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# Research Note:
# FARM LABOUR REMUNERATION, LABOUR LEGISLATION AND COMMERCIAL FARMERS' PERCEPTIONS IN KWAZULU-NATAL

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*A survey was conducted in 1995 among 135 commercial farmers in KwaZulu-Natal to analyse labour remuneration and farmers' perceptions about the impact of labour legislation recently extended to agriculture. Farm labour remuneration normally includes cash wages and payments in kind (such as rations, housing, land use rights and clothing). The study suggests that, all things being equal, farmers who pay relatively lower cash wages tend to provide more rations per worker and allocate more land use rights.*

*Most respondents agreed that there is some need for labour legislation in agriculture, but the majority perceived the present legislation to be time-consuming and costly, and wanted the legislation to be less ambiguous, more flexible and less extensive. Labour legislation has increased transaction and wage costs in farming and could lead to the substitution of own machinery, contract machinery or contract labour for own labour. Survey respondents indicated that, if minimum wages were imposed, cash wages would be paid and perquisites would be charged for. If the minimum wage was set above present wages, labour would be replaced with machinery and contractors. Respondents would prefer an industrial council to determine minimum wages (if they are imposed), accounting for enterprise and regional differences.*

## 1. INTRODUCTION

Commercial agriculture in South Africa is a major employer of labour. In 1992 there were 1,051 million people employed in commercial agriculture, and they supported approximately four million dependents. In KwaZulu-Natal there are approximately 165 070 farm employees of whom 121 800 are defined as regular employees because they work for more than three days a week (Central Statistical Service, 1992). Agriculture affects both the national and regional economies through employment and income distribution. The agricultural sector, through linkages and the multiplier effect, has a much wider impact on the economy than through direct effects alone (Van Rooyen *et al*, 1990).

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From 1993, labour legislation was extended to agriculture. This is expected to have a significant effect on labour transaction and wage costs in South Africa's commercial farming sector. The aggregate remuneration package for farm labour normally includes cash wages, rations, housing, grazing and cultivation rights, clothing and other benefits. Estimation of a farm labourer's total remuneration package is difficult because the value of grazing or cultivation rights and other benefits is subjective. Due to the diversity of farming within the country, the types of remuneration are likely to differ between enterprises and regions.

This study uses data gathered in a postal survey of 135 commercial farmers in KwaZulu-Natal to analyse labour remuneration and the respondents' views about the impact of labour legislation, minimum wages and trade unions on employment and the mix of resources used on farms.

## 2. LABOUR LEGISLATION AND LABOUR REMUNERATION

Until recently, agricultural labour was protected only under common law in South Africa. In 1993, the Basic Conditions of Employment Act 3 of 1983 (BCEA) and the Unemployment Insurance Act 30 of 1966 (UIA) were extended to agriculture, with some amendments. These Acts were followed by the Agricultural Labour Act 147 of 1993 (ALA). The BCEA stipulates minimum conditions governing working hours, leave, overtime, etc., while the UIA requires contributions to the Unemployment Insurance Fund. The ALA combines the BCEA (as amended for agriculture) with the agricultural amendments of the Labour Relations Act 28 of 1956 (LRA). The LRA chapter deals with labour practices, providing a framework for collective bargaining and dispute settlement. The two chapters of the ALA (BCEA and LRA) are being superseded by two fully-revised Acts, the Employment Standards Act (ESA - currently being drafted) and the Labour Relations Act 66 of 1995. These Acts will be universally applicable. The Wage Act 5 of 1957, which has been extended to agriculture, will become applicable in a revised format in the ESA (Southey, 1996).

The extension of labour legislation to agriculture is intended to help farm workers improve their working wage and living conditions (Benjamin, 1993). However, transaction costs have increased because more time is spent maintaining labour records and arbitrating wage disputes (Goedecke and Ortmann, 1993). Financially, labour has become more expensive through the payment of overtime work, which includes work on public holidays and Sundays. Paid leave (including Sunday and notice periods) must include the value of payments in kind (Benjamin, 1993).

