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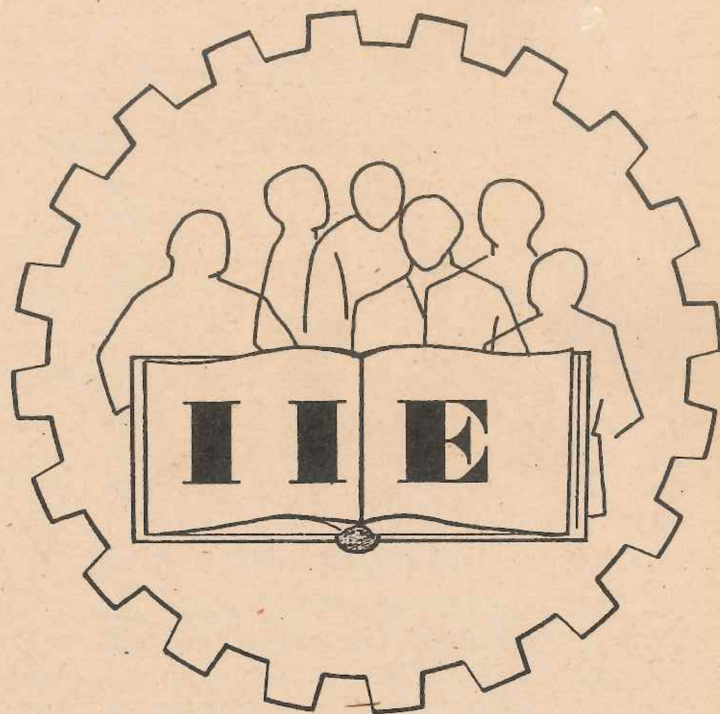

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INTRODUCTION.

"The Worker in the Factory" is one of a series of Workers' Handbooks published by the *Institute for Industrial Education* as part of its Industrial Relations course programme. But, like all the other books in the series, this book is designed also to be read on its own.

The aim of the IIE is to help in the development of strong, democratic and independent worker organisation in South Africa. Workers in South Africa do not need to be told that they are oppressed or exploited. But in order to build up strong organisation they need much practical information. Building unity and improving conditions in the day-to-day struggle in the factory is nearly always a question of small battles over small issues: a few more per-cent wages; a few more minutes of lunch-breaks; less swearing from the foreman; cleaner rest rooms; safer machines and fairer piece rates.
Although each of these issues is small in itself, together they make a big difference in the lives of the workers. And it is through successfully fighting such small battles that the workers can build solidarity and begin to take some control over their working lives.

To win these small battles it is not enough for workers to know that they are oppressed and exploited. They must also know the details of how their factories work, of how wages are set and paid, and of who makes the day-to-day decisions which affects their lives. In "The Worker in the Factory" we have tried to provide workers with this practical information.

South Africa has a capitalist economy. That means that some people own factories, the mines and the farms,

while other people own nothing, and so have to work for wages in those factories, down these mines or on those farms. Why some people are owners and other people have to work for the owners is a long story. We tell a little of that story in Chapter 1 of "The Workers' Organisation", and some more of it in "The Worker in Society."

One hundred and fifty years ago South Africa had a SUBSISTENCE ECONOMY in which people lived in small villages and worked on their own land. In such an economy there were no owners and workers, and no profits and wages. But as more and more of South Africa was conquered, more and more people lost their land. They has to go out and work for the new owners of the land.

Today South Africa has become a capitalist economy in which factories and mines are more important than farming. The great majority of the people no longer have enough land to grow food to support themselves, so they have to work for wages. In this book we explain how the capitalist wage system works.

Part 1, "Work, Wages and Costs", talks about where the money to pay wages comes from, and how wages are related to costs, profits and productivity.

Part 2, "Ownership and Profits", deals with the different kinds of ownership of companies, and explains what happens to profits. It explains where you can get the information that you need in order to find out who owns your company and what profits are being made. It explains how to interpret the information when you have found it. This is the most difficult part of the book. Chapter 8, "The Financial Report",

which explains what a Balance Sheet is, and how to interpret it, is especially difficult. The important thing is that you should know what a balance sheet is and where you can get it. Interpreting the Balance Sheet is always very difficult, and you should get help from your trade union. So if you find chapter 8 too difficult, leave it out and go on to the next one.

Part 3, "The Factory and the Economy", discusses the relation between the factory and the wider society. We only have the space to introduce this question here, and it is dealt with more fully in "The Worker in Society". But it is important that workers understand that what happens in their factory is affected also by what is happening in the rest of the society. Although they can begin the struggle for better conditions inside each factory, in the end they will also have to press for national economic policies which are in the interests of workers.

The IIE runs a correspondence course which shows workers how to apply the information in this book to their own factories. If you are reading this book on your own, rather than as a part of the correspondence course, you must try to do this for yourself. The best way to do this is to work together with a group of your fellow workers. Discuss each chapter together, and see how it applies to your factory.

We hope that you will find this book useful, and we hope also that you, the reader, will send us your criticism of "The Worker in the Factory" so that we can use your experience to improve it.

PART 1.

WORK , WAGES AND COSTS.

CHAPTER 1.

WAGES AND COSTS.

i) WAGES AND COSTS.

A factory produces goods which are sold. The money earned from selling the goods is called the REVENUE. What happens to the money which is made by selling the goods?
Some goes to pay for the cost of running the machines and buying the things needed to make the goods.

Some of it goes to pay the wages of the workers in the factory.

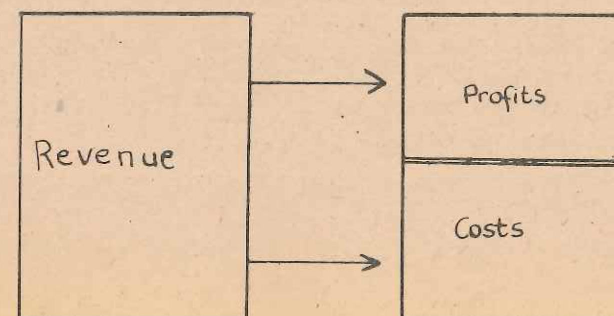
What is left goes to the owners of the factory as profits.

The aim of the owner is to make a profit. He pays out money only if it will help him to bring in more money. All the money which he has to pay out to keep his factory running are his COSTS.

For the owner:

REVENUE − COSTS = PROFIT.

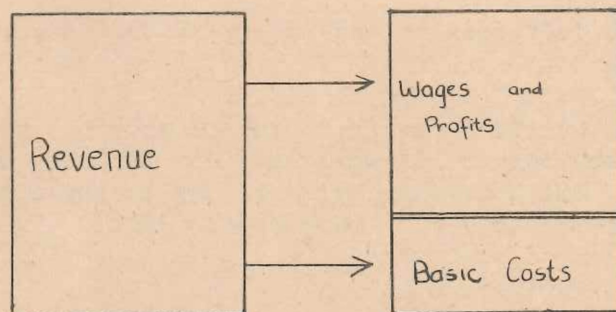
The owner wants to make the revenue as big as possible, and the costs as small as possible. That way he gets the biggest profit.



From the owner's point of view, WAGES ARE A PART OF COSTS. They are not something which he wants to pay, but something which he has to pay in order to be able to make a profit at the end.

PROFITS = REVENUE − COSTS.

But the workers' point of view is different. For the workers, wages are not part of the costs. WAGES ARE A SHARE IN THE PRODUCT. For the workers, the product is something which has been made by everybody working together. For the workers, the diagram looks like this:



We shall call the cost of things like machines and materials BASIC COSTS. Workers have an interest in keeping the basic cost as low as possible. But they also have an interest in getting as big a share as possible of the money which is left over after the basic costs have been paid.

For the workers:

REVENUE − BASIC COSTS = WAGES + PROFITS.

The aim of the workers is:

1. To cut basic costs;
2. To increase their share of what is left over.

Therefore, the workers need to understand three things:

BASIC COSTS
WAGES
PROFITS

Basic costs, profits and wages are affected by what happens in the factory. But they are also affected by the relation between the factory and the rest of the community.

We shall begin by explaining about basic costs, wage payments, ownership and profits inside the factory. Then we shall look at the way in which what happens inside the factory is dependent on what happens in the rest of the community. We shall show how what happens in the rest of the community can affect the workers' share.

ii) COSTS.

In this chapter we shall look at those costs which the factory owner has to pay in order for the goods to be produced and sold.

1. MATERIALS.

The most obvious part of the costs are the costs of buying whatever is needed to make the product of the factory. A bakery must buy flour, a textile factory must buy cotton or wool, a machine factory must buy steel and other metals. These are called the MATERIALS.

2. MAINTENANCE.

Workers do not usually make things with their bare hands. They use TOOLS and MACHINES. With a tool or a machine you can make more than you could by yourself. But the machine is often very big and complicated, and so it costs a lot of money.

Also there are usually a lot of different machines. The clerks need typewriters. The transport section and the salesmen need scooters and cars and trucks. The managers need desks.

All these machines help in producing the product.

But the machines and cars and typewriters and desks must be looked after to see that they do not break down. When they break down they have to be mended. Every now and again a machine has to be stopped so that it can be checked, and to have the oil changed, or perhaps to change some parts that wear out quickly. These regular checks are called SERVICES. Even machines that are serviced regularly sometimes break down. Big firms have their own repairmen. Small firms often have to pay other people to come to repair the machines.

Looking after and repairing the machines is called MAINTENANCE. Maintenance costs money, so MAINTENANCE IS PART OF THE COSTS.

3. BUT MACHINES WEAR OUT: DEPRECIATION.

Machines are like people - they get old, they get sick. Even if the machines are serviced regularly, and a lot of money is spent on MAINTENANCE, it cannot stop the machine from getting old. The day always comes when the machine must be replaced by a new one.

Sometimes the machine is even replaced before it is very old. This is when a new kind of machine has been made which does the same job better.

To replace the machine costs money and if it is a very complicated machine it will cost a lot of money. Because the employer knows that one day he will have to replace the machine, he has to start setting money aside. In fact he must start saving as soon as the machine starts working. Each year he saves money so that when the machine has to be replaced he will have saved enough to buy a new one.

This money that is set aside to be ready to buy the new machine is called DEPRECIATION.

Depreciation money is very important, because without it there could be nothing to replace the old machine when it finally wears out. So DEPRECIATION IS PART OF THE COSTS.

4. RENT.

Money paid for using somebody's land is called RENT. Many factories are built on other people's land, so the owner of the factory has to pay RENT.

This means that RENT IS PART OF COSTS.

Sometimes a firm has offices in another person's building, and so the firm has to pay rent for these offices. This rent for buildings is also part of costs.

5. EMPLOYERS SOMETIMES BORROW MONEY: INTEREST.

If people wants to start a business, they sometimes do not have quite enough money. So they borrow money from their friends or from a BANK.

Or if the employer wants to buy a big new type of machine that costs very much more than the old machines he has, then the money saved as depreciation will not be enough, so he will borrow some extra money.

Or if a whole lot more people suddenly start buying his products, so that his factory is not big enough to make all the goods they want to buy, he may borrow money to expand the factory so that he can produce more.

But if people borrow money then they have to pay the lender for letting them use the money. The lender could have used the money himself so he will make them pay something extra for using it instead of him. This extra payment is called INTEREST.

If you borrow R100 for a year, and at the end of the year you have to give back R110, then the extra R10 is the interest. When the employer borrows money, he has to pay back the money plus the interest. The INTEREST IS THE COST THAT HE HAS TO PAY FOR BORROWING THE MONEY.

If he needs money for his firm, then he must borrow the money and if he borrows the money he has to pay INTEREST. SO INTEREST IS PART OF HIS COSTS.

6. ADVERTISING AND SALES COSTS.

It is no good making things if you cannot sell them. And you cannot sell something unless people know that you have it to sell.

So if you make a product you have to find out what sort of people might want to buy that product, and then you have to tell them about it. This is called ADVERTISING.

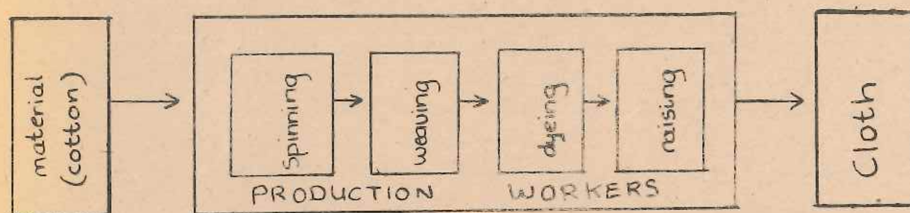
You hear advertising on the radio, you see big boards with advertising, and you see advertising in the paper. By advertising the producer tries to tell people that he has a product, and he wants to persuade them that his product is better than everybody else's. He wants people to believe that his firm makes the best cigarettes, or the cheapest blankets, or that the perfume that his firm makes is the sexiest. So often advertising tries to fool people. But it costs a lot of money to fool people. So ADVERTISING IS PART OF COSTS.

Perhaps you have never seen advertisements for your firms products. This is because only firms which produce CONSUMER GOODS, which people buy to use for themselves, buy big adverts in the cinema or on the radio. If your firm makes machines, it might advertise in special magazines, or send information about its products to the firm that it thinks might buy them. The SALES MANAGER might spend a lot of money taking people to eat at expensive hotels because he thinks that they might want the machines for their firms. All this is part of ADVERTISING, and it all counts as a COST for the firm.

7. WAGES.

For the workers, their wages are their share of the product. But for the owners, WAGES ARE COSTS. So we have to see all the different kinds of workers to whom the owners have to pay wages in order to produce the product. In most factories, the production workers do not all do the same kind of work.

Firstly, the factory is often divided into sections and each section does one part of producing. For example, in a textile factory, which makes cloth, there are usually four different sections, and the cloth has to go through all four sections before it is finished.
Here is a diagram to illustrate this:

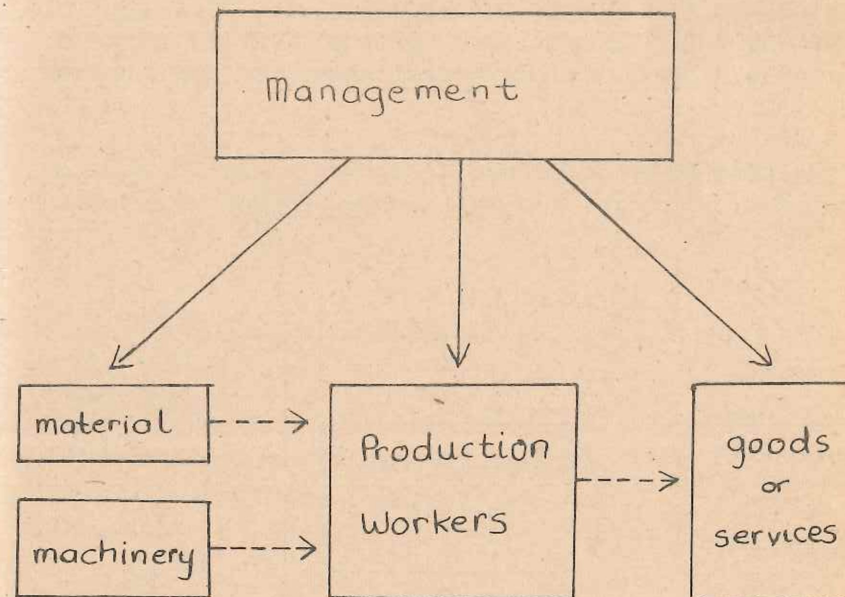


It is most important for you to know your own section of the factory, but you should also know the other sections of the factory and what they do. You must be able to draw a diagram like this of your own factory.

Secondly, in each section, the workers sometimes do different jobs, and all the jobs together go to make up the work of that section.

In the diagram we are making about how a firm works, we will put all the production workers together, because it would be too difficult to show all the different jobs in one diagram.

