

Labour Regulations Evolution and Inequality

Abhishek Nath

Dr. Amit Mishra

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Abstract:

One of the major factors influencing social inequality is the ‘nature of labour law’ and ‘labour regulation’ of a country (Camb. J. Econ 1978). However, the exact nature in which this factor influences inequality is still a field of active research and analysis. In the current work, we will analyse the changes in the labour regulations of few countries based on their Gini coefficient and expound the effect of changing labour laws on changing inequality in some selected countries.

The work will be explained in a series of sections. First of all, we will study how the labour regulations have changed in the selected nations over the years. Secondly, we will analyse the change in pattern of the selected nations on the basis of Gini coefficient. Lastly, we will examine the relation, if any, between the change of labour laws and Gini coefficient.

The work is expected to open up new discussions in the direction of labour law determination. We also will present the effect of collective bargaining on Gini coefficient and of the percentage of informal labour market on Gini coefficient. Lastly, we remark that we will use Gini coefficient as the major metric to represent inequality. Though there are many other such metrics as well, we will use Gini for its simplicity and extensive use in the current works.

Key Words:

Gross Domestic Product (GDP), Human Development Index (HDI), Inequality, Labour, Labour Market, Labour Law, Gini coefficient, Poverty, Product Purchasing Power (PPP), socio-equal economy.

Introduction:

In this paper we will be focusing on social inequality on the basis of gross domestic product and the labour market of a few countries, like South Africa, Nigeria and Namibia. Inequality and poverty are two faces of the same coin, thus, if social inequality increases then poverty will also increase. Not only this, but it will also influence other problems in the society. To measure the growth of a country, Gini-coefficient has been used. It is an ideal choice of many scholars, as well as ours to measure the development index. We will be comparing Gini-coefficient of these countries with their population size, to spot the inequality in those countries. Furthermore, we will be comparing this within a time period. This will also help in focusing on many factors in that time period of those countries.

Inequality indicates the difference in the society. It also provides adequate proof to the wages differences. Wage difference is a key factor for creating an unequal society. In such countries, the labour market has been struggling with such problems to establish a sound labour market. A sound labour market is always needed for a sustainable growth and with a proper labour legislation it can be achieved. In countries where there is a sound government, there other things can also be achieved with little effort. The GDP/GNP defines the sound economy of a country, and for countries where there is no sound government, there will be less GDP/ GNP. This is again related to the productivity of the countries. In other words, we can say it as the productivity of labours. To find the causes of inequality in any country, we need to know about the labour market, trade union(s), government, employment, population and resources of that country.

This paper will focus on the distribution of wages, population, government/ government policies in a fixed time period. This is to identify that the process of development may lead not just increasing inequality in the countries, but also make poor to the lower class of the society (Adelman and Morris 1973). This section will be followed by the cross section evidence on the relationship between inequality and the level of development. Later after comparison, we will be focusing on various factors of the problems faced by the countries with our insights and opinion.

Inequality and Poverty:

The purpose of this paper is to explore the nature of this relationship on the basis of cross country data on income inequality. The use of cross country data for the analysis of what are essentially dynamic processes raises a number of familiar problems. Ideally, such processes should be examined in an explicitly historical context for particular countries. Unfortunately, time series data on the distribution of income, over any substantial period, are not available for most developing countries. For our purpose, therefore, empirical investigation in this field must perforce draw heavily on cross country experience.

Now moving towards developing countries, where these countries are on a way to industrialization, in terms to achieve development. In most of these countries, there is a problem with distribution of wealth, i.e. inequality in the society. These societies have been divided into classes, and the difference between the upper class and lower class is very large. Numerous legal statutes and legislation have tried to balance this inequality in various ways. Economists, Activists, Sociologists and Lawyers have been working together to establish a balance in the society. “An example, with high population, it is very difficult to reduce unemployment. But if the wage gets reduced by a little, employers would not mind to hire few more labourers. Thus, we can say to exploitation is seen as a generous action to reduce unemployment. So, the employer is getting more productivity at a lower price” (OECD 1996).

Now if we look back to inequality and its measures, we can see that there are many indexes, like Gini coefficient, Gross Domestic Product (GDP) of a country, Gross National Product (GNP) of a country, Purchasing Power Parities (PPP), Calories Consumption per Capita and many more. These indexes are the guide to the change in development of a society. When the development is cross checked with the population of a country then it show the real inequality of that country. Inequality also raises poverty. Poverty give rise to many other social factors which are not good for maintaining a sound social environment.