Higher labour costs could lead to the substitution of own machinery, contract machinery or contract labour for own labour.
Labour in commercial agriculture normally receives a cash wage plus payments in kind. The cash wage is usually paid on a weekly or monthly basis and often includes a bonus at the end of the year. Payments in kind generally comprise a combination of food rations, grazing rights, cultivation rights and housing. These perquisites vary between farm types. For example, on livestock farms labourers generally receive milk and may be assigned rights to graze a limited number of animals on the farm. Cultivation rights allow a worker to cultivate a certain area of land; the farmer may also provide seed and fertilizer. Rations generally include maize meal, meat, tin foodstuffs and vegetables. Housing may be provided by farmers, or they may allocate an area for their labourers to build their own dwellings.

To some extent, regional variations in cash wages reflect the presence or absence of labour and machinery contractors. It is expected that where farmers can employ a contractor service at a cost lower than their own labour bill, they would do so. If wages and transaction costs of skilled and unskilled permanent workers increase, farmers might opt for contractors. Goedecke and Ortmann (1993) report that forestry companies have substituted contract labour for permanent unskilled labour.

## 3. DATA SOURCE

Data for this study were obtained in 1995 from a questionnaire posted to a random sample of 450 commercial farmers in KwaZulu-Natal, including 150 sugar-cane, 150 dairy and 150 beef farmers. Of the 450 questionnaires sent out, 152 were returned of which 135 were usable. Seventeen respondents had either retired, sold their farms or had not completed the questionnaire. The 135 respondents were split fairly evenly between the three types of enterprises, namely 42 sugar-cane, 46 beef and 47 dairy farmers. These respondents most likely comprise of more progressive farmers who have a keen interest in seeking solutions to developments in labour policy.

Overall, a 30 percent response rate was achieved. The survey established whether respondents had implemented the labour legislation, and how it impacted on their farming operation. Farmers were asked about the structure of their farm, turnover (gross income), liabilities, enterprises, labour and remuneration packages. Responses to minimum wages were also elicited (Newman, 1996: 77-99).

## 4. FARM CHARACTERISTICS

Sugar-cane farmers had the largest turnover of the three types of farms surveyed (Table 1). Sixteen percent of all respondents had a turnover of less than R250 000, 26 percent between R500 000 and R1 million and 40 percent greater than R1 million. This distribution of income is similar to that reported by Woodburn and Ortmann (1994). The average age of respondents was 48 years. One-third of respondents had a matric, one-third a diploma and 24 percent had university degrees.

**Table 1: Median annual turnover, farm size, number of workers employed, monthly value of rations and cash wages on sample farms in KwaZulu-Natal, 1995.**

| Particulars | | Sugar-cane | Beef | Dairy | Total |
|---|---|---|---|---|---|
| Annual turnover (R1000) | Median<br>Range<br>n | 1200<br>80 - 5200<br>42 | 500<br>100 - 5000<br>43 | 700<br>45 - 5000<br>46 | 700<br>45 - 5200<br>131 |
| Farm size (ha) | Median<br>Range<br>n | 338<br>17 - 4000<br>42 | 1800<br>78 - 7500<br>43 | 545<br>32 - 7300<br>46 | 582<br>17 - 7500<br>131 |
| Workers* / farm | Median<br>Range<br>n | 37<br>2 - 153<br>40 | 14<br>2 - 149<br>44 | 14<br>2 - 235<br>47 | 19<br>2 - 235<br>131 |
| Ration bill / month (R) | Median<br>Range<br>n | 1444<br>0 -11475<br>39 | 790<br>0 - 9983<br>42 | 1068<br>0 - 7565<br>46 | 980<br>0 - 11475<br>127 |
| Cash wage bill / month (R) | Median<br>Range<br>n | 14000<br>500 - 60833<br>37 | 4152<br>883 - 47500<br>43 | 5782<br>1000 - 57500<br>42 | 7125<br>500 - 60833<br>122 |
| Annual cash wage / turnover (percent) | | 14,0 | 10,0 | 9,9 | 12,2 |

**Note:** n = number of respondents

* Workers = permanent workers + 0,5 * casual workers.proportion of beef farmers provide land use rights when compared to dairy and sugar-cane farmers.

Of the three farm types studied, sugar-cane farms had the highest wage and ration bills per month (Table 1). In general, sugar-cane farms employ more labour than dairy and beef farms of the same size. Annual cash wages accounted for 14 percent of turnover on sugar-cane farms and 10 percent of turnover on beef and dairy farms. By contrast, the annual rations bill is a smaller proportion of turnover on sugar-cane farms (1,4 percent) than on beef and dairy farms (1,9 and 1,8 percent respectively). It is important to note that rations do not include the value of land use rights afforded to labour.