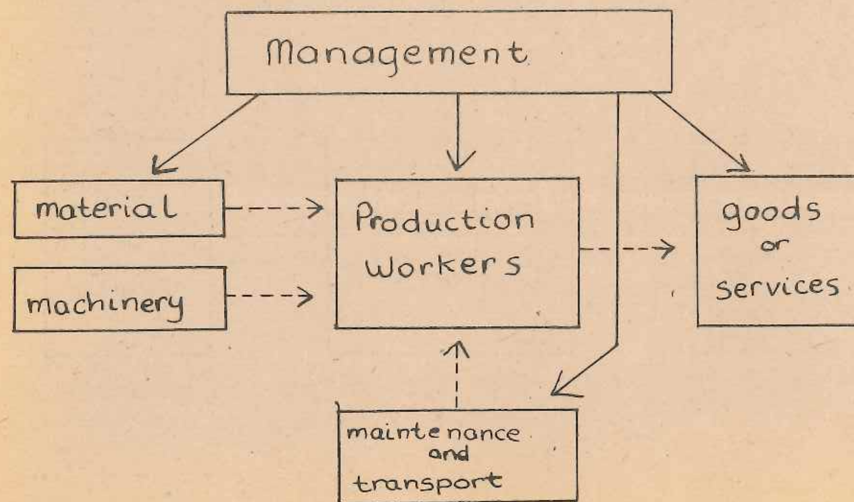
Somebody has to make sure that the right machines and materials are there for the job, and that the workers know which jobs they must do. This is the work of MANAGEMENT. Management includes the Manager of the firm, the Clerks who write down where everything is and what everyone must be paid, and the Foreman who give the manager's orders to the workers. Management also deals with selling the goods or services produced by the firm. We can put the Management in the diagram:



(Management really has two different jobs. Management must organise the work. This is the job that we have just talked about. But management also does something else. Management makes sure that the workers work, even if they don't want to do certain things. That is, management also controls the workers. If all that management had to do was to organise the work for the workers at the factory, there would be no trouble between management and workers. It is because management also tries to control the workers, and to make them do things that they do not want to do, that there is trouble. But in this chapter, we are only looking at management's organising job, not at its control).

If the machines break down, the workers do not usually mend them themselves. There are special workers whose job it is to mend the machines, and to keep everything clean and in working order. These workers are people like mechanics and cleaners. Their job is MAINTENANCE.

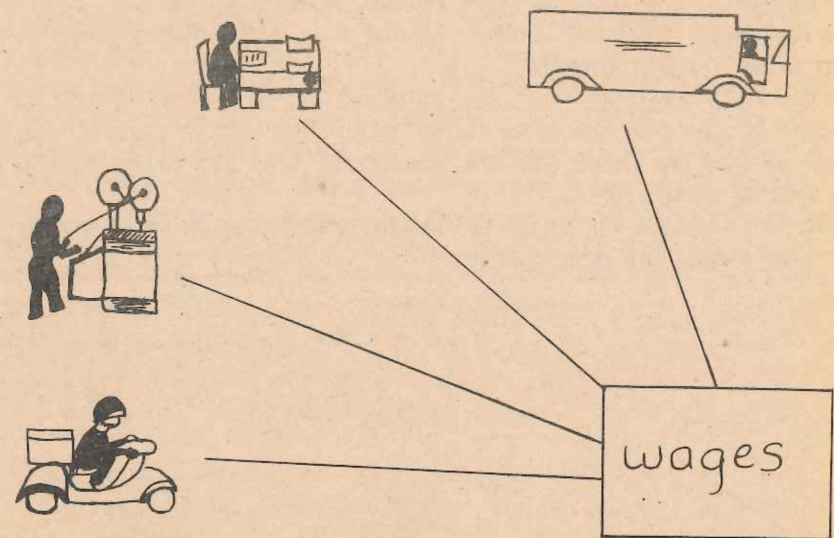
The business might also have its own transport section. We can put transport and maintenance in the diagram.



Now we have a diagram of all the most important jobs in a firm. Workers in the different sections of the firm will probably have different problems and this is why workers' representatives must know something about all sections of the firm.

Not all these jobs have to do with the actual production of the product but still they are important and without them the production work could not be done. It is easy to see that the workers who work the machines are important. But so are the messengers who carry messages so that people will know what to do at the right time, and the clerks who write down where everything is so that nothing gets lost. So the wages of all these people are COSTS which the employer HAS TO pay to get his products produced.

Because all these jobs are important in the factory, workers' representatives must understand what they are for and they must know who does them.



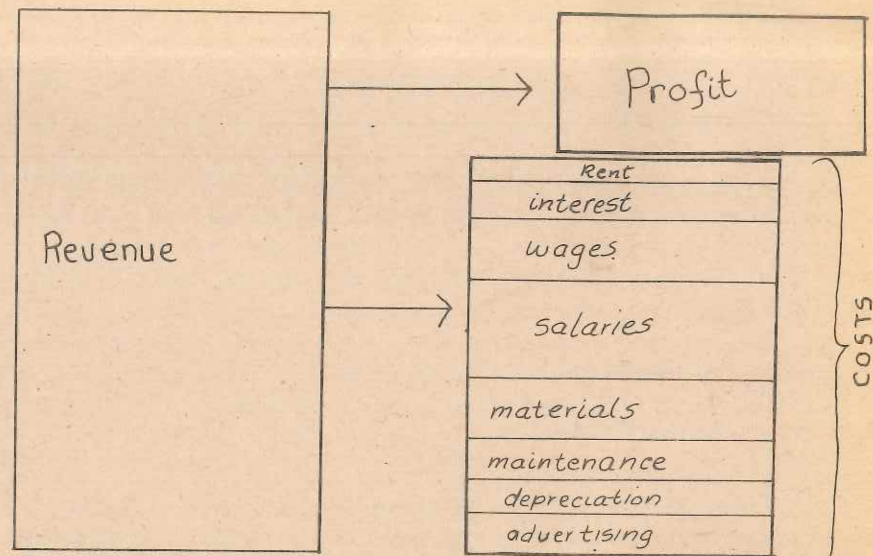
COSTS.

We have now gone through all those things which must be added together and will be the Costs of producing a product.

We can say that any money paid out to help in the production or sale of a product is part of the costs of that product. What we have done is to divide the money paid out into different types of costs.

They are:

WAGES AND SALARIES paid to all people working in a business.
MATERIALS which are the things needed in order to make the product.
MAINTENANCE which is the looking after and repairing of all mechanical things.
DEPRECIATION which is the money saved to pay for the replacement of machines because all machines get old and must be replaced.
ADVERTISING which must be done to make the product known to people so that they will then buy it.
RENT which is paid to the owner of the building which is being used.
INTEREST which is paid to those people who lend money to the owner of the factory.



Revenue = Profit + Costs

iii) FIXED COSTS AND VARIABLE COSTS.

We can divide these costs into two very important different kinds. Some things only have to be paid for when the factory is producing. But some things have to be paid for even if the factory is not producing anything.

Think what happens if the factory closes down for a week. In that week the factory will not use any materials. If the employer has laid off all the workers, then he will not have to pay any wages for that week. He won't be using the machines so they won't wear out so quickly and he won't have to save so much for depreciation.

But even if the factory is not producing anything that week the owner will still have to pay rent for the land and the buildings. If he has borrowed money he will still have to pay interest on the money. And he cannot lay off ALL his workers for the week. He will have to keep some of his managers, and even if the machines are not being used they will need to be looked after a bit, so he will need some maintenance staff. So even if the factory is not producing anything it will have some costs.

These costs are called FIXED COSTS. Fixed costs stay the same whether the factory produces nothing at all, or only a little, or as much as it can.

Other things are only used when the factory is producing. The more shirts a factory makes the more cloth it must have. If the factory wants to increase production it must take on more workers and pay more wages. Costs which change as the amount which is produced changes, are called VARIABLE COSTS.

WHY IS THIS IMPORTANT?

The distinction between FIXED COSTS and VARIABLE COSTS is important because the most important thing for a producer is how much it costs him to make each ONE of the things that he makes. The COST OF EACH ONE THING IS CALLED UNIT COST.

If the UNIT COST is high, then he will have to sell them for high prices if he wants to make any money, and if the prices are high, then perhaps no one will buy them. So the employer must keep the UNIT COST low.

Think of a factory which produces blankets. Let us say that the costs for the materials and the labour

needed to make each blanket is R1. We will say that the VARIABLE COST per blanket is R1.

Let us say that the rent and the interest and the wages that the owner has to pay to the managers and the people that he can't lay off is R10 a day. We will say that the FIXED COST is R10 per day.

Let us say that one day the factory makes only 10 blankets. Then on that day the employer pays R10 in fixed costs and R1 for each blanket, or R10 for the 10 blankets in variable cost. So to produce ten blankets he pays R20 in costs.

From this we can work out the UNIT COST. He has paid total costs of R20 to produce 10 blankets.

So, UNIT COST IS R20 ÷ 10 = R2

UNIT COST = FIXED COST + VARIABLE COST ÷ NO. OF PRODUCTS PRODUCED.

UNIT COST CHANGES WHEN PRODUCTION CHANGES.

The unit cost will NOT STAY THE SAME IF THE NUMBER PRODUCED IS INCREASED.

Let us say that the factory now produces 100 blankets in a day instead of 10. To do this it has to spend more money on materials, wages and the rest of the variable costs. The amount spent on the variable costs for each blanket is still R1, but the total amount for the day's production is now R100, instead of R10 when only ten blankets were produced.

But although the variable costs have gone from R10 to R100, the fixed costs have STAYED THE SAME. The fixed costs are still R10 per day.

So the total is R100 + R10 = R110

That is, variable costs + fixed costs = Total costs.

It costs R20 to make 10 blankets, but only R110 to make 100 blankets. We can see that the Unit Cost has changed. The new unit cost is:

R110 ÷ 100 = R1.10

That is, Total cost ÷ No. of products produced = Unit Cost.

This is very important. When production increases using the same factory and the same machines, the unit cost GOES DOWN.

LOWERING UNIT COSTS.

The employer wants to lower Unit Costs. To do this he must use machines and the factory as much as he can.

One way that this can be done is by SHIFT WORK. If the factory works two or three shifts a day, then the employer can get two or three times as much production for the same rent and interest.

Two or three shifts means that the machinery will be used up faster, and so he will need more machines sooner. But the employer also knows that if he keeps his machines too long then they will be old fashioned, because somebody will have made better machines. Even if he wasn't using his machines at night they would still be getting older. So even part of the depreciation costs are fixed costs, because a machine depreciates even when it is not being used.

If you bought a car, and parked it in a garage for two years without driving it and then tried to sell it,

you would not be able to sell it for the same price you bought it for. It would have DEPRECIATED even if you had not used it at all.

iv) COST AND CONFLICT.

In the simple village society not everything counted as costs. Sometimes people would work very quickly, perhaps because it was time to plant or harvest. At other times they would work more slowly, and stop and talk when they felt like it. They did not worry about costs, because their work was part of their lives, and not just a way to get money.

But now, when everything is measured in money everything has a cost.

If a worker goes to the lavatory, the employer can say how much it cost him for the time that the worker was not working.

Because all those things can be measured in money and are part of costs, there is the possibility of trouble between employers and workers.

It is important for the firm to keep costs LOW, because if costs get too high the firm might not be able to sell its products. Of course, it is also important for the workers that the firm be able to sell its products because otherwise they would not have any jobs. So it is important for the workers that costs (to the employers) should NOT BE TOO HIGH.

But there can be a big difference between LOW and NOT TOO HIGH. Because of this, there are differences between what the workers need and what the employer wants.

Wages are one of the most important parts of costs.

But workers want HIGH WAGES and the firm wants LOW COSTS. So the workers try to push the wages up, and the employer tries to keep the wages down.

Employers can keep costs down by making workers work faster. If the machines go faster, then they will get more work done for the same fixed costs, and the same wages. But although the workers are willing to work at a reasonable speed, they do not want to work TOO FAST, so that they are too tired to do anything else at the end of the day. Employers wants to speed up the machinery. Workers want to keep it at a reasonable pace.

It costs money to make the machinery safe, to keep the work-place clean, to give the workers clean toilets, to make sure that the factory is not too noisy. So it costs money to look after the safety and health of the workers while they are working.

The workers want a lot of money to be spent on this, but the employers might try to spend as little as possible on the health and safety costs. This is why there are laws about safety and health in the factory. But the laws are not always enough. Sometimes the laws are not good enough, and sometimes the employers try to avoid the laws.

If the employers pay low wages, or try to make the worker work fast, or pay little for health and safety, then they will lose because the workers will work badly. If workers get too much money or work too slowly, or make the factory too comfortable, then the firm will not be able to make any money and they will lose their jobs. But between this the workers and the employers are in CONFLICT with the workers wanting more and the employers wanting to pay less money.

CHAPTER 2.

PRODUCTIVITY.

In the last chapter we saw that there is conflict between employers and workers, between wages and profits. If wages go up, then costs to the employer go up and profits go down.

But this is not always true. If the firm works better when wages go up, then the cost for each production unit need not go up, because the firm will produce more goods with the same number of workers. In that case, wages can go up without profit coming down. When the firm works better, so that more is produced with the same number of workers, then we say PRODUCTIVITY has increased. The productivity of a firm is the amount of goods that it produces per each person employed in the firm.

Productivity is very important for wages.

What things make productivity high or low?

Whose fault is it if productivity is low?

In South Africa employers often say; "We would like to pay our workers more money, but we cannot, because their productivity is too low". Is this true?
If it is true, whose fault is it?
How can workers and management work together to improve productivity?

These are the questions we shall try to answer in this chapter.

Sometimes employers try to increase productivity without raising wages, so that they will get bigger profits. In this case there is no reason why the workers should be interested in increasing productivity.

But if the workers are well organised, and are sure that they will be able to get better wages if productivity goes up, then it is in their interest to help in getting higher productivity in the firm. So, we will also look at some ways in which workers can help to improve productivity.

Employers usually blame workers for low productivity. But as soon as we think about it we can see that there are many ways in which the employers can cause low productivity.

Employers want to cut costs, which means that they will try to buy material which is as cheap as possible for their product. But if the material they buy is too cheap, then it will break more easily, and the workers may not be able to work so quickly with it. If the workers keep on having to stop to mend the material that they are working with, or to get new materials, then productivity will be low.

It is the same with the machines. If the firm uses old machines, and tries to save money by not giving the machines proper maintenance, then the machines will often break, and the workers will have to wait while they are being mended, so again productivity will be low.

Also, if the factory is dark and dirty, and the machines are dangerous, then the workers will not be able to work properly, there will be accidents, and the productivity will be low.

If the employers provide:

POOR QUALITY MATERIALS,
POOR QUALITY TOOLS AND MACHINES,
BAD WORKING CONDITIONS,
THEN PRODUCTIVITY WILL BE LOW AND IT IS THE EMPLOYERS' FAULT.

i) MACHINERY AND PRODUCTIVITY.

What are machines for? A machine is used because with the machine a worker can make more of the same product than he or she could without a machine. That is, MACHINES ARE USED TO INCREASE THE PRODUCTIVITY OF LABOUR. So you can never just talk about the productivity of workers. You must always talk about the productivity of workers and machines. If productivity is lower in one factory or in one country than another, then it is perhaps because they use different kinds of machines.

Even if the machines are in good condition, they might cause low productivity in comparison with another factory because the other factory has bought a new kind of machine which does the job better.

ii) ORGANISATION AND PRODUCTIVITY.

The job of MANAGEMENT is to ORGANISE the firm. There are many people in the firm doing different jobs. It is important that these people know which jobs to do and be in the right place to do them. It is important that the right materials and tools should come to them at the right time. It is important that these things should be done without any time being wasted doing unnecessary things.

This is ORGANISATION, and it is the job of management to do it property. (Although it is better if they do this in consultation with the workers in the Union).

Let us imagine a simple factory which makes tables. In this factory there are four different kinds of jobs:

1. Making the table legs.
2. Making the table tops.
3. Joining the tops and the legs together.

4. Painting the whole table when finished.

Now, what is the job of management in this factory? The workers who make the tops and legs need the right type of wood. It is the job of management to see that the wood has been bought and that there is enough of it for the day's work.

The workers who assemble and paint the table need screws and glue and paint. It is the job of the management to work out how much they need and to make sure it is there.

The first job of management is SUPPLY.

It takes a long time to plane and smooth a table top, but a much shorter time to prepare four legs, and an even shorter time to put it together. If there is only one man for each job, then the table top man will work all day, the leg maker will either make too many legs or spend a lot of time not doing anything and the assembler will have to wait a long time for all the parts to put together.

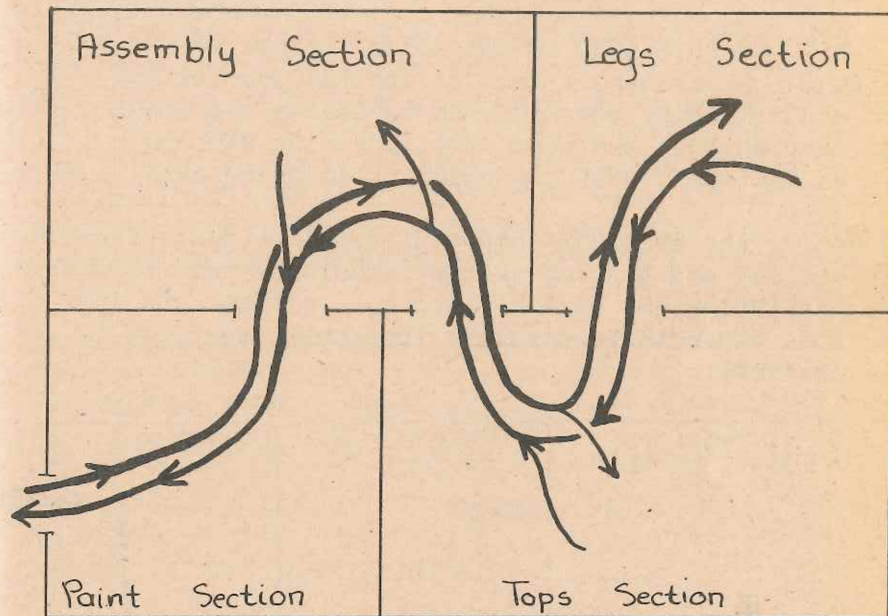
Instead of a smooth continous FLOW OF WORK, there are some places where no work can be done at all. Instead of a smooth flow there is a BOTTLENECK, where the work is getting stuck. So, in this factory the work is being slowed down by a PRODUCTION BOTTLENECK in the table top section.

