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How much do unions and bargaining councils elevate wages?

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Past studies have found that trade union members earn substantially higher wages than non-union workers. New results suggest a much lower union wage premium (6-7%) when the impact of the size of the firm, the type of employment and non-wage benefits are properly taken into account. On the other hand, bargaining council agreements have a higher impact on wages than unions do, so that the cumulative wage premium of unions and bargaining councils averages more than 16%. For the public sector this can be as high as 22%.

Introduction

An extraordinarily high unemployment rate remains one of the most troubling features of the South African labour market. A number of factors affecting both supply and demand has been suggested to explain this phenomenon. These include economic growth that does not generate employment, skill-biased growth, increased labour force participation and labour market rigidity. More specifically, it has been argued that labour market institutions, such as trade unions, increase the wage costs to employers and thus have a negative impact on employment.

The role of trade unions in negotiating high wage premiums for their members (compared to non-unions workers) has been widely analysed. Published studies have used a range of datasets and considered a number of ways in which union membership could affect the wages of union members relative to those of non-union workers. Most of these studies have found that, on average, South African unionised workers earn wages that are around 20% higher than those of non-union workers (although some find much higher premiums). However, most of the studies do not adequately take into account that a multitude of factors determine wage levels.

This means that the often-quoted 20% is not necessarily correct. A new analysis provides a clearer picture – which is, at the same time, complicated by the presence of bargaining councils, and incomplete without incorporating their influence.

This article illustrates a more appropriate way to analyse wage premiums with reference to both unions and bargaining councils.¹ Although the article uses data from 2005, it provides the latest published findings and gives important insights into the magnitude of wage premiums due to unions and bargaining councils.

The complexity of measuring the impact of union membership on average wages

A range of factors have to be considered if one wants to isolate the impact of union membership on wage differentials. For example, certain characteristics of workers, such as their gender, age, education, skills and work experience, affect their wages, irrespective of whether the workers are unionised or not. These effects have to be removed, or excised, from the observed gap between the wages of union and non-union workers before the impact of union membership on the wage premium can be identified.

Similarly, job characteristics – whether permanent, contract, temporary, casual or seasonal, as well as the hours of work involved – must be taken into account. Another factor is the size of the particular firm: larger firms tend to pay higher wages irrespective of unionization. A last set of factors to be taken into account is the extent to which workers receive non-wage benefits, such as a written contract, pension, medical aid, leave and Unemployment Insurance Fund contributions.²

The potential impact of bargaining council agreements on wages

Bargaining councils are institutionalised collective bargaining structures that can be established by one or more registered trade unions together with one or more registered employer organisations for a specific area and sector in the economy. Participation in a bargaining council is voluntary and the parties negotiate wages as well as other matters of interest.

One of the most contested features of the system is that bargaining council agreements, including those on minimum wages, can be extended to non-parties (which fall within the jurisdiction of the council) without their approval – as long as the majority of the employers in the sector agree, and the permission of the Minister of Labour has been granted. It has been claimed that workers covered by bargaining council agreements (including those covered by extensions of the agreements) benefit from higher wages, similar to the benefits that workers may receive as a result of their membership of a trade union. (Companies can apply to be exempted from some or all stipulations of an agreement, including extensions.)

¹ This article draws on research by Bhorat, Goga & Van der Westhuizen (2012)

² Another factor to correct for is 'endogeneity', i.e. the fact that unionised workers might not be a random sample of all workers. Workers may choose to join unions with the expectation of higher wages and employers might choose workers with specific characteristics (and hence higher wages) for unionised jobs.

An important recent feature of the system of collective bargaining in South Africa has been the establishment of the Public Sector Co-ordinating Bargaining Council (PSCBC) in 1997. All public sector employees, except senior managers, are covered by the PSCBC.

A previous study (Butcher & Rouse 2001) finds that African workers who are covered by a bargaining council agreement, but who do not belong to a union, earn 10% more than workers outside the system. When these workers belong to a union too, the combined wage premium could be more than 30%. Here, as well, the newer analysis suggests a different picture.

The union wage gap revisited

Data from the September 2005 Labour Force Survey (LFS) is used to estimate the wage premiums associated with union membership. Union membership is determined by using the responses to the question in the survey which asks respondents to self-report on their union membership status. The data is for African workers in the formal sector.

Taking data directly from the LFS, the wage differential is as follows (data for 2005 in 2005 money terms)³:

Average monthly wage (union member):	R4 201
Average monthly wage (non-union member):	R2 562