Table 2 indicates the perquisites labourers received on surveyed commercial farms in KwaZulu-Natal. The vast majority of respondents provide housing for their permanent labour. Sixty-four percent of the sugar-cane farmers provided rations for their labour as compared to 88 percent of livestock farmers. Milk is supplied by most livestock farmers. A large Table 3 indicates the average monthly cash wage (including cash bonuses) paid to different categories of labour (drivers, indunas, general labourers and casual labourers), and estimates of the value of perquisites provided to permanent labour. In the case of land use rights (grazing and cultivation rights), farmers were asked only to indicate the number of animals they allowed each permanent labourer to keep on the farm, and the area of land granted to each labourer for cultivation. Labourers on sugar-cane farms appear to earn the highest monthly cash wages, although there are no significant differences among the wages of indunas and casual labourers. On the other hand, labourers on beef and dairy farms tend to get more perquisites, especially in terms of rations, milk, clothing, and land use rights. Clearly, the nature of the remuneration package is dependent on enterprise type. In general, farm types that pay lower cash wages offer higher perquisites, and vice versa.

**Table 2: Percentage of respondents that gave perquisites to permanent labour on sample farms in KwaZulu-Natal, 1995**

| Perquisites | Sugar-cane (percent) | Beef (percent) | Dairy (percent) | F-value |
|---|---|---|---|---|
| Housing | 100,0 | 91,3 | 83,0 | 4,123* |
| Rations | 64,3 | 88,9 | 87,2 | 5,539** |
| Clothing | 85,7 | 88,9 | 93,5 | 0,706 |

| | | | | |
|---|---|---|---|---|
| Milk | 14,3 | 82,2 | 83,0 | 48,029** |
| Grazing rights | 7,1 | 68,9 | 48,9 | 23,244** |
| Cultivation rights | 47,6 | 60,0 | 46,8 | 0,977 |

**Note:** ** and * indicate significance at the 1 percent and 5 percent levels respectively.

**Table 3: Monthly cash wages and bonuses, and perquisites for labour on sample farms in KwaZulu-Natal, 1995**

| Particulars | | Sugar-cane | Beef | Dairy | Total | F-value |
|---|---|---|---|---|---|---|
| Monthly cash wage and bonuses | | | | | | |
| Drivers (R) | Mean | 553,04 | 360,82 | 420,31 | 447,57 | 14,991** |
| | SD | 153,66 | 163,96 | 157,35 | 176,76 | |
| | n | 40 | 37 | 37 | 114 | |
| Indunas (R) | Mean | 517,10 | 556,48 | 585,25 | 543,55 | 0,460 |
| | SD | 192,42 | 341,74 | 205,36 | 243,96 | |
| | n | 35 | 20 | 16 | 71 | |
| General (R) | Mean | 313,74 | 244,39 | 310,73 | 287,83 | 3,381* |
| | SD | 113,83 | 114,91 | 170,82 | 139,57 | |
| | n | 35 | 43 | 42 | 120 | |
| Casual (R) | Mean | 277,47 | 221,64 | 239,40 | 247,84 | 1,085 |
| | SD | 171,92 | 82,01 | 127,79 | 135,17 | |
| | n | 26 | 22 | 23 | 71 | |
| Value of perquisites per permanent worker | | | | | | |
| Value of housing per month (R) | Mean | 71,00 | 74,43 | 55,91 | 66,83 | 0,880 |
| | SD | 55,48 | 66,19 | 56,59 | 59,52 | |
| | n | 30 | 31 | 33 | 94 | |
| Value of rations per month (R) | Mean | 45,37 | 66,97 | 78,60 | 64,40 | 6,839** |
| | SD | 41,06 | 40,45 | 45,29 | 44,27 | |
| | n | 41 | 44 | 47 | 132 | |
| Value of clothing per year (R) | Mean | 97,22 | 115,57 | 130,74 | 115,87 | 1,941# |
| | SD | 52,01 | 70,03 | 95,88 | 77,04 | |
| | n | 36 | 44 | 46 | 126 | |
| Milk (litres\day) | Median | 0,00 | 1,75 | 1,00 | 1,00 | n/a |
| | Range | 0 - 4 | 0 - 4 | 0 - 4 | 0 - 4 | |
| | n | 41 | 44 | 47 | 132 | |
| Animals grazed | Median | 0,00 | 4,00 | 0,00 | 0,00 | n/a |
| | Range | 0 - 10 | 0 - 20 | 0 - 15 | 0 - 20 | |
| | n | 39 | 44 | 47 | 130 | |
| Cultivated area (ha) | Median | 0,00 | 0,50 | 0,00 | 0,10 | n/a |
| | Range | 0 - 2 | 0 - 3 | 0 - 2 | 0 - 3 | |
| | n | 41 | 43 | 47 | 131 | |

