

LABOUR RESEARCH SERVICE

**QUESTIONS  
ON  
WAGE POLICY**

Presented to the Economic Service  
Groups seminar, 25th March 1990

Questions on wage policy  
For unions

There are thirteen issues to be discussed in formulating wage policy for the union:

1. Differentials between grades
2. The number of grades
3. The differential between the unskilled and skilled grades
4. The level of the lowest wage
5. Wages compared to wages in other industries or countries
6. Wages in relation to the Living Wage
7. Service increments
8. Regional variations
9. Variations between large and small companies
10. Sectoral variations
11. Wage drift
12. Company payability
13. Fringe benefits.

1. Differentials between grades

The question here is: should skill and training be rewarded with higher wages? If the answer is yes, how much extra should a worker get if he moves from a lower-skilled job to a higher-skilled job? How can divisions between workers be avoided?

If the answer is no, how will the union be able to prevent employers from paying higher wages to skilled workers who are in short supply?

2. The number of grades

Let us take the grade continuum as running from unskilled labourer to artisan. How many grades should there be in between? If there are many grades, confusion is likely as it will be

difficult to tell the difference between one job and another.

If there are too few grades, low-skilled workers will never move out of the bottom grade.

In the iron and steel industrial agreement, there are twelve grades. In the clothing industry in Cape Town, twenty five different jobs are listed. Under the Paterson grading system, there are only nine grades between labourer and artisan. NUMSA has demanded that the number of grades in the auto industry be reduced from as many as eleven to only five.

### 3. The differential between the top and bottom grades

How much more should the artisan get, compared to the labourer? What standard should be used to fix this relationship?

If the union fixes a low ratio, then actual wages for artisans may shoot up beyond the agreement level. Or, if the artisan's rate is realistic, then the labourers' wages will have to rise considerably above market levels!

The economic "reality" is that artisans are scarce and labourers are plentiful. How far can the union increase labourers' wages above their low market wages - without the solidarity of the artisans? It is unlikely that unions can keep artisans' wages below their market rate!

Labourers' wages in most well-unionised industries are already probably a lot higher than the market rate, ie, the wage levels which would apply if there were no union.

4. The level of the lowest wage

This is related to the previous question. What standard will the union use to set a "target wage" for the lowest-paid labourer?

Will the target wage be based on:

- i) regular real growth every year of 1%? (or 2% or 3%)
- ii) the Living Wage or some ratio to it?
- iii) the average wage in another industry?
- iv) the Supplemented Living Level?
- v) the workers' demand as expressed in mandate meetings every year?
- vi) a given proportion of the artisans' rate?

If the labourer's wage is tied to the artisan's (vi above), it should be tied to the actual or average artisans' rate - not the fictional minimum rate which applies at the moment.

5. Wages compared to other industries or other countries

Should there be a fixed relationship between wages in one industry and wages in another industry (for example, between the iron and steel industry and the automobile industry)?

Should there be a fixed relationship between wages in South Africa and averages in other countries?

Mineworkers in many countries have a policy that their wages should be higher than any other sector in recognition of the dangerous work they do.

## 6. Wages in relation to the Living Wage

The Living Wage estimated by the Labour Research Service in 1989 was R5,85 - very much higher than the minimum rates in most industries and companies.

Is it realistic for the union to aim to raise the minimum labourers' wages to the level of the Living Wage? Should it set a timetable of, say, three years to achieve this level? Or should it aim to ensure that all workers with five years of service are earning the Living Wage?

Or should all grades above, say, the second or third level up, exceed the Living Wage? Should a new "national minimum wage" be adopted to provide a lower limit for unskilled workers (say round about R4,50 per hour)? Should the union demand that the average wage in every grade should meet the Living Wage?

Some industries of low capital intensity, such as the clothing industry, are not able to pay wages based on the Living Wage even to relatively skilled workers like machinists. The "national minimum wage" would be a useful floor to wages in all industries.

## 7. Service increments

Unions generally find that young workers are opposed to service increments and older workers are in favour of them! There are arguments for both sides.