It is the job of management to make sure that there are enough workers in the table top section so that the assemblers do not have to wait around but can get on with their work.

This is the second job of management.

It is important that people should not have to waste their time doing unnecessary things. They should not

have to carry things further then is necessary. For example, in the furniture factory we are talking about the different sections are arranged as in the diagram, with the leg section at one end of the workshop, then the top section, then the assemble section and then the paint section. There is only one door and it is next to the paint section.



The wood for making the tables has to be offloaded at the paint end, where the door is, and carried past the workers up to the other end of the workshop where the legs and tops are made. As it is carried through the open door past the tables, dust blows on to the wet paint, so the painters have to keep cleaning it off. At the other end, the workers in the leg section have to waste time carrying the finished legs round the workers who are making tops to deliver them to the assembly section.

So workers have to do unnecessary work:

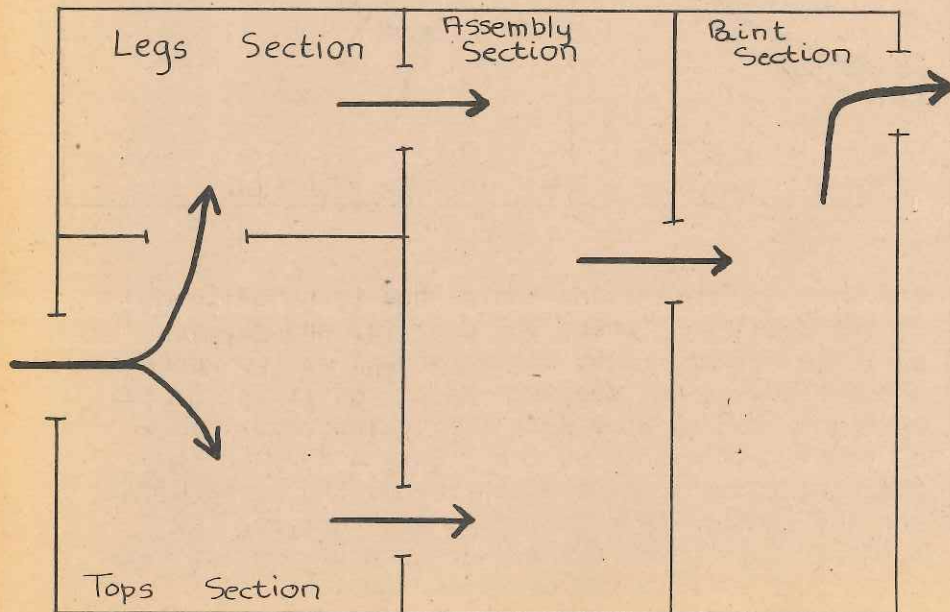
Carrying the wood all the way up the room.
Cleaning th~ dust off the wet paint.
Carrying the finished legs to the assemblers.

This unnecessary work makes their PRODUCTIVITY low.

Let us see how this workshop should be designed.

Firstly, there should be two doors instead of one, so that the transport can deliver the wood at one end and take away the finished tables at the other end, and so that the door near the paint section can be kept shut when the painting is going on.

Secondly, the sections should all be in a row. The top section and the leg section should be next to one another facing the assembly section, so that the legs and tops can both go straight from their sections to the assembly.



So, by designing the workshop better, and by putting the various sections and the various workers in the worshop in the best place, it is possible to cut down on unnecessary work which takes up the workers' time and energy without actually helping them to finish the product.

This is the third job of management.

If the managers are not very good organisers, if they cannot organise the supplies and get the right people in the right places and design the workshops and the flow of work properly, then productivity will be low and it will be the MANAGEMENT'S FAULT.

It is in the workers' interest to help to improve this kind of bad management because it wastes their time and their strength without achieving anything. It also wastes money for the firm paying people to do unnecessary things, and so it does make it more difficult for the firm to make enough money to pay good wages.

But, there is another kind of "improvement" in organisation which is not necessarily in the interests of the workers. This is when the management try to take away the workers' rest periods and make them use up more of their strength and energy by speeding up the machines to make them work faster.

This kind of "improvement" might make the workers work too fast. And even if it does not make them too fast, the workers should make sure that they get better wages for it.

WORK STUDY.

To improve their organisation and also to improve their productivity, managers sometimes use WORK STUDY TEAMS. These teams have two jobs. The first is called METHOD STUDY and the second is called WORK MEASUREMENT.

METHOD STUDY is to find out exactly how each job is done and to work out ways of doing it better. They watch each job carefully, divide the job into its separate parts and measure the time it takes to do each part of the job. When this has been done, it is easier to see which parts of the job are organised in such a way that they take longer than is necessary.

Let us take the example of a man who is packing finished goods. What are the parts (ELEMENTS) of the job?

1. He picks up an empty box and puts it down on the work bench.
2. He picks up the finished product and puts it into the box.
3. He closes the box.
4. He picks up a roll of tape and uses it to seal the box.
5. He puts down the roll of tape.
6. He picks up the sealed box and puts it on a pile for it to be taken away.

The work study team will use a watch to measure how long it takes to do each of these things, then they will see if any element of the job could be organised better. Does the worker have to waste time bending down to pick up the empty box? Could he get the box

quicker if it were put in a different place?

When they have asked questions like this about each element in the job, they can work out the best way in which the job can be done, so as to save as much time as possible.

WORK MEASUREMENT tries to find out how long the workers should take to do each job, so that the managers can have a measure to check whether the workers are working properly. This measure is often used for setting BONUSES and PIECE-RATES, which we talk about more in the next chapter.

In WORK MEASUREMENT the work team have to do three things:-

1. They have to watch very carefully how long it takes the workers to do the job. This can be measured accurately with a watch.
2. They have to guess whether the workers are working as fast as they could or whether they could work faster.
   This cannot be worked out accurately and so there will always be arguments about it.
3. They have to say how much the workers need to rest and how often they need to rest. This also cannot be worked out accurately and there will often be arguments between the workers and the work study team about how much rest is needed.

Because of this, work study often causes a lot of trouble in firms. The work study people do not do the job themselves. They only watch the workers and so they can never really know the job. Sometimes when the workers see a work study team watching them, they do not know what is for and they show off by working very hard for a time. Then the work study team think that this is their normal speed and think that they could go on working like that all day

without getting tired. The workers then find that they are expected to do this all day every day and they get very angry.

Other times, workers know what the work study team is for and so they work as slowly as possible so that the normal rate of work will be set as low as possible. This also causes trouble in the firm. There is only one way to avoid trouble over work study, re-organisation and changes in the work rate. MANAGEMENT MUST CONSULT WITH WORKERS. Management must make sure that the workers know what the work study team is there for and that the workers understand how it will measure the work.

Managers sometimes claim that the results of work study are SCIENTIFIC and so that they do not need to ask the workers' opinions about it. But this is wrong. The measurement of the time necessary for a job can never be scientifically accurate. It is always the opinion of the work study team. Management must also always ask the workers and the final rate should be set with the agreement of the workers.

Any change in the organisation should be to speed up the job but NOT TO SPEED UP THE WORKERS. If the workers are consulted then they can be sure that any changes are fair to everybody and do not just help the employers to make more money and make the workers more tired.

In most countries managers now understand that the result of work study will be much better if it is done in co-operation with the workers and the trade union, but in South Africa some Managers still do not understand this. IT IS THE JOB OF THE TRADE UNION TO EXPLAIN THIS TO THEM.

Their trade union must explain to management that they will only get improved productivity if they co-operate with the workers, and if the workers also benefit from the improvement.

iii) TRAINING AND PRODUCTIVITY.

For workers to work well it is important that they should know exactly what jobs they have to do and how to do them. They must understand the tools and the machines that they have to use and they must know what they can do and what they can't do.

It is the responsibility of management to make sure that new workers know these things. Showing new workers what their jobs are and how to do them is called TRAINING. In some firms, workers are taught their jobs while they are actually doing them. This is called ON-THE-JOB-TRAINING. In other firms workers are given special training courses before they begin to do their work.

The more difficult the job the more training is needed, but nearly all jobs need at least some training. If workers are not properly trained they will not do the jobs properly and productivity will be low and IT IS THE EMPLOYER'S FAULT, because it is the employer's job to see that workers are given proper training.

In many firms it is left to other workers to teach new workers how to do their jobs and if the other workers have not been trained properly, then they will not be able to train the new workers properly.

Different jobs need different kinds of training. But all training courses should do the following:

1. They should show the workers exactly how to do the job.
2. They should teach the workers about anything

dangerous in the job, like dangers from the machines or from the materials that the workers will be working with.

3. They should explain to the workers how the machcines that they are going to work with operate, and how the machines can go wrong. People who understand the machines that they are working with will be able to use them much better than people who do not know how the machines work.

4. They should explain to the workers what their jobs are for. That is, they should explain to them how their jobs fit in with all the other jobs that other workers do in the factory. Workers who understand how the whole factory works can do their jobs better than workers who do not understand why they are doing what they are doing.

CHAPTER 3.

WAGES AND PRODUCTIVITY.

We have seen that there are many different reasons why productivity in a firm might be low.

If the MACHINERY is not good enough then productivity will be low.

If the MATERIALS are of poor quality, then productivity will be low.

If the ORGANISATION of the work is bad, then the productivity will be low.

If the workers are not properly TRAINED, then productivity will be low.

These are important reasons why productivity may be low but thay are not the most important reasons. In South Africa, the most important reasons for low productivity in some firms are:

LOW WAGES;

BAD WORKING CONDITIONS;

BAD LIVING CONDITIONS FOR THE WORKERS.

If employers say that wages are low because the workers' productivity is low, they are quite wrong. It is the other way round. Often productivity is low because wages are low.

i) LOW WAGES AND PRODUCTIVITY.

There are many reasons why low wages cause low productivity. If the workers are not paid properly, they cannot buy proper food for themselves and their

families. If they do not have proper food then they will not be as strong as they could be. They will get tired easily. They will get sick easily.

THE MINIMUM LIVING LEVEL (MLL) is the amount of money which doctors and scientists think is the smallest amount of money a family needs each week to be able to live decently, and to buy proper food. Things have different costs amounts in different parts of the country and prices are also changing but we can say that in most parts of SOUTH AFRICA in 1975 the MLL is about R22 a week. Many workers get paid much less than this and so they cannot buy proper food for their families. They may be able to get enough mealie-meal or bread to fill their stomachs every day but that is not enough.

Your body needs many different kinds of food. Your body needs vegetables and meat and eggs and milk as well as mealie-meal. If workers do not get a proper mixture of different kinds of food they will slowly get sicker and weaker. They will not die of starvation but they will always feel tired and they will catch illnesses easier than if they had proper food. So they will not be able to work properly.

If workers are paid very low wages then they are not interested at all in what they are doing. This is another reason why their productivity will often be low. When they are getting such low wages they know that they are being cheated so they think, "Why should we work hard for these people if they are not paying us properly?" So as soon as the foreman is not watching, they stop working.

Because they feel they are being cheated they do not take proper care of the machines.

They do not mind if things get lost.
They do not mind if the things they are making are not

properly made.

Productivity is low because the workers do not see why they should work properly for employers who do not pay them properly.

This happens in all countries where wages are too low. In some countries the managers have learnt that they must pay good wages if they want the workers to work carefully, but in South Africa many managers have still not learnt this.

When workers are being paid such low wages that they are not interested in their work, managers often try to make them work hard by being very strict. The foremen are very hard. They shout at workers and sack them as soon as they have done something wrong.

But this does not help. It just makes the workers hate the job even more. Foremen and managers cannot be everywhere, so the workers can always find ways of avoiding the work and of not working properly. Foremen and workers are so busy fighting with one another that nobody does any work. Productivity gets even lower.

So low wages often lead to harsh supervision and conflict between workers and management and this leads to low productivity, AND IT IS THE FAULT OF MANAGEMENT.

When there are low wages and harsh supervision workers do not like to stay with the firm long. Because workers are always leaving and new workers coming to take their places, it is difficult to train people properly and it is difficult to organise them properly. When workers are always leaving the firm, this is called HIGH LABOUR TURNOVER. High Labour Turnover is a cause of low productivity and, IT IS THE FAULT OF MANAGEMENT.

ii) BAD CONDITIONS AND PRODUCTIVITY.

Unhappy workers will work badly. Tired workers will work badly. Workers will work badly if they have to work in hot, dirty, noisy conditions. All these things will lower workers' productivity.

Workers who work good hours with proper rest-breaks, lunchbreaks and tea-breaks will do more work in a day than workers who are made to work all day without stopping.

It is not that the workers do not WANT to work longer hours. It is that they CANNOT work longer than a certain time because their bodies need rest.

Some managers do not understand this. They make workers work longer hours, they do not want them to have tea breaks and they try to make their lunch breaks as short as possible. Then they are surprised when the workers work slowly.

If the workers do not get proper rest and proper food while they are working, then their productivity will be low.
AND THIS IS THE FAULT OF MANAGEMENT.

Workers will work badly if they do not get proper rest. They will also work badly if their work is very boring, if they just have to do the same thing over and over again.

Although it might seem that if you only have to do one thing it is very easy to do it well, and so productivity should be high, it is not true.

People have found that workers who have such dull work

get so bored that they cannot do the job properly. They work better if they sometimes change jobs, or can do something different, like getting up and going to get the materials for the job every now and again, instead of having them brought all the time.

When workers are doing very dull jobs a change is often as good as a rest.

Another way to help the workers to work better is to ENRICH the job, by giving them two or three different things to do, instead of just one thing.

It also help to let workers work in groups, where they can share out the work between them, and do different jobs on different days.

All these things make the work more interesting and help to improve productivity.

LIVING CONDITIONS AND PRODUCTIVITY:

Workers do not only need to rest at work. They also need to relax and enjoy themselves when they are not at work. They need this because they are people and they have a right to be happy. But they also need it because they are workers and it helps them to work better.

If workers have to travel long distances in overcrowded trains, so that they have to get up very early in the morning and get home late in the evening, then they cannot get the rest and sleep their bodies need.

If they have to live in overcrowded uncomfortable houses that are too cold in Winter and too hot in Summer, then their bodies will not get the comfort

and rest they need.

If they have no sport fields and cinemas and places where they can play and relax and enjoy themselves at the week-end, then their minds will not get the rest that they need.

If they cannot live with their wives and families, workers are not able to rest properly by relaxing and forgetting their troubles for a while. When workers are worried about things even when they are away from work it affects their productivity and helps to make productivity low.

Bad working conditions and bad living conditions, like low wages, help to keep productivity low. This is NOT the fault of the workers.

Bad conditions like these, which help to cause low productivity, are the RESPONSIBILITY OF THE GOVERNMENT.

iii) JOB RESERVATION AND PRODUCTIVITY.

There is one special cause for low productivity which is found in no other country apart from South Africa. This is called JOB RESERVATION. Job reservation stops Black people from doing certain kinds of jobs. South Africa is the ONLY COUNTRY IN THE WORLD which has job reservation by law.

How does job reservation help to cause low productivity? It causes it in two ways.
Firstly, it stops Black workers who could do more skilled, and therefore more productive jobs from doing them. Often there are not enough White workers to do the jobs properly any way, so this causes a BOTTLENECK.

For example, the trade unions of the White building workers would not let African workers do skilled jobs

in building. But because there were not enough White builders, Africans had to do some of the jobs anyway. But, so as not to get into trouble with the inspectors, they worked with different tools so that the employers could pretend that they were not doing the same jobs as Whites. Brick layers would use pieces of tin for putting in the cement, instead of the proper trowels, and so they could not work so well.

Now, because there are so few White building workers, they will have to let more Africans do the jobs. For example, they will let African workers do the first coats of paint, but they will not let them put on the last coat.. This wastes time and skill.

The second way in which Job Reservation lowers productivity is because it stops firms training their Black workers to do new and more difficult kinds of jobs.

So, Job Reservation causes bottleneck in production because there is not enough skilled labour, and stops people from being properly trained.

Whose fault is job reservation?

Some job reservation is by law. This is the responsibility of the Government which makes the laws.

