

## **Flexible Labour Market: Not the Solution to Employment Creation**

**Devan Pillay**

As we move towards our third national democratic elections, some political parties argue that to create *quality jobs*, South Africa needs to deregulate its labour market. The labour market essentially refers to all employed and unemployed (i.e. the unemployed that are willing to work) people in our country. Regulations in the labour market refer to the legislated rights and benefits accorded to workers.

These parties (and more importantly workers) need to realise that deregulating the labor market would negate the progressive labour policies introduced by government since 1996. The Labour Relations Act, Basic Conditions of Employment Act, Bargaining Council Agreements, Sectoral Determinations, and the Skills Development Act provide both permanent and casual employees with benefits and rights. Paid vacation leave, paid maternity leave, paid sick leave, UIF and employees compensation benefits, free legal recourse (through the CCMA) should there be unfair or unjustifiable dismissals, and a decent wage - all of these rights will disappear should there be any further deregulations to the labour market.

It is important that employees understand what is meant by a flexible labour market (or a deregulated labour market) and the impact it would have on them. Volumes of research have shown that a deregulated labour market only leads to increased vulnerability of employees and job losses; not to job creation.

### **WHAT IS A FLEXIBLE LABOUR MARKET?**

There are positive forms of flexibility such as: flexible working hours that allow employees to go home while the sun is up or are able to take their kids to doctor and flexibility in work process that makes employees jobs more interesting. But those that argue for increased flexibility argue that employers are constrained by rigid labour market rules, which are the above rights and benefits accorded to workers in the legislation. They further argue that employers must be given more freedom, which translates to the following type of flexibility: employment flexibility, wage flexibility, and work-process flexibility.

*Employment flexibility* - more freedom here would permit employers to hire and fire with ease. Kiss your job goodbye!

*Wage flexibility* - more freedom here and employers wouldn't have to pay a certain amount for a certain number of hours worked, or would be able to build in more performance pay as opposed to standard pay. Say goodbye to your budget.

*Work process flexibility* permits employers to shift employees between sets of tasks, alter work times, and practices. Kiss your job description goodbye!

### **CONSEQUENCIES OF DEREGULATION**

Through *employment flexibility* employers will be able to dismiss/retrench employees instantaneously with ease. Given that casual and part-time employees don't receive the above-mentioned benefits it makes atypical labour cheap. When employers require additional employees, they will make use of this cheap labour and when it is no longer needed the employees will be easily laid off. It therefore stands to reason that business would increasingly employ this form of labour, converting the status of employees employment, from permanent to atypical. Considering that this is currently happening, we have therefore argued, on several occasions, that our labour market is already too flexible.

The nature of employment flexibility places downward pressure on wages. Full-time employees would have to compete with casual/part-time employees for employment. With the latter being cheaper, full time employees will eventually have to concede to lower wages to remain employed.

Another level of competition that would further depress wage levels would transpire between the employed and the unemployed. In the absence of regulated rights (as the result of a deregulated labour market) the variable that would determine whether one is employed or not, is wage. The unemployed will put enormous downward pressure on wage levels and the employer will, for obvious reasons, employ at the lowest wage level. Given that skill levels are also an important factor for employment and there are many unemployed skilled employees, it therefore stand to reason that even among the skilled employees there would be downward pressure on wages.

A survey conducted by the Center for Policy Studies in 1997 showed that 85% of employers employed temporary or casual employees and most if not all of these employees earn low wage and there was an absence of minimum employment conditions. A study that NALEDI was part of last year showed that, in the metals and engineering sector, companies had increased their use of labour brokers by 800%, this is labour market flexibility. These studies affirm that at present the labour market in South Africa is sufficiently flexible, if not too flexible. Even the International Labour Organisation (ILO) has on numerous occasions echoed this sentiment.

Thus far we have demonstrated that labour market flexibility (or deregulating the labour market) places downward pressure on wages, and will further increase the use of casual and part-time employees, (leaving permanent employees vulnerable). It will also lead to an increase in poverty levels and impoverish the poor even further.

The decrease in wage due to the deregulation will slowly deplete the assets (house, cars, insurance policies, savings, etc) acquired by employees (over the years) as they sell it to compensate for the drop in income. Secondly when wage levels are determined (through the present negotiated process between employers and employees/employee representative) two very important factors are considered, namely, inflation and cost of subsistence of a family unit. In a deregulated environment, there would be no negotiations, hence the above mentioned factors will not be considered. This leaves employers to unilaterally set wage levels and employees as wage takers (due to high unemployment levels) would have no option but to take the jobs offered at lower wage levels. Wage levels will drop to levels were family units can no longer be maintained.

A study in the USA has shown that over the last 30 years, the income and assets of middle-class families have dropped significantly due to deregulation. With the present levels of flexibility in our country both the lower and middle-class households need two incomes to meet their needs, hence any further deregulation would worsen their present situation. With such massive unemployment, further decline in real income (your income after inflation has taken its share) would mean the impoverishment of working families even further. How will you be able to support your parents/children if your salary declines further?

International research on labour markets show that the use of child labour steadily increases as deregulation takes place. It was found in some cases that young employees do not earn a wage but are given minimum amounts of food and compelled to sometimes work twenty hours per day. Children as young as four years old are beaten and abused, and in Pakistan it was found that half the number of children engaged in work die by the age of 12. In Sri Lanka it was found that female employees were paid so little that they depended on food parcels sent by their families from the countryside.

A definite consequence of the labour market flexibility will be an acceleration in the increasing divide between the rich and the poor with the latter increasing in number and in proportion to the former. A recent newspaper article reflects the following impact deregulation has had in the USA:

- Average weekly wages and salaries were 12% lower in 1998 than in 1973 although labour productivity rose by 33%, and
- Between 1990 and 2000 CEOs pay rose by 570%. It is now 600 times more than the average worker.

For the above-mentioned reasons it is imperative that employees resist any policy change to the present labour regime. Research has shown that deregulation does not lead to job creation but simply increases the vulnerability of employees. To create **quality jobs**, a macroeconomic policy, trade policy, and an industrial policy that speaks to each other and to issues of poverty alleviation is required.

(Devan Pillay is a researcher for the National Labor and Economic Development Institute (NALEDI))