Every union wants to provide a future for its members in the industry. A proper grading system combined with training opportunities is one way of ensuring that workers have a future. These ensure that workers can move up the grading system and earn more for more responsible work.

But some workers will probably never be able to progress to

higher grades. Should they earn the same rate as a newcomer to that particular grade? Or should long service be rewarded with increments? Here, the cost to the employer will depend on average length of service of workers in each grade.

#### 8. Regional variations

Employers claim they have to pay lower wages in rural areas. What they mean is that the market wages there are lower than in the cities because of unemployment. Should the union agree to regional variations? This means that workers in different areas will be getting different wages for the same work. It undermines wages in the urban areas because the rural companies have a lower cost structure and are therefore able to compete more effectively. Prices are not necessarily lower in rural areas.

If regional variations are agreed to, how can they be controlled? Consideration might be given to the "standard wage". A standard wage is agreed nationally. Regional variations are then permitted from that standard, upwards as well as downwards. Moreover, the variations would be limited to, say, 10% either way. The union would want to ensure that, for every variation downwards in a rural area, there was a variation upwards in an urban area!

The main focus of union negotiations and the workers' campaign, however, would be the setting of the national standard wage.

#### 9. Variations between large and small companies

These are more dangerous than rural/urban variations. In rural areas, companies are at a real disadvantage because of higher transport costs. But variations between large and small companies in the same area would intensify competitive pressures and lead to wage competition. This would in time undermine the higher wages achieved at larger companies. The whole object of trade

unionism is to eradicate wage competition.

If such variations are agreed upon, however, the same method of controlling them would be suitable, that is, the standard wage with limited and reciprocal variations.

#### 10. Sectoral variations

The iron and steel industry has 330 000 workers employed in 9 000 companies, the majority of which employ fewer than 25 workers. It covers everything from the smelting of iron to the manufacture of plastic door handles. Is it possible to have a single set of wages for this industry?

Let us suppose that wages are, instead, allowed to vary between sectors. Capital-intensive sectors and profitable sectors would be obliged to pay higher wages. Labour-intensive sectors and unprofitable sectors would be allowed to pay lower wages.

Such variations could also be controlled by means of the standard wage with controlled variations, at industry level.

Will workers benefit from such variations? This requires that the average wage in the industry as a whole will be higher with sectoral variations. Or will the balance lead to a lower average wage in the industry? It will certainly lead to greater wage differentiation between workers, and potentially to the development of different interest groups in the union.

In other industries, such as the clothing industry, the work process is more homogenous. It could be treated as a single sector with uniform wages. .

### 11. Wage drift

Wage drift refers to the failure of industrial council rates to reflect reality in the labour market. Employers like to keep minimum rates below market rates. The gap forces them to pay higher rates than the minimum, certainly - but they can set the exact levels themselves without negotiation. In this way, unions lose control over wages, and employers can reward their favourites, grant merit increases and so forth.

In the iron and steel industry, a two-tier wage structure has emerged. Highly skilled white artisans earn high market rates, while low skilled black workers earn the industrial council minimum.

The aim of the union, however, is not that wages should reflect market rates, but that they should exceed market rates. The union has probably achieved this for the lower grades. But the artisan's rate is often well below market.

What is the union's policy on wage drift?

### 12. Company payability

Can companies afford to pay the wage levels demanded in terms of the union's wage policy? Should the wage policy be moderated by companies' ability to pay? What can be done if some companies can, and some cannot, afford to pay?

This question has implications for regional, sectoral and company-size variations in wages. See also the section on fringe benefits.

It should be noted that a particular company may be unable to pay a wage claim because of factors such as poor management. The union has to consider whether it can afford to "subsidize" such

companies by accepting lower wages there, thereby undermining the higher wages obtained in the rest of the industry. Industry wage levels are generally set by the payability of the weakest company anyway - the "lowest common denominator". At what level would a union prefer a company to go out of business?

Payability is also affected by the economic cycle. Research on industrial council minimum rates shows that they rise in real terms during a boom, and fall during a recession. They would perform this way even without an industrial council. Unions are likely to want to smooth these fluctuations.