But not all job reservation is by law made in Parliament. Very often job reservation is a result of agreements reached between White trade unions and employers in Industrial Councils.
(Industrial Councils are explained in the Legal handbook). The White trade unions want the jobs for their members and so they force the employers to employ only Whites in certain jobs. They can do this because they are well organised, and because they have the government behind them.

There is a third kind of job reservation. This is when employers have always before had workers of a

particular race doing a particular job and so they do not think of getting different workers for the job. Sometimes these employers think they have to employ white workers for certain jobs even where there is no law. Many employers do not know exactly which jobs are reserved by law and which are not. But usually they do not try to find out or they are afraid they will have trouble from their White workers or from the Government, so they do nothing about it.

iv) MANAGEMENT AND PRODUCTIVITY.

We have seen that most of the causes of low productivity are the FAULT OF MANAGEMENT. This is especially true of the most important causes:
LOW WAGES
BAD WORKING CONDITIONS
BAD RELATIONS BETWEEN MANAGEMENT AND WORKERS.

But now we must ask, if it is the fault of management when productivity is low, why don't they put it right by improving things? After all, if they can increase productivity, they can probably also increase their profits, so why don't they do it? Are they stupid, or what?

When you are dealing with the managers you must remember that they often know a lot about machines and about money. They may even have been to university to learn about these things.

BUT THEY ARE USUALLY VERY IGNORANT ABOUT WORKERS. Because they sit in offices instead of actually doing the hard physical work, they often do not understand the problems that the workers have. Because they have been educated and know about machines and money that often think that they know everything and do not need to listen to the workers.

In South Africa this is often made worse by the fact that most managers are White and most workers are

Black. Many whites have been taught that Black people whether they are African or Coloured or Indian, are not as clever as White people. The Whites often do not understand the language and the culture and the interests of their Black workers and they think can just order them around any way they like.

This belief that White people are better and cleverer than Black people is called RACE PREJUDICE.

Because of RACE PREJUDICE, managers in South Africa are perhaps not always as competent as managers in other countries who have begun to learn that they are working with people, not only with machines and money, and so that they must treat people properly if they want them to work better.

Although some managers, like some workers, are stupid, most of them are not stupid. They are just IGNORANT.

Because they are ignorant, not stupid, there is a possibility that they will be able to learn to run their firms better.

They must learn:

THAT WORKERS ARE PEOPLE.

THAT PEOPLE WORK BETTER IF THEY ARE CONSULTED AND NOT JUST ORDERED AROUND.

THAT PEOPLE WORK BETTER IF THEY DO NOT FEEL THAT THEY ARE BEING CHEATED BY LOW WAGES.

THAT BLACK PEOPLE ARE NOT INFERIOR TO WHITE PEOPLE AND CAN WORK AS WELL AS ANYBODY ELSE IF THEY ARE TREATED LIKE PEOPLE.

Workers should remember that managers are often ignorant of these simple things and so the workers

should try to help them to learn these things.

(If you think that your managers suffer from RACE PREJUDICE, there is a very good little book which you can buy to give them to read. It is called THE MEANING OF RACE, by Phillip Tobias. It costs 60 cents, so perhaps the workers could buy a copy for the management).

v) WORKERS AND PRODUCTIVITY.

We have seen that low productivity is usually the fault of management. But workers can usually see when organisation is bad and when productivity could be improved. What should they do about it?

An improvement in productivity does not help them if it does not improve their wages. But if the workers, through their trade unions, are able to agree with management that workers should benefit from improvements in productivity, then it is in their interests to help in finding ways of improving productivity. Their knowledge of the job is also one of the main weapons they can have for getting the employers to listen to them and to bargain with them. They should therefore make it clear to the employers, through their trade union organisation, that if the management is willing to consult and negotiate with them, through the trade union, then they are willing to co-operate in improving productivity, on the following conditions:

1. Productivity improvements should come from speeding up the job through better organisation, NOT from speeding up the workers.

2. All improvements in productivity should be associated with a similar improvement in wages. But when wages are low they must be improved before there can be any talk of co-operating to improve productivity.

3. Sometimes employers use improvement in productivity in order to dismiss workers. If productivity can be increased, then the same amount of work can be done by fewer workers. Some workers are made REDUNDANT. The workers who keep their jobs may benefit from higher wages, and the firm may benefit from higher profits, but some workers suffer by losing their jobs entirely. Workers must watch very carefully the relation between increases in productivity and redundancy.

a. Everything should be done to use improvements in productivity in order to increase total production with the same workforce. If necessary, the employers should be encouraged to cut prices in order to increase sales.

b. If some redundancies in one part of a plant cannot be avoided, then those workers made redundant should be retrained at the company's expense to take jobs in other parts of the plant.

c. If it is still absolutely necessary to make some workers redundant, the workers should not co-operate in productivity increase unless the employers agree to adequate redundancy pay to those made redundant. They should receive a big enough "golden handshake" of money so that they are able to live comfortably until they can find another job.

d. In deciding which workers are to be made redundant the principle should be "last in, first out". The employers must lay off the newest workers, not workers with long service bonuses.

CHAPTER 4.

WAGES.

In each factory there are differences in the way in which wages are worked out and paid. Here we shall look at the different ways in which wages are paid.

The most important things that we shall talk about are:

How to read a pay-slip.

The difference between time-rate, piece-rate and bonus systems.

Different wages for different grades of workers (workers doing jobs that need more or less skill and energy).

How big should the wage differences be between workers doing different kinds of jobs?

i) PAY SLIPS.

Many disputes arise because of arguments about whether workers have been paid properly or not. If there is ever any dispute about back-pay, the only evidence that the worker was underpaid is the pay-slip. ALL WORKERS SHOULD KEEP EVERY SINGLE ONE OF THEIR PAY-SLIPS.

The three most important amounts on any pay-slip are:

1. BASIC PAY (or RATE OF PAY), which is the amount of pay for an ordinary amount of work in the ordinary amount of time. Sometimes basic pay is given for a week. For example, basic pay: R15,53. Sometimes basic rate for every hour of work is given. For example, basic rate: R0,2989.

2. GROSS PAY. This is the total amount of your wage when everything in addition to your basic pay is added: overtime, production bonus, night shift allowance, and any other addition which has been agreed.

3. NETT PAY. This is the amount of money that has actually been paid to you after any deductions have been made.

THERE ARE THEREFORE THREE THINGS WHICH YOU MUST CHECK ON ANY PAY-SLIP.

1. Is the basic pay correctly entered?
2. Have the correct additions for overtime, bonuses and other extras been made so as to give the correct gross pay?
3. Have the correct deductions been made to give you the correct nett pay?

ii) BASIC PAY.

The first way in which basic pay can be calculated is called the time-rate system. It is based on the no. of hours worked. Most factories use a clock-card system, so that they can know exactly how many hours each worker has worked each week. The number of hours that workers are supposed to work each week for their basic pay is fixed by law, in the Factories Act. It is 46 hours per week. An Industrial Council Agreement can make the basic week shorter than 46 hours, but it cannot make it longer. This is called "ordinary time" or "normal time".
You should know what your basic pay is both per week and per hour, because your overtime rate is calculated per hour. It is easy to find out the hourly rate if you know the weekly rate. Your weekly basic pay is your pay for 46 hours, so to find your pay for one hour, you divide your weekly basic rate by 46.

For example, if your normal weekly basic rate is R12, then your hourly rate is:

R12 ÷ 46 = 26 cents per hour

If your factory has a basic week shorter than 46 hours, then instead of dividing by 46, you divide by that number of hours.

When the time comes to negotiate a new agreement, one of the things that you can consider is the question of the "ordinary hours" of work. You can negotiate an agreement which sets your ordinary hours of work at less than 46 hours a week.

The second way in which your pay can be calculated is called the PIECE-RATE SYSTEM. In the piece-rate system you are paid a certain amount of money for each "PIECE" of work that you do. If you are working on the piece-rate system, you must make sure that the correct number of pieces have been entered.

Most factories that use the piece-rate system do not us a simple piece-rate. Usually the workers cannot help it if machinery goes wrong or material breaks, so it would be unfair to pay them a very low wages when they only produce a very few pieces because of a failure of machinery and materials. The law says that there must also be a basic rate for the job which is the lowest that the wage can go. This is the time-rate for the job. The piece-rate pay can never fall below the time-rate for the same job.

If you are on a piece-rate system, your wage-slip will have both the time-rate for the job and also the piece-rate. It will show the number of pieces that you have made, and will show how much you should have been paid for those pieces. Then, if that amount is less than the time rate, the time rate will count as your basic pay.

iii) GROSS PAY.

In addition to your basic pay, your pay-slip should

have a space for the following:

<u>OVERTIME (O.T.)</u>: Overtime is worked out as 1 1/3 or 1½ the normal basic rate of pay. The FACTORIES ACT lays down a minimum overtime rate of 1 1/3 the basic rate of pay. This is called "TIME AND A THIRD". Many Industrial Council Agreements, however, make the overtime pay "TIME AND A HALF", 1½ the basic rate of pay.

To calculate your overtime pay you must:

Work out how many hours overtime you have worked, and check that it is correctly entered on your pay-slip. Find out the overtime rate. This may be marked on your pay-slip, but sometimes it is not. If it is not you will have to find out from the Agreement for your factory. Using the overtime rate and the basic hourly rate you can work out the amount that you should be paid for each hour of over-time that you have worked. For example, if your overtime rate is time and a half, and your basic pay is 30 cents per hour, then your overtime pay is 30 x 1½ = 45c per hour O.T.

If your overtime rate is time and a third, and your basic pay is 30c per hour, then your O.T. pay is 30 x 1 1/3 = 40c per hour.

NIGHT SHIFT ALLOWANCE.

Usually when workers work night-shift they receive a special bonus to make up for it.
This is sometimes written <u>N.T.Pay</u>. It is usually a fixed amount for each night-shift worked. The amount of the Night-shift Allowance should be included in the agreement regulating the wages in the industry. It varies from industry to industry.

SUNDAY AND PUBLIC HOLIDAY PAY:

Workers who work on Sundays and Public Holidays must be paid at double the normal rate of pay. (Except for shift workers: see Legal Handbook Chapter 5).

ATTENDANCE BONUS:

If workers are paid by the day or by the hour, then they are not paid if they miss a day's work. To encourage workers not to miss a day's work, many factories have an attendance bonus, which is paid to all workers who have a full attendance record for the week.
In some factories workers lose their attendance bonus if they miss an hour's work. In other factories they only lose it if they miss a day's work.

COST OF LIVING ALLOWANCE (C.O.L.):

This is a special allowance which some firms pay to make up for a rise in prices since the last pay increase. Unfortunately very few factories in South Africa pay a C.O.L.Allowance. So there will probably not be a space for it on your pay-slip.

BASIC PAY + ALLOWANCE = GROSS PAY.

DEDUCTIONS:

There are laws regulating what deductions may be made by employers, and there are also specific regulations in each Industrial Council Agreement (See Legal Handbook Ch, 2).
There are also certain deductions which the law says have to be made, and others which are very usual. Those that have to be made are:

P.A.Y.E.:

This deduction is a tax which goes to the government. PAYE means Pay As You Earn. Instead of paying Income Tax in one big amount at the end of the year, you pay it as you earn during the year. The employer deducts it from your wages, and at the end of every month sends it to the government. The rate of tax increases as incomes get higher, but for most workers their wages are so low that they do not pay much income tax, so the PAYE deduction will be only a few cents.

U.I.F.:

This deduction goes to a government fund to pay workers who are unemployed for a time. U.I.F. means Unemployment Insurance Fund. All workers earning more than R10,50 per week have to pay a contribution to the UIF. Make sure that UIF payments are being deducted from your wage if you are earning over R10,50 because it might be important for you if you lose your job. The employer has to deduct a certain amount from your wage, and he has to pay a similar amount himself. So that means that the employer has to send the UIF twice as much as has been deducted from your wage.

African workers earning less than R10,50 per week are not covered by UIF and do not pay contributions. (For rate of deductions, see Legal Handbook).

N.I.C. (or I.C.):

In an Industry covered by an Industrial Council the cost of the Council is paid by the employers and by all the workers in the industry, including African workers who are not represented on the Council but are nevertheless subject to its decisions. So when the industry is covered by an Industrial Council there will be a deduction of a few cents for the National Industrial Council, or for some other Industrial Councils (I.C.).

PAYE, UIF and IC deductions are laid down by the government. There are also other kinds of deduction which may be made in terms of an Industrial Council Agreement, or in terms of a Wage Determination, or by agreement between workers and employer.
These include:
TRADE UNION (sometimes the pay-slip will just have the initials of the union).

MEDICAL AID deductions, for a Medical Aid scheme run by the factory itself or by the Industrial Council or some other body agreed to by the workers.

PENSION FUND, again sometimes run by the Industrial Council, or a BENEFIT FUND, which might be run by the workers, or by the Union, or by the Industrial Council.

GARNISHEE. Money being deducted by order of the Court, to pay a fine or maintenance.

<u>OTHER DEDUCTIONS.</u>

The worker can also agree to the employer making certain deductions. These include:

LOAN REPAYMENTS for money which the worker has borrowed from the employer, and pays back week by week.

RENT PAYMENTS which the worker asks the employer to pay each week, and which is deducted from the wage.
Other regular payments which the worker asks the employer to make. These payments might be called STOP ORDERS on your wage-slip.

Sometime employers want to deduct money to pay for damage to tools or machinery. But in most cases

the employer is not allowed to do this. In a case where the management does this, you should check with your trade union, and with the Designated Agent for the Industrial Council, if you have an Industrial Council.

GROSS PAY - DEDUCTIONS = NETT PAY.

iv) GRADES, RATES AND DIFFERENTIALS.

We have talked about how to read what is written on a pay-slip. We started from the Basic Rate, and showed how the Gross Wage was worked out from this, and then how the deductions were made to arrive at the Nett Wage. But there is one very important question that we have not asked.
Different workers to different jobs, and different wages are paid for different jobs. So we must also ask: IS THE WORKER GETTING THE RIGHT RATE FOR THE JOB THAT HE IS DOING?

Usually there are many different jobs done in one factory, but there is not a special wage for each different job. Instead, the jobs are divided into groups, or GRADES, and all jobs in the same grade get paid the same wage. So to find out if the correct wage is being paid you have to ask:

What JOB does this worker do?

What GRADE is this job in?

What is the RATE for that grade?

Any wage agreement includes a list of all the different jobs done in the factory, showing what grade each job is in.

<u>DIFFERENTIALS.</u>

Why should workers doing different jobs get differ-

ent wages? Why should there be DIFFERENTIALS between different grades?

There is no scientific way of deciding exactly which grade each job should go into, or exactly how big the wage differential should be between workers in different grades. But the following questions are important:

Does the job require special skill or special training?

Does the job require very hard work which is likely to make the worker especially tired?

Does the job give the worker responsibility?

Does it need the worker to watch over and help other workers?

Does the job require long experience before it can be done properly?

Is the job dangerous?

Questions like these are asked when deciding which grade a job should be placed in. But it is still very difficult to decide exactly what a differential should be, and this can be a cause of conflict.

There is one very common differential, and that is a differential based on long service. Workers who have worked in a factory for a longer time usually know the work better and have experience in doing the job.

CONFLICT OVER RATES AND DIFFERENTIALS.

We know that there is conflict between workers and management over basic rates of pay. But , if we look back over the question of overtime rates, piece rates, grading of jobs and wage differentials we can see that

there are many problems which can arise and cause even more conflict between workers and management. The main problem is WHO DECIDES?
Who decides what the piece-rate and the normal rate of output for each job should be?
Who decides which job should be in which grade?
Who decides what the differences in wages should be between each grade of job?

If there were a scientific way of measuring these things, then there would be no problem. But as we saw when talking about work study and productivity, there is not any scientific way of doing these measurements. The work study team cannot measure exactly what time a particular job can be done in, because the question of how fast the worker should work is always a matter of opinion.

In the same way, it is also a matter of opinion how much more difficult one job is than another job. It is a matter of opinion how much more money one job is worth than another job.

When managers decide these things by themselves there will always be trouble, because the workers will not be satisfied. If managers make the piece-rates low, or normal output rate high, then the workers often slow down, so that production drops and causes the managers trouble. *So if managers try to cut costs this way they generally lose more than they gain.* But the conflict is bad for everybody. It would be better for everybody if better ways could be found to solve the problem.

It is the same with job grades and wage differentials. When management decide by themselves in which grade a job should be, and what the differential should be between different grades, it always causes conflict in the factory. It causes conflict between the workers, because some think that they are being unfairly treated, and that the others are being better treated. Those

workers who think that they are being unfairly treated often slow down their work, or begin to do work which is below standard, to show that they are annoyed. Strikes are often caused by sudden changes in job grades and differentials.

