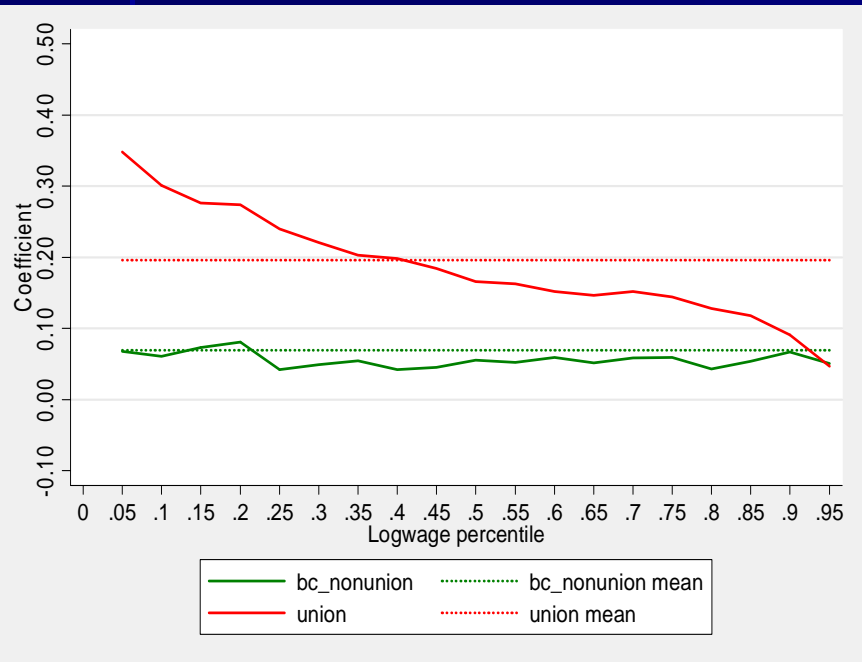
Private Sector Bargaining Council Member	0.0304
Public Sector Bargaining Council Member	0.2802*
Union	0.2349*

Quantile Regressions

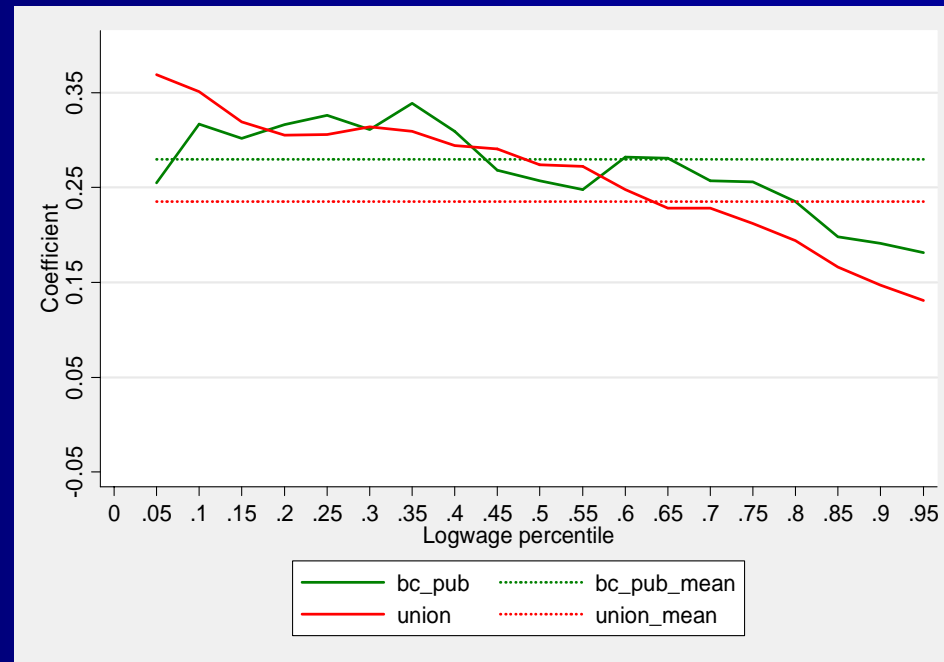
- OLS approach considers the impact of variables at the mean of the wage distribution.
- We are interested on the impact at different points in the wage distribution.
- Use quantile regressions
- Therefore able to specifically estimate the impact of bargaining council and union membership at particular points in the conditional wage distribution.

Bargaining Council and Union Membership 1995 & 2005 Quantile Regression Estimates

1995



2005



Interquantile Regressions

- Estimate the impact of explanatory variables on the differences in earnings between the 90th & 10th, 90th & 50th and 50th & 10th percentiles.
- Measures the impact of wage setting on earnings inequality.
- Thus, provides an indication of the extent to which institutional wage formation contributes to the increase or decrease in wage inequality.

Interquantile Regression Estimates

	1995		
	90th-10th	90th-50th	50th-10th
Bargaining council/union member	-0.0788**	-0.0512	-0.0276
Bargaining council/non-union member	0.0052	0.0078	-0.0026
Union	-0.2294*	-0.0737*	-0.1558*

	2005		
	90th-10th	90th-50th	50th-10th
Private Sector BC Member	-0.058	-0.078*	0.020
Public Sector BC Member	-0.045	-0.095*	0.050
Union	-0.247*	-0.112*	-0.135*

Conclusion

- 15% of formally employed workers covered – 1995
- 32% - 2005... But driven by rise in PSCBC
- Private sector BCs stagnated or declined
- Descriptive statistics - wage premia associated with membership of PSCBC
- Multivariate Analysis – 1995: BC non-union small premium; 2005 – significant premium associated with public sector bargaining council membership in 2005.
- Quantile regressions:
1995: private sector BC – stable premium
2005: members of PSCBC wage earned a premium
- OLS 1995 & 2005: strong union premium. Quantile and interquantile regressions showed that union membership awarded wage premia across the distribution, and reduced inequality