Poverty is the state for the majority of the world's people and nations. Such causes like, government policies and economy structure are always a major factor indicating poverty levels. Behind the increasing *interconnectedness* promised by globalization are global decisions, policies, and practices, which are also called as the deeper factors of poverty. These are typically influenced by the rich and powerful. These can be leaders of rich countries or other global actors such as multinational corporations, institutions, and influential people. In the face of such enormous external influence, the governments of poor nations and their people are often powerless. As a result, in the global context, a few get wealthy while the majority struggle.

Some facts of poverty from the UN fact files:

Almost half the world — over 3 billion people — live on less than \$2.50 a day.

The GDP (Gross Domestic Product) of the 41 Heavily Indebted Poor Countries (567 million people) is less than the wealth of the world's 7 richest people combined.

Nearly a billion people entered the 21st century unable to read a book or sign their names.

Less than one per cent of what the world spent every year on weapons was needed to put every child into school by the year 2000 and yet it didn't happen.

1 billion children live in poverty (1 in 2 children in the world). 640 million live without adequate shelter, 400 million have no access to safe water, and 270 million have no access to health services. 10.6 million Children died in 2003 before they reached the age of 5 (or roughly 29,000 children per day).

After looking all these figures, making the society an equal one would be the priority. Inflation, unemployment, population are some key factors which determines inequality and poverty of a country. Many countries in trying to cope with the fast changing globalization and the changing labour-market often make liberal policies for foreign investments/companies and failing to motivate its own national entrepreneurs. Liberal policies then give windows to the foreign companies to rule of the labour market of that country. Moreover, we believe that globalization can cause hardship to the poor in many countries. Proper skill development, education system and other activities are related to each other for sustainable growth and a sound labour market. Globalization also opens up opportunities for many countries, like India. The net outcome is often quite complex about globalization.

Labour Market:

According to economist Gary Becker, "The combined assumptions of maximizing behaviour, market equilibrium, and stable preferences, used steady and resolute, form the heart of the economic approach as I see it" (1976, p.5). This point of view sees the labour market as the meeting place of optimization processes (Tilly C. 2004). Wages, trade unions, labour institutions, job satisfaction etc are a few factors which determine the optimization processes of a labour market.

Labour issues are very vital issues to every country if, you think! A balanced country like New Zealand is not always in the lime light for its most equal society in the world, unlike countries like Zimbabwe and Namibia. The key factor is the labour institutions have managed the minimum wage, the socio-equal economy, where the difference between the highest pay and the

lowest pay is not very high. Certain countries like Brazil, India, Bangladesh, and Argentina are always a happening place for the labour market. Here a lot of labour laws are based on the old economic models. A lot of amendments are needed in the labour law in those countries. A proper study and favourable initiatives are needed by the government. Labour laws and labour legislations are in the preliminary stage in India and many other developing countries. As a matter of fact, 93% of the total working populations in India are unorganized. There is no proper functional labour institution for the same reason. The reason behind this problem is the high corruption rate in India. Like India, in many developing countries, corruption is a big hindrance to overcome to achieve a socio-equal economy.

So far, we have been discussing about the different factors, reasons and problems faced to achieve a socio-equal economy.

Comparison and Conclusion:

Here we will be looking into the following countries, selected on the basis of their Gini coefficient and interesting pattern of growth in last two decades:

1. Botswana
2. South Africa
3. Sri Lanka
4. Zimbabwe

Botswana is having an impressive growth rate. It is almost linear moving country in a two dimension measure between Human Development Index (HDI) and GDP. However, it can be easily seen that the growth forcefully moved towards increasing GDP after 1995. The reason behind this is the focus on generating export of the country. The export by Botswana took a leap after 1995. The socio-equal economy is moving more towards generating GDP, whereas, it was more balanced previously between HDI and GDP.

Taking a comparative look at Sri Lanka we can identify the pros and cons of Botswana. Sri Lanka has got a high linear growth as seen in the graph based on the original data from various sources. In past decade it has not much moved from its growth path. This in terms is quite ideal for other developing countries. It has maintained the average growth pace between the HDI and GDP/PPP inflation adjusted. So far, it has not moved from its goals. It has provided a balanced growth of its people as well as the national purchasing power.

South Africa and Zimbabwe on the other hand was born later than Sri Lanka. South Africa, after its freedom from British, has undergone a horrific era of Apartheid. However, the efforts by Nelson Mandela and South Africa itself have shown some good results to it. South Africa had a good start but with time past and other factors it slowly and gradually spinning rounds its initial position. It seems to be confused with its growth. Hence, the policies and government initiatives have failed to help it so far.