One of the reasons why these questions are so important is that today factories change their methods of production often, so that there are often changes in jobs, and job descriptions and piece-rates. Each time there is change there is the possibility of conflict.

PARTICIPATION.

How can these problems be solved? There is in fact a very easy solution. The trouble does not come from the fact that there are different jobs and different rates. IT COMES FROM THE FACT THAT MANAGEMENT TRIES TO DECIDE BY ITSELF WHAT THE RATES AND GRADES SHOULD BE.

So this kind of conflict can only be ended when the workers take part in deciding these things. And, after all, this is obvious, because it is the workers who do the jobs and know them best. It is the workers who know how long it takes to do a job without getting tired, and how much more difficult one job is than another.

Any change in piece-rate, normal rates and bonus systems should be discussed with the workers, and the final decision should be taken together with the workers' representatives.

The grading of jobs, and the wage differentials for different kinds of jobs should also be discussed with the workers. The workers doing the different jobs are the ones who can make the best decision about which are the more difficult, more tiring or more skillful.

The INTERNATIONAL LABOUR OFFICE, which represents

both workers and management from nearly all the countries in the world (except South Africa) has discussed this problem, and made the following recommendation about the setting of piece-rates:

All piece-rates, incentive pay and production bonuses shall be agreed by the company and the union .

A price committee shall be selected under the supervision of the union at plant level by the workers. All piece-work rates shall be adjusted by the committee and the managers.

Piece-work rates shall be settled by the price committee and the managers in conferences which are to take place outside the regular working hours. The piece-rates so fixed and agreed to shall be written down and copies delivered to each party and to the office of the union. Any disputes shall be settled between a representative of the union and the managers, and shall finally be submitted to arbitration.

v) PIECE-RATES AND INCENTIVE BONUSES.

Piece-rates and other forms of bonus scheme were originally introduced to try to get workers to work harder. The idea was that if workers were paid in accordance with the amount of work that they did, then they would do more work in the same time. They would get higher wages and the company would get more work done, and so everybody would benefit.

But unfortunately there have been many problems with such PAYMENT BY RESULTS schemes, so workers must consider them very carefully if management is thinking about introducing them. In some industries such schemes are not possible, because it is not possible to measure the output of the individual workers, or because the output of the workers is a result of the fixed speed of the machines.

But there are many industries in which it might be possible to introduce various kinds of production bonus or piece-rate system. What are the advantages and disadvantages of the system?

The main advantage is that it gives the worker a little bit of control over the speed of work, and it can lead to an increase in the worker's income. But the relation between work and income must be watched very carefully by the worker.

FIRSTLY the workers must make sure under any piece-rates or bonus system that THE INCREASE IN WAGES IS AT LEAST AS BIG AS THE INCREASE IN OUTPUT. They must make sure that if they double their output then their wages will also double. This is important because management often tries to introduce schemes which increase the wages only a little for each increase in production. That way only the company benefits, by getting a lot more work for only a little more money. They actually cut the rate which is being paid for the job.

Because the incentive systems do always increase rate of work, it has been worked out that the rate should be set so that the average wage for a worker on an incentive system should be at least 1 1/3 higher than the average wage on an ordinary time-rate wage system. That means that if the time-rate wage is R20 per week, then the piece-rate should be set so that the average worker earns One and One Third times R20:

R20 x 1 1/3 = R26,66.

Workers should also make sure that the guaranteed fallback wage is high, so that when something stops the workers from reaching their normal level of production, they can still be sure that they will get a large enough wage.

PROBLEMS WITH INCENTIVE SCHEMES.

The main problem with any kind of incentive scheme, is that it leads to a lot of tension and conflict between workers and management.

There is usually trouble over the setting of the rate for each job. Because methods of work change the rate have to be changed quite often, and so there is often trouble.

Also if managers discover that the workers can earn quite high wages for a particular job, they often try to lower the rate. This is called RATE-CUTTING, and often one of the main reasons for introducing incentive schemes is so that they can cut the rates. Of course if they do this it causes even more tension and conflict in the factory.

So, UNLESS THERE IS FULL PARTICIPATION BY THE WORKERS, incentive schemes usually do not benefit the workers very much. But if there is full participation by the workers these schemes can help both management and workers. Workers can have greater control over their jobs, and can make sure that their wages go up as much as their work increases.

Management also benefits because they get more work done in the same time, and so save on depreciation and other fixed costs. Also, there is less general worry for them when there is co-operation between management and workers.

vi) RACE AND SEX DIFFERENTIALS.

The workers should participate in grading jobs and setting rates and differentials between jobs. But there are two other kinds of wage differentials which are not between kinds of jobs, but are between kinds of people.

The first is paying women workers less than men workers for the same job. This is still done in many countries, including South Africa, but more and more people think it is unfair, and in most countries people are trying to put an end to the system. IF WOMEN DO THE SAME JOBS THEY SHOULD GET THE SAME PAY.

The second is paying workers of different races different wages. It very often happens in South Africa that an Indian or a Coloured worker will get paid a lot less than a White worker for doing the same job, and that an African worker will even get paid a little less than an Indian or Coloured worker for doing the same job. SOUTH AFRICA IS THE ONLY COUNTRY IN THE WORLD WHERE THIS NORMALLY HAPPENS. In most other countries where there are workers of different races working, it is against the law to pay them different wages for doing the same kinds of jobs.

In South Africa this is also related to JOB RESERVATION. Some kinds of jobs are especially reserved for White workers, either by law or by the fact that White employers always make sure that these jobs go to other Whites.

There are in fact two different kinds of wage differential based on race in South Africa.
Firstly, there is often a gap between workers of different races doing the same kind of job.
Secondly, there is often an unusually big gap between the rates for jobs which are usually done by Whites, and the rates for jobs which are usually done by Africans, Coloureds and Indians.

It has been shown that where black and white workers do the same jobs, white workers receive on the average more than three times as high a wage. Taking all jobs, Whites earn wages over 5 times higher than Black workers.

Why is there such a big differential between the wages paid for the kinds of jobs done by Whites and the kinds of jobs done by Blacks? One of the reasons is that Whites are usually better educated (because they control the government and can make sure that there are good schools for them). But this is not the main reason. In other countries, like Britain and the United States, skilled workers do get paid higher than unskilled workers, but the difference is that the skilled workers usually get paid about 1½ times as much as unskilled workers ... not 5 times as much. Office workers do not get paid much more than other workers, but in South Africa, where they are mainly White, they do get paid much more.

What is the reason for this big WAGE GAP? It is not something natural. It has come about because the Black workers, and especially the African workers who have had no workers' organisation, have been too weak to do anything about it.

It is important to try to find out about the wages and salaries paid to all people who work in the firm, so that you can also discuss these differentials with management when you negotiate about wages. Sometimes when management say that they cannot raise workers' wages because then the company would not make a profit, they really means that they cannot both pay the workers good wages and at the same time pay themselves and the other office staff enormous salaries.

It would be very difficult to persuade management that they should find the extra money to pay decent wages to the poorer workers by cutting the wages and salaries of the foremen and office staff and managers. But it might be possible to make them at least give any new money for wages to the poorer workers rather than to the people already earning very high salaries.

This question of the wage gap is a very difficult one.

Certainly workers are not going to be satisfied with just small wage increases when they see other people earning five times as much as themselves.

vii) A WAGE AGREEMENT.

If we look back over the things that we have discussed, we can see the most important things that must be included in any negotiation with management over wages.

These are, firstly the things that affect the basic wage:

The basic rate and the basic working time.
The description and grading of each job.
The differentials between the different grades.

Secondly, there are the things which affect the gross wage:

Overtime rates.
Night shift rates.
Attendance bonuses and production bonuses.
Cost of living allowance.

Thirdly, there are the schemes which can help the workers, and for which they have to pay contributions:

Benefit funds;
Trade unions;
Pension funds;
Medical Aid schemes.

Although the basic rate of pay is obviously the most important thing, workers should discuss all these other questions amongst themselves before negotiating with management and should try to improve all these additional benefits.

One other additional benefit is a PAID HOLIDAY. Most workers do get an annual holiday on full pay. You should check that all workers are getting the right amount of paid holiday.

PART 11.

OWNERSHIP AND PROFITS.

CHAPTER 5.

OWNERSHIP.

South Africa is a capitalist society. Capitalism means that the means of production, the land and the factories, are privately owned.

Capitalism is not the only economic system. In some parts of South Africa, land is owned in community by the tribe. The chief shares out the land between the different families in the tribe. There is no private ownership.

In other countries there are different systems. In some places the factories are owned by the workers, while in others all the factories are owned by the government. Even in South Africa, a number of important industries are owned by the government. These include:

South African Railways
South African Airways
ISCOR (Iron and Steel Corporation)
SASOL (South African Coal, Oil & Gas Corp.)
ESCOM (Electricity Supply Commission)

There are also industries which are owned by the municipalities and the provincial councils. Juba is made by a factory owned by Bantu Affairs Administration Board.
So even in South Africa not all the means of production are privately owned. But still, most factories and most mines and farms are privately owned, so South Africa is a capitalist country.

In the case of government-owned industries, the managers are appointed by the government. Their aim is to provide a service to the community, not to make a

profit. But to provide a service to the community they still need to earn enough money to pay for their costs, and to pay for improvements in the services which they offer.

However, in this chapter we shall be concerned mainly with private ownership. There are in fact different forms of private ownership, and it is important for you to know the way in which your factory is owned and controlled.

i) DIFFERENT KINDS OF OWNERSHIP.

There are three main different kinds of ownership. Some businesses are owned just by one man who started the business. This is called SOLE PROPRIETORSHIP. (Proprietor is another word for owner).

Usually only very small businesses are in sole proprietorship, so probably very few people work for businesses in sole proprietorship.

Nowadays even small businesses make themselves into COMPANIES. Instead of being owned just by one person, a company is owned by SHAREHOLDERS.

A shareholder is somebody who owns shares in a company and so must receive a share in whatever profits the company makes.

There are two different kind of company. You have probably noticed names of businesses like:

John Smith & Son (Pty) Ltd.
United Steel Ltd.

There is a big difference between a company which is (Pty.) Ltd. and a company which is Ltd.

A company which is called (Pty) Ltd. is also

called a PRIVATE COMPANY. It is a company which is owned by only a few shareholders.

A company which is just Ltd. is also called a PUBLIC COMPANY. It is a company which has many shareholders, and in which members of the public can buy shares.

ii) PUBLIC COMPANY & PRIVATE COMPANY (LTD. & PTY.LTD).

What does LTD. means? It is short for LIMITED, and limited is short for LIMITED LIABILITY.

If you start a business, and the business does not go well, and loses a lot of money, then it is you who owe the money. You are LIABLE for the money, and you have to pay it back.

But what happens if the business is not owned by one person, but by a company? Then if the business loses money, it is the company that owes the money. But does this mean that the shareholders must pay the money back? Nobody would buy shares in a company if they thought that they might find that they had to help pay the company debts.

So there is a special law which says that shareholders in a company can lose money which they put into the company, but they cannot lose any more than that. Their LIABILITY is LIMITED to the amount of the shares that they own.

What does PTY. mean? It is short for PROPRIETARY, which just means that it is owned by a few shareholders only.

iii) SUBSIDIARIES.

There is a third kind of company which is not quite the same as either of the other two, although it is called either Ltd., or Pty. Ltd. This is a company

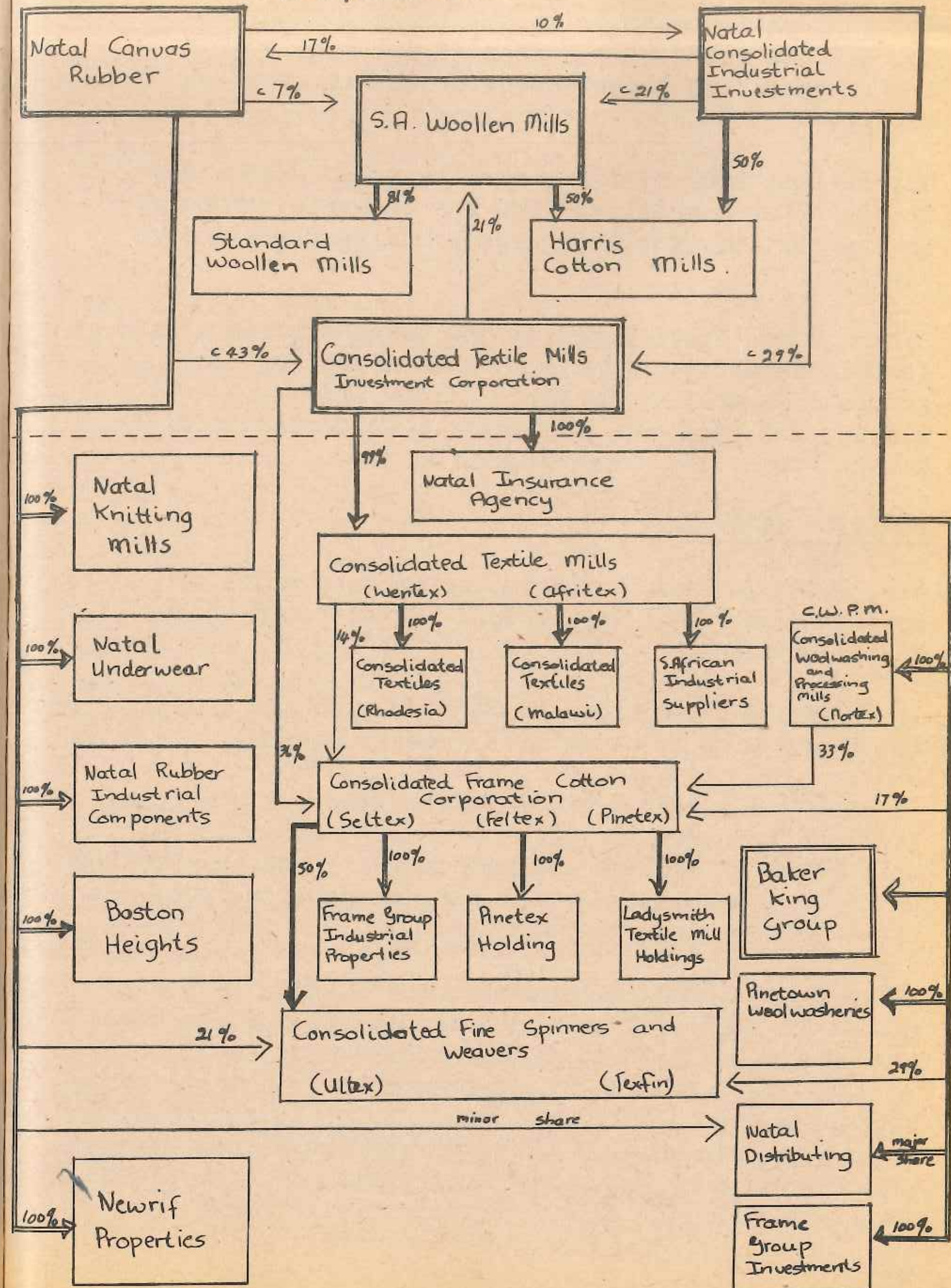
which is owned by ANOTHER COMPANY. A company which is owned by another company is called a SUBSIDIARY of the company which owns it. A subsidiary can be wholly owned, when the owning company owns all the shares, or else partly owned, when the owning company owns thirty percent or more of the shares but not all of them.

Today more and more companies are being taken over by bigger companies, and so are becoming subsidiaries. It is quite probable that the firm for which you work is a subsidiary, so it will be a bit difficult for you to find out exactly who owns it and who gets the profits.

The company which owns or partly owns the subsidiary is called a HOLDING COMPANY. Sometimes holding companies own many different companies in different industries, but other times they have a lot of different companies connected with the same industry. They might have one company which makes the raw materials, another which makes the product, another which sells it, and a special company which owns the property that they need.

On the next page you can see a diagram of the main companies and the subsidiaries of the Frame Group of Textile Companies. You can see that all the companies in the bottom part of the diagram below the dotted line (except for Baker King Group) are owned 100% either by one of the Holding Companies, or by all three Holding Companies together, or by all the Holding Companies and one of the subsidiaries.

The Frame Group of Companies.



The four main companies in the group, which have a double line round them, are public companies and their shares are bought and sold on the stock exchange.

Notice that some of the companies provide services to the other companies, like the property companies in the textile, garment, rubber and footwear industries.

Although the Frame Group is the biggest group in the Textile Industry in South Africa, there are other groups of companies in South Africa which are much bigger, and have many different subsidaries in different industries. *(See diagram on page 75)*

FOREIGN OWNERS.

Many South African companies are subsidiaries of foreign companies, particularly British and United States companies.

It is important for you to find out whether the firm for which you work is owned by a foreign company.

Firstly, in Europe and the United States trade unions are much stronger than they are here. It would help your union or works committee to get in touch with the union of the workers in the same company overseas, as they might be able to help you.