Note: Medians are presented where the distribution of cases is not reasonably symmetrical.
SD = standard deviation.
n = number of respondents.
n/a = not applicable.
**, * and # indicate significance at the 1 percent, 5 percent and 15 percent levels respectively.

## 5. IMPLEMENTATION OF LABOUR LEGISLATION

At the time of the survey, 15 percent of respondents had not implemented any part of the Basic Conditions of Employment Act, 42 percent had partly implemented the legislation and 43 percent felt they had implemented all of the basic conditions.

Eighty-four percent of respondents had implemented the Unemployment Insurance Act, yet 70 percent did not have service contracts with their permanent workers. The reasons respondents gave for not having written contracts were that workers did not understand them or did not adhere to regulations specified by the contract, especially the notice period that should be served.

Table 4 shows that 77 percent of respondents did not view trade unions favourably, while 21,5 percent were impartial. Although the Agricultural Labour Act allows unions to recruit labour on farms, 47 percent of respondents said they would not allow recruiting. Not surprising, few respondents knew whether their labourers were members of unions or not (9,1 percent).

**Table 4: Respondents' opinions of trade unions entering commercial agriculture in KwaZulu-Natal, 1995 (n=135)**

| Opinion | Respondents | |
|---|---|---|
| | Frequency | Percentage |
| Not favourable | 104 | 77,0 |
| Impartial | 29 | 21,5 |
| Favourable | 2 | 1,5 |
| Recruiting on the farm: No (n=132) | 62 | 47,0 |
| Aware of any union members on farm: Yes (n=132) | 12 | 9,1 |

About 47 percent of respondents saw the labour legislation as 'possibly needed', 27 percent considered it to be necessary, whilst 25 percent indicated that it was

unnecessary. It is clear that the majority of farmers feel there is some need for the legislation, but not in its present form (Table 5).

Respondents did not appear to view the labour legislation favourably. About 82 percent perceived the legislation to be time consuming, and 62 percent as costly. Fifty-five percent wanted more clarity, 79 percent more flexibility, and 71 percent wanted its powers reduced.

**Table 5: Respondents' opinions on certain characteristics of the new legislation and where it could be changed, 1995**

| Is the legislation | Respondents answering 'Yes' | |
|---|---|---|
| | Frequency | Percentage |
| Clear? (n=113) | 59 | 52,2 |
| Flexible? (n=112) | 38 | 33,9 |
| Time consuming? (n=119) | 97 | 81,5 |
| Costly? (n=111) | 69 | 62,2 |
| Where changes could be made: | | |
| Increased clarity (n=119) | 65 | 54,6 |
| More flexibility (n=117) | 92 | 78,6 |
| Remain the same (n=115) | 15 | 13,0 |
| Reduce its power (n=113) | 80 | 70,8 |

## 6. MINIMUM WAGES

Minimum wages are set by law, above or below the free market wage, and are binding on employers who pay wages below the minimum wage (Lipsey, 1989). It has been suggested that minimum wages should be introduced in South African agriculture; for example, the South African Agricultural, Plantation and Allied Workers' Union (SAAPAWU) has recommended a minimum monthly wage of R750. Gallasch (1975), Gardner (1972), Lianos (1972), Watanabe (1976) and Young (1991) all conclude that the introduction of minimum wages will lead to a decrease in employment of unskilled labour, a decrease in employment of total farm labour, and a decrease in the ratio of hired workers to family workers. Others suggest that productivity may increase if wages are increased because earnings act as an incentive, they stimulate investment of the workers in themselves and their children, and employers may replace unproductive workers with more productive ones (Blair and Kenny, 1987; Coffey, 1969).