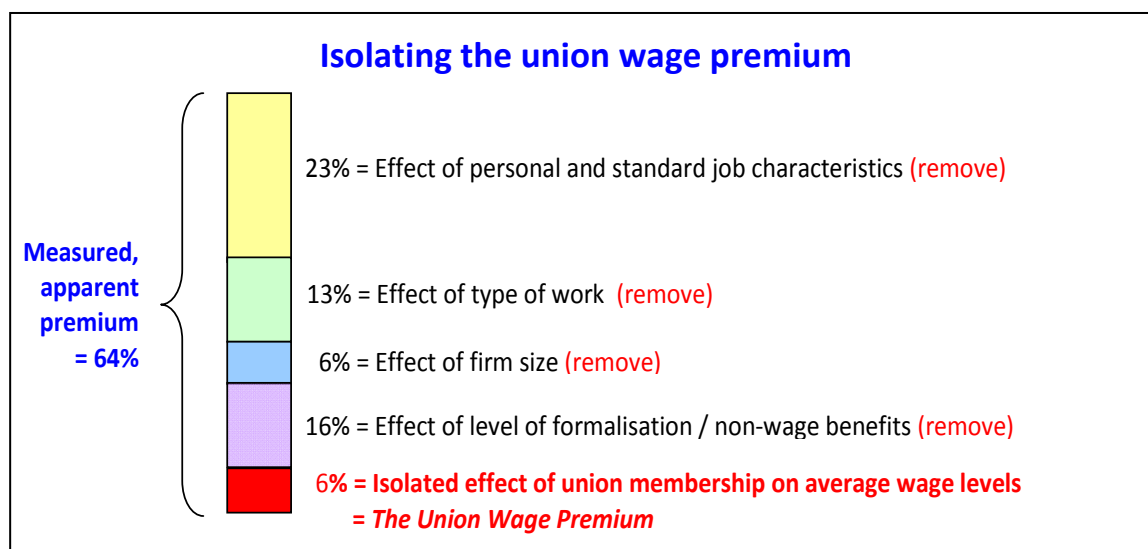
This implies, at face value, a 'union premium' of 64%. However, this number cannot be interpreted as such at all. It needs to be adjusted to remove wage-elevating effects that are unrelated to union membership, as noted above.

In our analyses, we first take account of personal characteristics and standard characteristics of jobs, such as occupation, industry, experience, hours of work and self-employment. This reduces the differential to 41%. When we include the impact of the type of work (whether it is permanent, temporary, contract, seasonal, casual or other position), the union wage premium decreases to 28%. In the next step, we examine the impact of the size of the firm on wages. This further reduces the gap between the earnings of workers who belong to a union and those who do not, to 22%. Finally, non-wage benefits are considered as an indication of the level of formalisation of the workplace as well as of the quality of the workplace.

When all the factors noted above are taken into account, we have largely isolated the impact of union membership on average wages. *The end result is that the union wage premium in*

³ It should be noted that these amounts should not be interpreted in terms of current (2013) money values. Similar wage estimates are unfortunately not available in official labour market surveys for more recent years.

South Africa is just 6%. Workers who belong to a union earn only around 6% more than a similar worker in a similar job and firm who is not a union member.⁴



Wage premiums associated with bargaining councils

In the research, bargaining council coverage is measured/estimated by means of a number of sources, including agreements published in government gazettes.⁵ Sector, occupation and geographical information from the agreements are used to identify the workers (in the LFS dataset) who are covered by bargaining councils. We then add bargaining council coverage as a potential causal factor to our analysis above – keeping in mind that non-union workers may also be covered by a bargaining council agreement.

The inclusion of bargaining council coverage data in the estimation process affects the estimate of the union wage premium marginally: the basic union premium now appears to be between 6.5% and 7% (as against 6% before).

We also find that there is an additional ‘bargaining council wage premium’ for workers. On average, workers in a sector with a bargaining council agreement will earn a 9.4% wage premium compared to workers in a sector *without* a bargaining council agreement.

⁴ Taking into account that some workers might select to become union members (‘endogeneity’ – see footnote 2) has no perceptible impact on the estimate – we still find a union premium of about 6%.

⁵ It is complicated to estimate the number of workers covered by bargaining council agreements. Since only extended agreements are published in a government gazettes, we are fairly sure most workers covered by extensions are included in our estimates. We are, however, unable to identify how many workers are exempt from agreements or clauses.

The *cumulative* wage premium (union plus bargaining council) is estimated at 16.4%. This value is for the private and public sectors combined. However, if one differentiates between the two sectors, there is quite a difference: for union members within the public sector bargaining system, the cumulative wage premium is as high as 22%, whereas it appears to be only about 9% in the private sector.

Conclusion

Compared to earlier studies that found a union wage premium of approximately 20%, when the type of work, firm characteristics and non-wage benefits are properly taken into account, the wage premium associated with union membership is significantly lower, at between 6 and 7%.

However, bargaining council coverage has an additional, and substantive, impact on wages that averages more than 9% for private and public sector workers combined (unionised and non-unionised). For the public sector alone, this can be an additional 15%; for the private sector, it appears to be only an additional 3%.

While this is good news for workers, firms/employers will not rejoice at the finding on the elevating effect of bargaining councils on wage costs, especially in the light of the controversial extension of bargaining council agreements to non-parties. However, the much lower bargaining council wage premium in the private sector seems to argue against such dismay. Here one must also note that other studies indicate that, for small businesses, there may be widespread exemptions which are likely to temper the impact on them. (Information indicating which workers are subject to such exemptions is hard to come by, though.)

Of course, the reported results are averages and cannot summarily be generalised to all sectors and areas, since there may be unique circumstances and impacts of unions and bargaining council agreements.

References

- Bhorat, H. Goga, S. & Van der Westhuizen, C. 2012. Institutional Wage Effects: Revisiting Union and Bargaining Council Wage Premia in South Africa. *South African Journal of Economics* 80(3):400-14
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