Secondly, in most overseas countries which have companies in South Africa there is dissatisfaction about the conditions of workers and their wages in South Africa. There are even some people who say that foreign companies from their countries should not go to South Africa to help exploit black workers here. Because there is so much argument overseas about the situation of workers in South Africa, foreign owned

companies may be more likely to co-operate with trade unions here. They also know if it is discovered that they are paying low wages to their workers in South Africa, then they might get into trouble with the trade unions and the newspapers in their own countries.

iv) SHARES AND THE SHARE MARKET.

When a company starts, it raises its capital by selling SHARES. Anybody can buy a share in the company and the money which they pay goes to help buy the machinery and materials needed to start the business.

There is a special place for buying and selling shares, called the STOCK EXCHANGE. When the company wants to raise capital it offers, say 100 000 shares for sale on the stock exchange at R1 for each share. Each person who buys a share owns one hundred thousandth of the company, and can have one hundred thousandth share of the profit. (Usually people do not buy one share at a time. They buy in blocks of 100 or 1000).

People who have bought shares can also sell again to other people if they want their money back. People are continually buying or selling shares on the stock exchange. But they do not necessarily sell them for the same price that they paid. If the company is good and is making big profits, then there will be a lot of people wanting to buy shares in the company, so that they can get a share of these profits, and somebody who bought a share for R1 may be able to sell it for R1,50. But if the company is doing badly, and is not making profits, then not many people will want to buy the shares, and the shareholders will have to sell for less than R1.

SHARE PRICES.

So the prices of shares are always changing on the stock exchange, as some firms seem to be doing very well, and people rush to buy their shares, while other firms seem to be doing badly, so people rush to sell their shares, and the price drops. Some rich people make their money just by buying and selling shares on the stock exchange. If they think that the shares of the firm are going to go up, then they buy them quickly, and sell them again when the price is higher. That way they make money by doing nothing.

But the stock exhange prices can help the workers in one way. They can help them to see whether their firm is doing well or not. If the prices of the shares of the company are rising quickly, then that probably means that it is making big profits, and can afford to pay higher wages.

It is easy to find out the share prices, because they are printed every day in the newspapers, and at the weekends in the Sunday newspapers. The companies are divided into different industries, and next to the name of each company is a list of figures giving different information about the prices of the shares. Different newspapers print different things. Some only give the price (in cents), while others, like the Sunday Times, give the highest and lowest price for the week, the change in price over the week, and other general information about the company. The most important figures for us to understand are the two given in the Sunday Times just after the name of the company.

Let us say that you work for Baker Ltd., and you want to find the price of their shares in the Sunday Times. First you turn to the back of the Business

Times. You will see that the second last page is covered in figures. To find Bakers Ltd., which makes bread, you must look under the section marked FOOD. There you will find Bakers written like this:

EY	DY		P	CH	Ri	Hi	Lo	V
9,6	4,7	Baker	255	10+	6	255	250	4,9

(These are the figures for the 20th January, 1974. The figures will probably be different when you look).

What do these figures tell us?
The most important figure is the one straight after the name: 255. This is the price of each share. It is R2,55 per share.
After it comes the figure which shows how the price has changed in the week 10+. This means that the price has gone up (+) by 10 cents per share in the week.
The next two figures, 255 & 250 just tell us the highest and lowest prices in the week.
The last figure says how many thousand shares were bought and sold in the course of the week 4,9 thousand or 4 900.

We can see from this that the shares are well priced, and the company is not doing badly. Knowing the share price of a company cannot of course tell us exactly how much more wages the company could pay its workers, but it does give us a rough guide to whether the company is doing well or badly.

DIVIDENDS.

At the end of the year the company pays out a share of the profits to each shareholder. The amount a shareholder is paid for each share is called a

DIVIDEND.

Let us say that the company which issued 100,000 shares makes a profit of R20,000, and decides to pay all the profits to the shareholders. They divide the number of shares into the total profit:
100,000 into R20,000 = 20 cents. So the dividend per share is 20 cents. If I own 10 shares, I get a dividend of R2. If I own 5,000 shares, then I get a dividend of 5000 x 20c = R1,000.

RETAINED EARNINGS.

Not all profits go in dividends to shareholders. Sometimes the company decides to keep some of the profit to buy new machines, and so on.
But this also helps the shareholders, because if the firm has more machines, then it is also worth more money, so the value of the shares will probably increase.

This money which is kept by the company to buy more machinery is called RETAINED EARNINGS.

Retained earnings is profit which is REINVESTED by the company, instead of being distributed to shareholders in the form of dividends. But it still remains the property of the shareholders, because they own the company.

v) *OWNERSHIP AND AUTHORITY.*

IF YOU UNDERSTAND WHO OWNS YOUR COMPANY, it can help you to find out about the profit that the company is making. But it is also important to know who makes the important decisions in the firm.

In a firm owned and run by one person, it is easy to see who makes the decisions, and who decides what

wages to pay. But in a big company it is not so easy. Sometimes different managers will say that they would like to pay more wages but that they don't decide, and you can never find out who does decide. So let us see how such a big company is run.

Comapnies are OWNED BY THE SHAREHOLDERS. But the shareholders do not necessarily work in the company, and very big companies might have thousands and thousands and thousands of shareholders. How do the shareholders control the company?

Any company has to have a BOARD OF DIRECTORS. The DIRECTORS are chosen by the shareholders, and they have the final authority over what happens in the company.
Every year there is an annual meeting of shareholders and it is the job of this meeting to approve the annual report, and to appoint the directors. Of course, in big companies with many shareholders only a few of the biggest shareholders go to the meetings. Because there is one vote for each share that you have, it is the big shareholders who own many shares who usually in fact choose the directors. Often they choose themselves as directors.

DIRECTORS.

The DIRECTORS do not usually work full-time for the company. They attend a BOARD MEETING, usually about once a month. At this meeting they hear a report from the manager, discuss any important problems that the company may be facing, and make important decisions about things like building new factories, changing the wages, and paying out dividends to the shareholders.

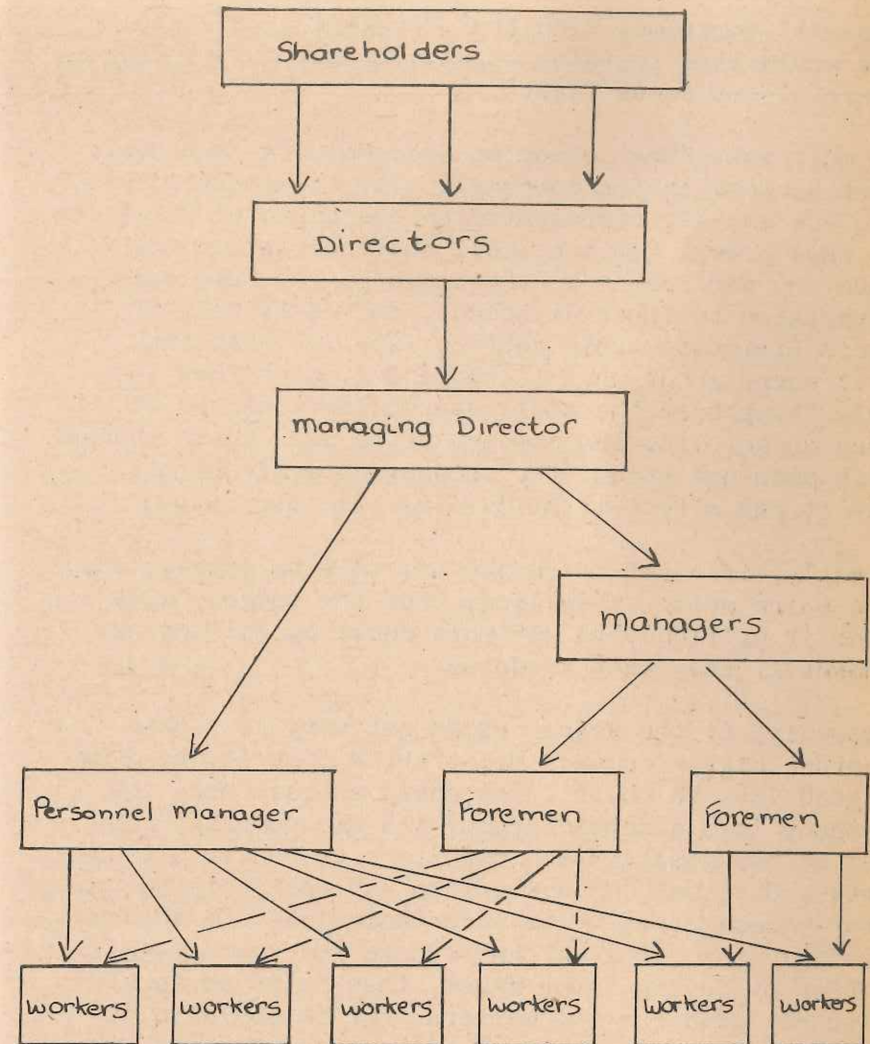
The full-time running of the company is the job of the managing director, who is appointed by the board of directors, He can make his own decisions about many things, but is responsible to the board of directors if anything goes wrong, and cannot take the most important decisions without them. But because the managing director is on the job all the time, he usually knows more about the company then do the directors, so they will often listen to his advice.

The managing director appoints various assistants to help him with special sections of the firm: a production manager, a sales manager, a personnel manager, and perhaps others.

The job of the PERSONNEL MANAGER is supposed to be to look after the needs of the workers. However, the personnel manager does not set the wages. He can help with small things like getting better lavatories, and arranging for special leave to attend a funeral, and he can also make recommendations to the managing director. But his main job is to keep the workers quiet, not the speak for them to management.

The relation between these people is shown in the diagram on the next page.

If you want to change something important in the factory it is no use talking to the foreman or the personnel manager. You must talk to the Managing Director or to the Directors.
If your company is a subsidiary, then the owning company, which is the only shareholder, appoints the Board of Directors, who sometimes will not act without permission from the owning company...but they nearly always do have the power to raise wages.



Authority in Industry.

SHAREHOLDERS' POWER

You will sometimes find that Management will say: "We would like to raise wages, but our duty to our shareholders comes first".

We must ask: "What power do shareholders have over what happens in the company?" The big shareholders, who are usually represented on the Board of Directors, do have power. But the small shareholders do not have any real power in the company. They are only interested in their dividends, and it is only if their dividends start getting very low that they will worry about what is happening. Even then the only thing that the small shareholders can do if they do not like the company is to sell their shares. This does not affect the company directly at all, but it can affect it indirectly in two ways:

Firstly, if a lot of people are selling shares, and the share price is falling, then the company will find it difficult to get more money by selling new shares if they want to do so.

Secondly, if the share prices get very low, then another bigger company might think that it would be a good idea to buy all the cheap shares, make the company into a subsidiary of its own company, and put in new managers and directors to run it differently. Obviously management do not want this to happen, because they might lose their jobs. If the new owning company thinks that it can run the company better by paying lower wages, then it is obviously also not good for the workers. But it may also be that the company could not both pay high wages and reasonable dividends because the managers were no good. So the workers might also benefit from new managers.

SUMMARY.

1. **Most businesses are owned by shareholders, who do not work in the businesses, but who get the profits.**

2. The important decisions about what happens in the business are not made by the shareholders, but by the Board of Directors and the Management. It is the Directors and the Management who are responsible for the wages paid in the firm.

3. Employers do not usually give workers figures to show them how the business is going. But if the firm is a public company, then the workers can find out something about the company by looking at the share prices, and by getting hold of the Company's Annual Report, which will show what profits were made, what dividends were paid, and what debts the company has:
BUT REMEMBER, IF THE MANAGEMENT SAY THAT THEY CANNOT PAY BETTER WAGES BECAUSE THEY ARE NOT EARNING ENOUGH MONEY, THEN THE TRADE UNION OR THE WORKS COMMITTEE SHOULD NOT BELIEVE THEM UNTIL THEY SHOW THE COMPANY ACCOUNTS, SO THAT THE WORKERS CAN SEE WHETHER IT IS TRUE.

If the firm really is not making enough money, then it is probably the fault of Management. The workers should offer to help to improve the management, on condition that they get higher wages.

CHAPTER 6.

FINDING OUT ABOUT THE COMPANY.

You need to know as much as possible about the company for which you work. You need to know who owns it and who controls it. You need to know whether it is related to any other companies. You need to know whether it is expanding or contracting, and whether it is making money or losing money.

The law which governs the ownership of companies is called the COMPANIES ACT. In order to make sure that businesses are run properly, and that shareholders and customers are not cheated, the law says that every company has to give the public certain information. This is called DISCLOSURE. The Company has to disclose certain kinds of information to the public.

Exactly what information has to be disclosed depends on the kind of company, so it is important that you should know whether your company is:

- A PUBLIC COMPANY
- An independent PRIVATE COMPANY
- A PRIVATE COMPANY which is a SUBSIDIARY of a PUBLIC COMPANY
- A FOREIGN COMPANY (called an EXTERNAL COMPANY in the Companies Act)
- A PRIVATE SUBSIDIARY of a FOREIGN COMPANY

The law is different for each of these five kinds of company. There are three main kinds of information dealt with by the Companies Act. We shall first explain what these kinds of information are, then we shall explain which kinds of information each of the different kinds of company have to disclose, and finally we shall explain exactly where you can get this information.

1] *WHAT KIND OF INFORMATION?*

1. Who owns the company?

When the company is founded, the founders have to produce a MEMORANDUM OF ASSOCIATION. This memorandum states the purpose of the company, and what its main business will be. It also states how many shares there are in the company, and the number of shares which have been taken by each of the shareholders.
So the Memorandum of Association shows who owned the company when it was started. Each company also has to keep a SHARE REGISTER, in which a record is kept of the buying and selling of shares. This share register will show who owns the company now. In the case of a big public company, there may be many thousands of share holders. Even if you read right through the share register it would not help you.
Also, sometimes if people do not want it to be known how many shares they have in a company, they have the shares in somebody else's name.

But the share register can tell you if a company is partly or wholly owned by another company, and this is very important to know. For example, if you looked at the share register of CWPM (see diagram page 75) you would see that the shares were 100% owned by Natal Consolidated Industrial Investments. Sometimes it is a little more difficult to find the actual Holding Company.

If you looked at the share register of Consolidated Frame Cotton Corporation, you would find the following:
33% of the shares owned by CWPM (Consolidated Woolwashing and Processing Mills)
17% of the shares owned by Natal Consolidated Industrial Investment
14% of the shares owned by Consolidated Textile Mills
36% of the shares owned by Consolidated Textile Mills Investment.

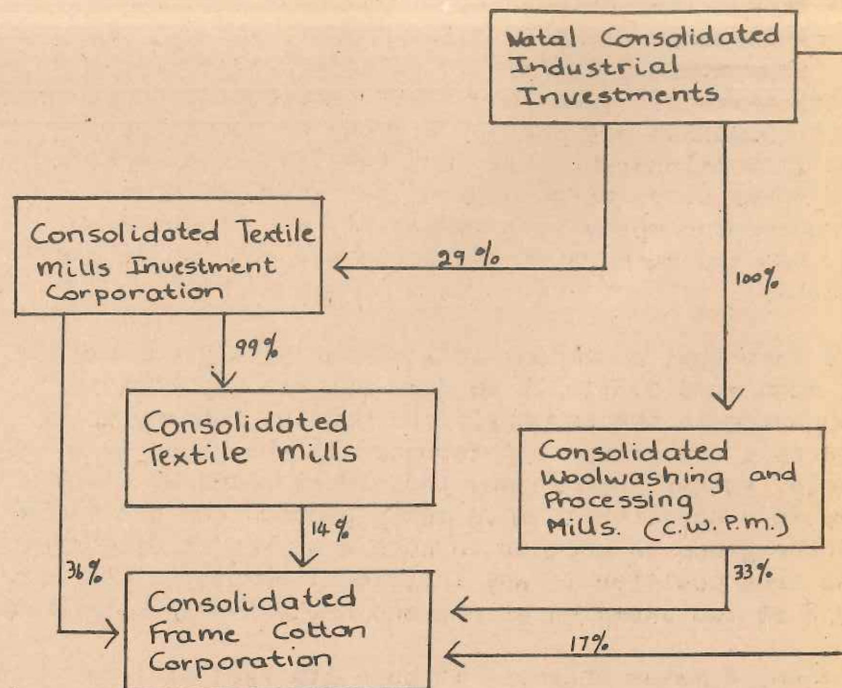
So it would seem that Consolidated Frame is owned by four different companies, none of which has a controlling share. But if you looked at the share registers of each of these four companies, you would find that they are also linked to one another.

> CWPM is 100% owned by Natal Consolidated Investment, so that firm also controls the 33% share of CWPM in Consolidated Frame. That means Natal Consolidated Investment really owns 50% of the firm, not only 17%.