Respondents' views on the likely impacts of minimum wage legislation on employment are presented in Table 6. The majority of the respondents claimed that minimum wages would affect the employment of both unskilled and skilled labour. Inexperienced workers will be most severely affected, followed by women and then younger workers.

**Table 6: Perceptions of sample farmers of the effects of minimum wages on labour structure, KwaZulu-Natal, 1995**

| Response | Unskilled labour (percent)* | Skilled labour (percent)* |
|---|---|---|
| Will affect employment | 94,0 (117) | 84,5 (117) |
| Will retrench young workers | 11,8 (74) | 6,8 (119) |
| Will retrench inexperienced workers | 54,6 (74) | 71,6 (119) |
| Will retrench women | 33,6 (74) | 21,6 (119) |

* Indicates the percentage of respondents who answered in the affirmative
**Note:** Figures in parentheses represent number of respondents

Minimum wages reduce competitive forces in the labour market and more people would be willing to work if the wage is set above the prevailing market level. Employers may eliminate or reduce perquisites if they are not considered part of the minimum wage.

Most respondents (68 percent) indicated that they would pay labourers a cash wage and charge for perquisites if the minimum wage exceeded their current payments.

If the minimum wage is set too high, farmers may substitute unskilled labour with machinery or with labour and machinery contractors (Table 7). This presumes strict

**Table 7: Respondents' perception of the impact of minimum wages (above the present remuneration level), KwaZulu-Natal, 1995**

| Impact | Unskilled labour (n=117) (Percent)* | Skilled labour (n=97) (Percent)* |
|---|---|---|
| Employ more permanent labour | 1,0 | 5,2 |

| | | |
|---|---|---|
| Employ labour contractors | 42,0 | 27,8 |
| Employ machinery contractors | 34,2 | 44,3 |
| Replace labour with own machinery | 54,7 | 36,1 |
| Employ more casual labour | 43,6 | 9,3 |
| Employ less casual labour | 22,2 | 10,3 |

* indicates the percentage of respondents who answered in the affirmative.

enforcement of the minimum wage. However, experience in other countries where unemployment is high suggests that enforcement could be lax. In many African countries, government, union and business officials contend that "most employers who can afford to pay the new minimum rates were paying them already and those who cannot will not pay them anyway." (Watanabe 1976:346).

Table 8 shows that if a minimum wage is imposed, 53 percent of respondents would prefer the wage to be negotiated annually in an industrial council within the province. This may be due to the perception that a decentralized institution would recognise regional and enterprise variation in the labour market. The data in Table 1 show marked differences in wages between farm types.

**Table 8: Type of minimum wage institution preferred by sample farmers in KwaZulu-Natal, 1995 (n=122)**

| Institution | Percent of respondents* |
|---|---|
| Set by government without taking into account regional or enterprise differences. | 18,0 |
| Stipulated in the Wage Act as in industry, taking account of regional and enterprise differences. | 28,7 |
| Determined annually by a provincial Industrial Council, taking account of regional and enterprise differences. | 53,3 |

* indicates the percentage of respondents who answered in the affirmative.

## 7. CONCLUSIONS

In commercial agriculture, labourers often receive payments in kind in addition to a cash wage. Estimation of the total remuneration package is difficult because the valuation of certain perquisites, such as housing and land use rights, is subjective. The study suggests that, all things being equal, farmers who pay relatively lower

cash wages tend to provide more rations and allocate more land use rights to workers.

Most respondents felt that there is some need for labour legislation in agriculture, but the vast majority perceived the present legislation to be time-consuming and costly, and wanted the legislation to be less ambiguous, more flexible and have reduced powers. Although most respondents had either partly or fully implemented the basic conditions of employment, 70 percent had no written contracts with their permanent workers on the grounds that workers did not understand them or did not adhere to the stipulated regulations. It would appear that both farmers and workers need more information (education) about the purpose of the service contract.

Minimum wages have been advocated as a way of improving farm workers' remuneration. Respondents indicated that minimum wages would adversely affect employment of both unskilled and skilled labour, and particularly inexperienced workers. Permanent labourers would be replaced with machinery and contractors. Should minimum wages be introduced, an industrial council was viewed by most respondents as the appropriate institution to determine the minimum wage, taking enterprise type and region into account. Over two-thirds of respondents would pay a cash wage and charge for perquisites if minimum wages were enforced. The remuneration structure would therefore change to a more cash-oriented one.

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