For the clothing industry, the Labour Research Service developed a model of company profitability - based on available statistics - which showed which wage level was compatible with the economic survival of companies.

### 13. Fringe benefits

What proportion should fringe benefits be of the total wage packet? Which fringe benefits should be given priority?

Some fringe benefits may be worth more to the workers than they cost the employer. This is achieved by means of economies of scale, for example in the provision of benefits such as medical aid. Such benefits are relatively more valuable than cash.

Sometimes companies find it easier to grant fringe benefits than higher wages. Higher wages have knock-on effects on the total wage package, as they increase all benefits such as overtime pay, annual leave pay, etc. The trouble with non-wage benefits, however, is that they cannot be used to satisfy basic needs such as food, clothing and transport. They are therefore suitable for better-paid workers.

The Labour Research Service has developed a model of the total wage package in the auto industry. It shows, for example, that overtime pay contributes 18% to the total wage package - a much higher proportion than expected.

## **Worksheet 1.**

### ***WAGES AND THE MACRO ECONOMY***

#### ***Task:***

In groups, discuss the following:

1. Which macro-economic factors impact on living-standards, wages and job-security of workers? That is which ones are relevant to collective bargaining
2. Explain how these impact on workers' living-standards, wages and job-security and why it is relevant to collective bargaining.
3. How can these be addressed by collective bargaining? That is, demands we formulate and winning the necessary improvements for workers/members and our unions?

***Time:*** 30 minutes

## **Worksheet 2.**

### ***Task:***

In buzz-groups discuss:

What are the factors (economic/financial/political/social) that determine our:

1. Wage demands and
2. The final wage settlement?

***Time:*** 15 minutes

## Work sheet 3

### Survey of wage demands

#### TASK:

Indicate in the table below which demands your union has made on behalf of members. Also indicate at which level – plant/company' national company, industry/sectoral level.

Issue/Item	Yes	Plant/ Company level	National Council level	Sectoral/ Industry level
Basic wage rate				
Hours of work				
Starting and finishing and breaks				
Service increments				
Bonuses				
Shift systems and rates				
Grading and rates				
Holidays				
Holiday pay				
Call out pay				
Standby pay				
Maternity leave and pay/ crèche facilities				
Paternity leave				
Sick leave and pay				
Flexibility				
Restructuring and reorganizing the workplace				
Clothing allowance and laundry				
Covering for absent workers				
Compassionate leave				
Travel allowance				
Meal allowance and facilities				

Education and training allowance – union and personal				
Trade union rights – time off meetings etc				
Retirement benefits				
Housing assistance				
Job security				
Affirmative action				

**TIME: 15 minutes**

*Slide Presentation 2.*

## **DIFFERENT FORMS OF WAGES**

### ***Real Wage Increase:***

This refers to actual wages and income received by workers, i.e. actual "wealth" received. It takes into account:

- The effects of inflation
- The monetary value of all benefits

### ***Deferred Income:***

Income that is not due or payable to the worker immediately such as at the end of the week or month. It is earned by workers and kept Examples would be retirement benefits, long-service awards etc.

### ***Social Wage:***

Are those parts of the citizens' (in our case the members of the working class) life requirements and living costs provided for by the state. These are normally social welfare benefits paid for by the public expenditure of the state, such as pensions, grants for the disabled, health-care and the provision of water, electricity, education and transport.

Slide presentation 3.

## **FIVE OBJECTIVES OF A WAGE POLICY**

**A Good increase for ALL** - Wages should increase by at least the rate of inflation

**Improve Career Prospects** – Gives better opportunities to receive higher wages

**National Wages** – Wages should be equalized throughout South Africa

**Payability** – Can the industry afford the increase?

**A Living Wage for All** – A national minimum and ideal level of income for everyone.

## **KEY PILLARS FOR UNION WAGE POLICY**

1. Differentials between Grades
2. The number of Grades
3. The differential between the skilled and unskilled workers
4. The level of the lowest wage
5. Wages compared to other industries or that of other countries
6. Wages in relation to the "Living Wage"
7. Service increments
8. Regional Variations
9. Variations between large and small companies
10. Sectoral variation
11. Wage drift
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