And if we look further we find that Consolidated Textile Mills is 99% owned by Consolidated Textile Mills Investment, so that Contex Investment really owns 36% + 14% of the shares in Consolidated Frame.

Finally, if we looked at the share register of Consolidated Textile Mills Investment, we find that it, in turn, is 20% owned by Natal Consolidated Industrial Investment. Through this 20% share, this firm also controls some of the 50% share of Consolidated Textile Mills Investment in Consolidated Frame. We can see that the real Holding Company which controls Consolidated Frame is Natal Consolidated Industrial Investment. *(see diagram on page 89)*

Why is it important to know this? The answer is that Consolidated Frame is a private Company, but Natal Consolidated Investment is a Public Company. A Public Company has to disclose more information than a private company, so we will be able to get at least some information about Consolidated Frame from the Public Company which controls it.



2) Who runs the Company?

The Memorandum of Association also lists the names of all the Directors of the company, and gives the names of any other companies of which they are also Directors. This information is kept up to date in a Register of Directors and Officials.

There are two reasons why it is important to know something about the Directors. The first reason is that they are the people who make the most important decisions about the company, and so they are the people with whom you are ultimately dealing when you try to improve the position of workers in the company.

The second reason is that, if you know what other companies that are also directors of, you can see how your company is related to other companies. Today there are fewer and fewer independent companies, most companies are part of a Group of companies. The list of shareholders, and the list of directors and their other directorates, can show you what group your company is a member of, and it can show you how the members of the group are related to one another.

The fact that a company is a member of a group makes it much more difficult to find out exactly what is happening in the company. The Holding Company which controls the group is interested in the group as a whole, rather than in any individual company. They are in a position to move money around from one member of the group to another in such a way as to disguise the true position in any individual company. Let us look at two examples of why and how this might be done.

Company A makes shoes. It buys its leather from Company B. Both A and B are controlled by the same Holding Comapny. The machinery in the shoe factory is old, and expensive new machinery needs to be bought. At the same time, the tannery is making a lot of money on which it has to pay tax. So the holding company decides to lower the price which the shoe factory pays for its leather from the tannery. This cuts the income and the profits of the tannery, but increases the income and the profits of the shoe factory, so that it has enough money to invest in the new machinery. From the point of view of the Holding Company, the result is the best. But it disguises the profit being made by the effecient tannery, and exaggerates the profits being made by the out-of-the date shoe factory.

Company D is a large, and profitable engineering

works. The workers are organised into a trade union, and are in a strong bargaining position. The Company controls a number of smaller factories which provide different small parts which it needs. In these smaller factories, the workers are much less well organised. The workers of Company D demand a 30% wage increase and threaten to strike. Management produces a report from its Accountant showing that the company is losing money, and cannot possibly pay higher wages. How is it done? Simply by increasing the prices paid to the subsidiary companies for the parts. The profits are moved to a place where the workers cannot get at them (unless, of course, they manage to organise the workers in the subsidiaries). If the workers did not know the relation between the holding company and its subsidiaries, they would not be able to do anything to find out the real position of the company in which they worked.

3) How is the Company doing?

At the end of each year, a company produces an ANNUAL FINANCIAL STATEMENT. This statement is in three parts:

1. DIRECTORS' REPORT
2. INCOME STATEMENT
3. BALANCE SHEET.

The DIRECTORS' REPORT must give a description of what the company has done in the course of the year, and must say what plans the company has for the future. This includes details of any major changes in machinery or buildings and property owned by the company.

The Directors' report also includes a list of all the Directors, a list of the percentage shareholdings by the company in any of its subsidiaries, and, if the company is itself a subsidiary, the name of the holding company.

The INCOME STATEMENT gives a description of what happened

in the business during the year. It shows how much profit (or loss) was made, and it shows what was done with the profit. We explain how to read an income statement in chapters 7 and 8.

The BALANCE SHEET shows the whole position of the company at the end of the year. It shows the value of all the things owned by the company, and it shows how the company got the money to buy those things. We explain how to understand a Balance Sheet in Chapter 8.

ii) WHAT INFORMATION MUST BE DISCLOSED?

A PUBLIC COMPANY has to disclose:

its memorandum of association
its register of members (shareholders) and its register of directors
its annual financial statement.

AN INDEPENDENT PRIVATE COMPANY has to disclose:

its memorandum of association

its register of members and its register of directors.

A PRIVATE SUBSIDIARY OF A PUBLIC COMPANY has to disclose:

its memorandum of association

its register of members and its register of directors

its annual financial statement.

A FOREIGN COMPANY (whether it is public or private) has to disclose:

its memorandum of association

its register of members and its register of directors

its annual financial statement of its business in South Africa.

A PRIVATE SUBSIDIARY OF A FOREIGN COMPANY has to disclose only the same information as an independent private company.

There is one further item of information that has to be disclosed by any PUBLIC COMPANY when it sells new shares on the market. This is called the PROSPECTUS. Prospectuses are obviously not published regularly. Some firms may never issue new shares, while others may only do so occasionally. But if your company does issue new shares, or has done so recently, then the prospectus will be very useful. The prospectus contains the following information:

the names of the directors, and their directors' salaries.

the profit or loss which the company has made in each of the last five years, and the dividends paid.

a general history and description of the company.

the purpose of issuing new shares: what is to be done with the money from selling the shares.

if the shares are to be used to buy another company, then the prospectus must contain the same details for the company which is to be acquired as a subsidiary.

The Prospectus is particularly important because the company is using it to try to get money with. This means that they will include as much positive information as possible in the prospectus.

iii) WHERE TO GET THE INFORMATION?

Every company, public or private, has a "registered office", and at that registered office it has to keep a register of members and a register of directors and officers. These registers have to be made available to shareholders free of charge, or to any member of the public at a maximum fee of 25 cents. This means that any worker is entitled to ask to see the register of members and the register of directors. Of course, if relations between workers and management are not good, a legal request of this kind might still result in victimisation, so, if you want the information, it might be better to get a trade union official to get it for you.

In addition to the registers kept by each company, there is also a central register, which is open to members of the public. This register is kept by the REGISTRAR OF COMPANIES. All information which has to be disclosed has to be sent to the Registrar of Companies. This means that the following information can be obtained from the Registrar of Companies:

- The register of members and the register of directors of any company.
- The Annual Financial Statement of any public company, or private company which is a subsidiary of a public company, and of any foreign company which carries on business directly in South Africa, rather than through a privately owned subsidiary.

According to H.S. Cilliers and M.L. Benadé's authoritative book "Company Law", "On payment of the prescribed fee any person may:

a) inspect the documents kept under the Act in respect of any company, or
b) obtain a certificate from the Registrar as to the contents of such a document, or
c) obtain a copy of or extract from such a document."

The address of the registrar of Companies:

The Registrar of Companies,
159 Struben Street,
P.O. Box 429,
PRETORIA.

The difficult with getting information from the Registrar is that you have to go there in person. You cannot write to get the information that you want.

However, there are two books which are published every year and which give some of the most important information. These are:

The Stock Exchange Handbook;
Beerman's Financial Yearbook.

Both of these books give the following information about the companies which they list:

1. The names of the Directors, the address of the company's Registered Office, and the amount of share capital.
2. Profits and Dividends for the last 5 years.

However, of the two, Beerman's Financial Yearbook is the more useful. It gives more information about the activities of each company, listing any major new investments by the company in the last year, and gives more detail about what the company actually does. It also says what other companies the company is associated with. If the company is a subsidiary, it gives the name of the Holding Company, and if the company has its own subsidiaries, these are listed.

Beerman's Financial Yearbook also has two other

features:

1. A DIRECTORY OF SUBSIDIARIES. This lists all public or private companies which are the subsidiaries of public companies. Each subsidiary is listed in alphabetical order, and the name of the Holding Company is given. That means that you can find out whether or not a particular company is a subsidiary by looking it up in the Directory of Subsidiaries.

2. A DIRECTORY OF DIRECTORS. This gives an alphabetical list of the names of all people who hold directorships in public companies or their subsidiaries. Next to each name are given the names of all the different companies in which that person is a Director. One way of finding out whether your company is closely associated with another company is by looking to see if the Directors of your company are also directors of one or more other companies.

Beerman's Financial Yearbook can provide you with much information about your company. It will be available in the Reference Library in the town where you live.

However, for a fuller understanding of how the Company is doing, you will still need to look at the Balance Sheet, and this you will only be able to get from the office of the Registrar in Pretoria. Your Trade Union will have to arrange for somebody to get it for you.

CHAPTER 7.

PROFIT.

Why do people start factories?
In some countries they start factories because they see that people need work. But in most countries, including South Africa, they do not do it for this reason. People start factories or other businesses because they want to make money.

They can make money only if they can sell their products for more than it cost to make them. If the revenue they get from selling the products is greater than the money that they have to spend on costs, then they make a PROFIT.

PROFIT = REVENUE - COSTS

The aim of the employer is to keep costs down and revenue up.
When workers ask for an increase in their wages, one of the things which the employer says is: "I would like to pay you higher wages, but if I increase wages, that will mean that costs will go up, and I will have to increase prices, and then people will not buy the product any more, and so I won't be able to keep you in the factory. If you make me put up the wages, then you will end up losing your jobs."

Of course, SOMETIMES this is true, but USUALLY what the employers means is that if wages go up, then *his profits will go down.*

So when workers argue with the employer about their wages, they are also arguing about the employer's profit.

i) WHY MUST THERE BE PROFITS?

All the people who work in management get salaries

every month, and these are part of costs, not part of profits. The profits go to the owners, and often the owners do not even work in the firm. Why must they get profits from the production of goods if they do not do part of the work?

This is a difficult question to answer. In a country where some people own the land and the factories and the money, and some people own nothing, the owners have great power, because the people who have nothing have to work for them.
The owners will not start businesses and let people work for them unless they think that the workers of the firm will produce more goods than are needed to cover the costs of their wages. They will not give workers work unless they are sure that the workers will make a profit for them.
So it is true that in a country like South Africa, where some people own everything, that there must be a profit or people will not get jobs.
But HOW BIG must the profit be?
The answer is that there is no size that profit HAS TO BE. The owners usually want to make it as big as possible. So we can also say that profit will be AS BIG AS THEY CAN MAKE IT.

And how big they can make it depends partly on how little they can pay the workers.

So, there will always be a difference between workers and owners over wages and profits.

If your employer says that he cannot pay you more wages, because if he did he would start to lose money, and the firm would have to stop, IT MIGHT BE TRUE. But how CAN YOU KNOW if it is true? You cannot know unless the employer shows you the books in which he keeps records of the costs and revenue and profits. All the costs and revenue and profits or losses are put together each year in the BALANCE SHEET.

Usually the employer will not show the workers the balance sheet. But if the employer won't let the workers see it, then there is no reason for the workers to believe him when he says that he cannot afford to pay higher wages.

Some firms have to show the public their balance sheet each year, and for other firms it is usually possible to find out something about their profits. But it is often quite difficult to understand it when you do get it.

Firms have people called ACCOUNTANTS whose special job it is to make and understand balance sheets. Workers can also get an accountant to help them through their trade union. But some parts of balance sheets are not too difficult to understand, so it is important that workers know something about them. In this Chapter we will explain more about the balance sheet and the profit and loss account.

ii) MEASURING THE PROFITS.

THE ACCOUNTANT.

At the end of the year the accountant has to work out whether the firm has made a profit or a loss during the year. He can do this only if he knows exactly how much money was spent during the year, how much money is still owed, how much revenue the firm received and how much money is still owing to the firm.

Each different kind of cost is recorded during the year in a separate book. There will be a Wage Book, a book for recording money spent (EXPENDITURE) on materials, and so on. There will also be a SALES book in which records are kept of money received (RECEIPTS) for the sales of goods or services.
All this information is recorded during the year by the clerical staff, and at the end of the year all the different figures are added up to find the totals for the year.

When the Accountant is adding all this up at the end of the year he is trying to do two things.
Firstly he wants to make sure that nothing has got lost or been stolen during the year.
Secondly he wants to know if the firm has made a profit or a loss.

PROFIT AND LOSS ACCOUNT.

The Accountant begins like this. He divides the page down the middle.

Then on the left side of the page he writes down the totals of all the different kinds of costs.

On the right hand side of the page he writes down all the Revenue.

PROFIT AND LOSS ACCOUNT FOR 1975.

COSTS	REVENUE
TOTAL COSTS	TOTAL REVENUE.

As we saw in Chapter 1, there are different sorts of costs. The accountant will make a separate place (called an "entry") for each of these different kinds of costs and the Profit and Loss Account.
Let us take an example:

PROFIT AND LOSS ACCOUNT FOR 1975.

COSTS			REVENUE
Rent	10 000	Sales	R100,000
Wages	30 000		
Materials	20 000		
Advertising	5 000		
Maintenance	5 000		
Total Costs	R70,000		R100,000

We can see in this example that the firm's basic costs are less than the amount of money which they get from selling the goods.

So they have made R30,000 more than they used in the first place to buy the things which they needed to produce their goods or services.
This is called the TRADING PROFIT.

If you look again at the Profit and Loss Account on the last page, you will see that we have not yet put in all the costs. There are still two important costs missing:
Interest and Depreciation.
The reason that we have not yet put them in is this.
All the costs we have put in are those that have to be paid during the year. The wages have to be paid every week, the rent every month, and so on.

But some costs are paid only at the end of the year. Interest is paid once a year, and the money for depreciation is put aside at the end of the year. But before this can be done the firm wants to know if they have got enough money to pay the interest and to save for depreciation. If they haven't got enough then they are in trouble.

But in our example they have got enough. So they pay interest and save the money for depreciation, and the accountant enters it like this:

PROFIT AND LOSS ACCOUNT FOR 1975.

Rent		10 000	Sales	R100,000
Wages		30 000		
Materials		2C 000		
Maintenance		5 000		
Advertising		5 000		
Total		R70,000		R100,000
Interest	2 000			
Depr.	8 000			
	R10,000			
		R10,000		
Total Costs		R80,000		
Profit		R20,000		

So in our example the PROFIT AND LOSS ACCOUNT shows that the company has made a profit, not a loss. It has made a profit of R20,000.

But not all this money goes to the owners. The firm

still has to pay TAX to the GOVERNMENT. The government gets its money from different sorts of tax. There is personal tax and poll tax, which people pay themselves, and then there is COMPANY TAX, which each firm pays on its profits.

Tax is not part of costs, because if the firm does not make any profit it does not have to pay tax at all. But when it does make a profit it has to pay a tax of 40 cents in every rand to the government.
So our firm has to pay

R20,000 X R0,40 = R8,000 in tax.

Its PROFIT BEFORE TAX is R20,000
Its PROFIT AFTER TAX is

R20,000 — R8,000 = R12,000

It is the R12,000 which is left after the tax which goes to the owners of the firm.

iii) RATE OF PROFIT.

The owner is interested in two things about his profit:

1. He is interested in the total AMOUNT of profit.
2. But he is also interested in the relation between the amount of profit and the money which he had to spend in order to get that amount of profit. This is called the RATE OF PROFIT.

Rate of Profit is usually calculated in PERCENT (%). That is, we work out how much profit was made for each R100 that was spent. (If you are not sure about how to work out percent, you will find an explanation at the end of the book. Read it carefully, because it is very important that you should be able to understand and use percentages).

Let us look at some examples of the difference between amount of profit and rate of profit:

If I start a business buying and selling bananas, and I begin with R10, then I have done well if I have made another R10 by the end of the week. I have made 100% profit in a week.

This is how it is worked out:

$$\frac{\text{Profit}}{\text{Money started with}} \times 100 = \% \text{ (percent)}$$

$$\frac{10}{10} \times 100 = 100$$

But if I start with R100, and at the end of the week I have made an extra R10 I will not be so happy, even though I have made the same AMOUNT of profit. I have made only 10% profit.

$$\frac{\text{Profit}}{\text{Money}} \times 100 = \frac{10}{100} \times 100 = 10\%$$

Take two different kinds of business. In one, the owner of the company (THE CAPITALIST) spends R800,000 and at the end of the year has made an extra R100,000. In the other, the capitalist spends R6 million, and at the end of the year he has made an extra R500,000. Which capitalist is going to be the most satisfied?

Capitalist 1 made:

$$\frac{100,000}{800,000} \times 100 = 12,5\%$$

Capitalist 2 made:

$$\frac{500,000}{6,000,000} \times 100 = 8,33\%$$

So, although Capitalist 2 has made the biggest sum of money, Capitalist 1 made a better rate of profit.

Why is the rate of profit so important? It is important because the capitalist can do many different things with the money. He does not have to spend it just on this firm. He could spend it on making a different kind of firm, or he need not spend it all on one kind of business. He can spend it on two or three small businesses, instead of just one big business.
So he wants to know how much money he can make for each R100 that he uses in each different kind of business.