Zimbabwe on the other hand is the most interesting country to see. It is walking back to the origin of the graph i.e. towards the initial point of HDI and GDP. Zimbabwe has a close background with Zambia, which is quite well off than Zimbabwe so far.

Table 1.1:

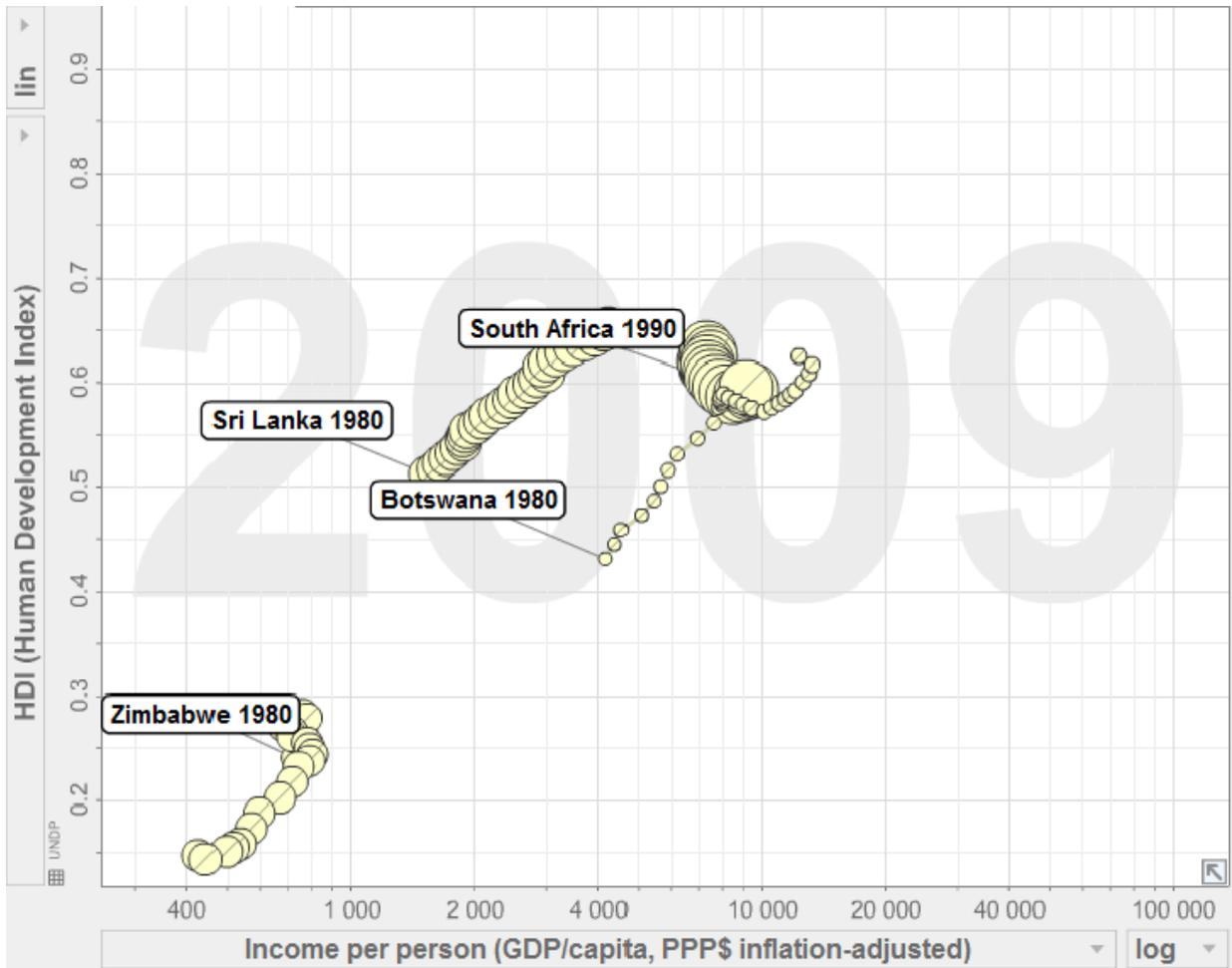


Table 1.1

*Table 1.1: Measures are original based on the data available from the respective countries by CIA, World Bank and UN.

**x-axis: GDP; y-axis: HDI; Bubbles: Size of the population; Background: Year (time)

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