Capitalist 2 might think that he will be able to make more money if he sells part of his big business for R800,000, and uses that money to start another small business like Capitalist 1, who is making 12,5% profit. Capitalist 2 will then have two businesses, in one of which he makes 12,5% on R800,000, and in the other one he makes 8,33% on R5,200,000. This will give him a bigger total profit than he had before.

So the percentage profit helps the capitalists to compare how much they can make with their money in each different kind of business, and that is why it is so important to them.

CHAPTER 8.

THE FINANCIAL REPORT.

INCOME STATEMENT.

We have shown how the company works out its annual profits in its account books. At the end of the year it will publish an INCOME STATEMENT showing what profits it made, and what happened to these profits. This Income Statement will not include full details of costs, because companies do not like their competitors to know too much about their costs. It will start by giving the TRADING PROFIT. This is the difference between revenue from sales and costs before depreciation and interest have been paid. Then the Income Statement will show what happened to the trading profit. We shall explain this by looking at a real example of an Income Statement.
(Here is the Income Statement of the Company for the year ending June 30th, 1973).

Trading Profit:		R1,842,518
Less Depreciation	R595,043	
Interest	97,554	
		692,597
		R1,149,921
Less Taxation		323,579
Profit after Taxation		R826,342
Plus Profit from Sale of Subsidiary		560,180
Profit to be appropriated		R1,386,522
		================

Shared as follows:

Dividends		R384,800
Transfers to reserves		
Capital Revenue	560,180	
Revenue Reserve	356,342	916,522
Profit Retained		85,200
		R1,386,522
		============

We have already explained most of the things which you will find on the Income Statement.

They have not shown the costs and the amount of money which they received from sales. Instead, the Accountant used his record of Costs and Sales to work out the Trading Profit, which is the profit after the main Costs have been taken away from the Sales, but before Interest has been paid and allowance has been made for depreciation.

The Accountant has also put separately the profit which the company made by selling one of its subsidiary companies. This is because this is not an ordinary way of making profit, and the Accountant wanted to show first what profit the company made from its ordinary business.

The "profit to be appropriated", which is the profit left for the company to do what it likes with, was then shared out. The shareholders received dividends of R384,800. The company kept the other R1,001,722.

The difference between "transfer to capital reserves", "tranfer to revenue reserve" and "profit retained" is important for the accountant, but it is not important

for you. It all means money which the company kept to reinvest so that it could grow bigger.

ii) THE BALANCE SHEET.

At the end of the year the OWNERS want to know two different things about the company.

Firstly they want to know how well the business did in that year. This is shown in the PROFIT AND LOSS ACCOUNT, which shows whether a Profit or a Loss was made in that year. This is also called an INCOME STATEMENT.

Secondly they want to know how rich the company is. This does not only depend on how business has been in that year. It also depends on what happened in other years. If the company made a good profit this year, it may still owe a lot of money because it had made a big loss in the years before.

So to show the whole position of the company, and not just how it has done in this one year, the accountant also draws up a BALANCE SHEET, which shows everything that the company now owns, and also shows what is owed to the company, and what the company owes to other people.

It is the Balance Sheet which shows best if the company is a good company or not, and if it is able to pay good wages or not.

The Balance Sheet shows two main things:

First it shows the total amount of money that the company has invested since it began, and where that money has come from.

Secondly it shows how that money has been used and where it is now.

The money is used in two main ways. It is invested in FIXED ASSETS, that is, in things like Machines and Buildings which the company buys and uses for a long time.

Or it is invested in CURRENT ASSETS, which are things like stocks of raw materials and finished products which the company will soon use up or sell. Current assets also include any money which the company has in the bank or in its own safe. Current assets also include money owing to the company by other people.

But the Balance Sheet also has to show any money which the company OWES to other people. This is called LIABILITIES. It is money which the company is LIABLE to pay out to other people.

The TOTAL ASSETS of the company are equal to the FIXED ASSETS + CURRENT ASSETS - CURRENT LIABILITIES.

Here is the Balance Sheet for the same company as at the 30th June 1973.

Share Capital	R3,640,000
Capital Reserve	1,271,417
Revenue Reserve	4,826,389
Interests of Shareholders	9,737,806
Long- Term Loans	1,700,000
	R11,437,806

Represented by:

Fixed Assets		R 8,366,609
Current Assets:		
Stocks	R3,351,237	
Debtors	2,762,525	
Bank & Cash	534,621	
	R6,648,383	
Current Liabilities:		
Creditors	R1,402,332	
Bank Borrowing	1,811,100	
Dividend	363,754	
	R3,577,186	
Net Current Assets		R3,071,197
		R11,437,806

Read this Balance Sheet very carefully, and see how much of it you can already understand. Only then must you see our explanation of the new things on the Balance Sheet.

1. Interests of Shareholders.

The shareholders own the company. Therefore all the capital which the company owns, and which has not been borrowed, belongs to the shareholders It is the amount which the company got in the beginning by selling the shares, plus the total amount of profits which the company has saved and reinvested over the years.

You will remember that the shareholders can gain in two different ways from the profits. They gain if the profits are paid out to them as dividends. They also gain if the company keeps the profits and reinvests them, because then the company has more capital, which is the "Interests of the Shareholders" that the shareholders own.

The difference between Capital Reserves and Revenue Reserves is not important for you to know.

The company will not necessarily use all its reserves to invest in the machines and raw materials. It may keep some of the money in case it ever makes a loss. If it makes a loss one year, then it can perhaps pay for that loss out of its reserves. Then the total of the value of its capital will go down.

2. Borrowing and Loans.

If you look carefully, you will see that there are two different places where the Balance Sheet talks about money which the company has borrowed. Part of the capital is made up of LONG TERM LOANS for R1,700,000.
These long term loans are money which the company has borrowed to pay for new investments. This is money that they will keep for a long time before they pay it back.

If you look under Current Liabilities you will see that there is an amount called BANK BORROWING, for R1,811,100. This is money which the Company has borrowed from the bank because it did not have any cash to pay wages or other things that it had to pay. But it will pay this money back as soon as it has enough cash, when people pay the money they owe the company. So this money is not used as part of the Capital of the Company.

3. Debtors and Creditors.

Debtors are people who owe money to the Company.
Creditors are people to whom the Company owes money.

4. Dividends to be paid.

This just means that most of the shareholders have not yet been paid their dividends for the year, So the company is still LIABLE to pay them the money.

5. Nett Current Assets.

This means the value of the current assets after the liabilities have been taken away.
NETT CURRENT ASSETS = CURRENT ASSETS ÷ CURRENT LIABILITIES.

iii) PROFIT, SOLVENCY AND LIQUIDITY.

We now know what the main things on the Balance Sheet mean. But what do they tell us about the company? How can we use these things to help us know whether the Company is running well and can afford to pay better wages?

The Balance Sheet cannot tell us all the things that we want to know, but it can tell us some of them. First we will look at the things that it can tell us, and then we will look at the things that it cannot tell us.

The three most important things that it can tell us are:

1. The PROFIT RATIO or the rate of profit which the company is making on its capital.
2. Whether or not over the years the company has built up big debts. If it has made a big profit this year, this does not help it if still owes a lot of money from other years. We can tell if it owes too much money by looking at the relation between all the money it owes, and all its assets. This is called its SOLVENCY RATIO.
3. But if the company can only pay the debts that it must-pay soon (its CURRENT LIABILITIES) by selling off some of its machines or other fixed assets, then it is also in trouble. So we also need to look to see if it will be able to pay its current liabilities easily. We can tell whether it can or not by looking at the relation between its CURRENT ASSETS and its CURRENT LIABILITIES. This is called its LIQUIDITY.

We shall explain these three things in the next few pages.

PROFIT RATIO.

The PROFIT RATIO is found by dividing the value of the interests of shareholders, which is also called the NETT WORTH, into the total profit for the year. When we do this we usually take the PROFIT BEFORE TAX.
In this company the profit before tax is R1,149,921 (leaving out the special profit made from the sales of the subsidiary).
The Nett Worth is R9,737,806.

$$\text{PROFIT RATIO} = \frac{\text{Profit}}{\text{Nett Worth}} = R\frac{1,149,921}{9,737,806}$$

$$= \text{approximately } 11\tfrac{1}{2}\text{c per rand}$$

$$= 11\tfrac{1}{2}\% \text{ (or } 11,5\%)$$

How do we tell if this is a good profit or a bad profit? Very roughly, we can say that if the profit that the company is making is less than the amount of interest it would have to pay if all its capital were borrowed, then it is doing badly. The normal interest rate is about 8½%, which is 8½c for each rand.

Our company is earning 11½%, which is quite a lot more, so it is doing well.

The reason we compare the profit ratio with the interest ratio is this. If the company just lent all its money to somebody else, instead of using it to run a factory, then it would get a profit of 8½% on that money, if the interest rate is 8½%. So unless they get more than 8½% by running the factory, then it would be much easier for them just to lend the money to somebody else. But of course even if they are only earning about 8½% they are still earning quite a lot of money.
It is also good to compare your company's profit ratio with the profit ratio of other companies in the same industry.

CAN THE COMPANY PAY ALL ITS DEBTS? THE SOLVENCY RATIO:

1. What is the total amount of money that the Company owes? It is the LONG TERM LOANS, the money borrowed to buy machines and buildings, plus the CURRENT LIABILITIES, the money borrowed to carry on day-to-day business, and the money owed for things which the Company has bought but has not yet paid for.

If you look on the Balance Sheet, you will see that the Long Term Loans are R1,700,000 and the Current Liabilities are R3,577,186.

R1,700,000 + R3,577,186 = R5,277,186

2. What is the total amount of money that the company owns? It is the SHARE CAPITAL plus the amount of money which has been saved out of profits, the RESERVES.

The Balance Sheet shows that the Share Capital is R3,640,000, and the reserves are R1,271,417 plus R4,826,399.

So the total value of the capital is R3,640,000 + R1,271,417 + R4,826,389 = R9,798,606 or nearly R10 million.

3. The SOLVENCY RATIO is the relation between the total debt and the total owned capital. The total owned capital is about R10 million, and the total debt is about R5 million, so the total owned capital is about twice as much as the total debt. We say that the Solvency Ratio is approximately 2. This is very good.
If the solvency ratio is under 1,5, that is, if the owned capital is less than 1,5 times the debt, then the company has too much debt, and it is not doing well.

CAN THE COMPANY PAY ITS DEBTS EASILY? LIQUIDITY.

It is not much good for the Company if it has to sell its machines to pay the debts which it has to pay straight away. So it is also important to know if the money and other non-fixed assets which it has now are enough to pay the debts which it has to pay now.
That is, we need to know if its CURRENT ASSETS are bigger than its CURRENT LIABILITIES.

In the company that we are looking at, the Balance Sheet says that the Current Assets are worth R6 648 383. These are made up of the money it has now, either in cash or in the bank, the money which people owe it for things that they have bought, and the value of the stocks of raw material and finished products which the company can sell.

The Current Liabilities are R3 577 186, which is made up of money the company owes for goods which it has bought, money which it has borrowed from the bank, and the dividends which it has still not paid to its shareholders.

So the Current Assets of R6 648 383 are a lot more than

the Current Liabilities of R3 577 186. They are nearly twice as much.

In fact, for the Company to be safe the Current Assets should be about twice as much as the Current Liabilities. Then it can pay any debts easily without having to sell too many of its stocks in a hurry.

The three important things which the Balance Sheet can tell us about the Company are:

1. The Profit Ratio, which should be about 8,5 or more.
2. The Solvency Ratio which should be 1,5 or more.
3. The Liquidity Ratio which should be 2 or more.

From these three figures the workers can get a general idea about how well the company is doing. But we must stress that the workers should also make sure that their union has an Accountant, and they should take the Balance Sheet to this accountant for a more detailed analysis.

Also remember that the Balance Sheet is always a few months out of date. The state of the business may have changed since.

There are also a number of things which are important to know, for a more detailed analysis, and which the Balance Sheet does not tell us. Here we have only enough space to mention briefly some of the things that the Financial Report can hide.

iv) WHAT THE FINANCIAL REPORT CAN HIDE.

Companies might have a number of reasons for wanting to hide their true profits. A big reason is taxation. Since companies have to pay tax on all profits, the less profits they report, the less tax they have to pay. For a private company avoidance of tax is the most important motive when preparing a financial report, so it is very likely that a private company will try to make profits looks small. A public company, on the other hand, depends very much on the confidence of investors. If it reports low profits every year, share prices will fall, it will be difficult to raise new capital, and the managers might lose their jobs.

A public company might want to conceal all profits in order to avoid taxes, or it might want to exaggerate profits in order to impress investors. On the whole we can expect these two motives to cancel one another out, so that the financial report of a public company is more likely to be accurate than a private company.

PROFITS CAN BE HIDDEN.

1. Depreciation. There are a number of different ways of calculating the annual depreciation of machinery. Profits can be hidden by depreciating the machinery in a shorter time then it really takes for the machines to wear out.

2. Valuation of Stock. At the end of the year the company will own some unsold goods and some half-finished goods. The Balance Sheet will include a value for this stock. The company might work out the value by adding up what it had to pay for the stock (a low price), or by working out what it could sell the stock for (a high price). Or it might use some method in between the two.

3. Valuation of Fixed Assets. The same thing applies to the value of the fixed assets owned by the company. The company might estimate that a building which it owns has declined in value. That will represent a loss against which some of the profits can be written off. Or it might decide that a piece of land which it owns has increased value, and include that in the profits.

At the end of the Financial Report you will find a series of Notes which will explain how depreciation

has been calculated, and how stock and fixed assets have been evaluated. This will help you to interpret what has happened, but it is still very difficult to say whether stock and assets have been fairly evaluated.

4. In chapter 6 we mentioned one other very important way in which profits can be concealed or exaggerated. Within a group of subsidiaries of a holding company, it is possible to move money around from company to company in such a way that it becomes difficult to see exactly which company is doing well and which badly. There are three main ways of doing this:

a. Members of the group may buy from or sell to one another. Prices can be fixed in such a way as to move profit from one company to another.

b. Members of the group can lend money to one another, and then charge especially high or especially low rates of interest. This also moves profit around from one company to the other.

c. Often the holding company provides special management services to the subsidiaries. The fees for these management services can be fixed in such a way as to conceal or exaggerate the profits of any particular member of the group.

Because this can be done, the Companies Act says that the Holding Company has to publish a CONSOLIDATED FINANCIAL STATEMENT, which shows the profits of the whole group. If your firm is a subsidiary, you must get hold of a copy of the Consolidated statement of the holding company.

The other thing that you must do is to find out which of the other subsidiaries are most closely linked to your company. For example, you might find that all the raw materials which you use are supplied by another subsidiary, in the same group. If you find that this subsidiary is earning very high profits, while your company is making a loss, then you suspect that pricing is being used to conceal the real profits of your firm.

v) WHAT THE BALANCE SHEET DOES NOT SAY.

There are also a number of things which are important to know, and which the Balance Sheet does not tell us.

The first, which is very important for the workers, is that the Income Statement and the Balance Sheet do not show us the details of costs. This means that we cannot tell how much of costs are made up of wages, and how much is made up of other costs. This is very important to know, because if wages are a big part of costs, then an increase in wages will mean quite a big increase in costs. But if wages are only a small part of costs, then even quite a big increase in wages will not increase the total costs very much.

So the workers should always try to find out how much of the company's costs are made up of wages for the different groups of workers.

The second thing which is important to know is HOW MUCH business the company is doing. This is called the TURNOVER. The new Companies Act says that the Company must put something about whether its turnover is increasing or not in its yearly report, but it still leaves quite a lot of ways in which the Company can avoid doing this. But if it shows that turnover is increasing, that is another sign that the company is doing well and should be able to pay higher wages.

It shows that there is a big DEMAND for the Company's products, so even if they have to raise the price a little in order to be able to pay better wages, they can probably do so without any trouble.

So if the workers are going to negotiate about wages they should:

a. ask to see the Balance Sheet. But they should also ask for:
b. the total wage bill;
c. the relation between the total wage bill and the total costs;
d. the turn-over, and the likely effect of an increase of wages on the price of the product, and on the sales of the product.

When they know all these things they can tell if the employers are telling the truth or not if they say that they cannot afford to pay higher wages.

In this chapter we have tried to tell you the main things you need to know in order to talk about Balance Sheets. But, as we have already suggested, if you wish to use your firms' Financial Report when you negotiate with management, it will be best if you first discuss it carefully with your Trade Union's accountant.

But if you want to know more about Financial Reports, you can read "Your Emplyer's Profits" by Christopher Hird, published by Pluto Press, London. (The English price is 90p .. the South African price will be about R2,00). It is written for British Company law, but most of it also applies to South Africa.

PART 111.

THE FACTORY AND THE ECONOMY.

CHAPTER 9.

THE ECONOMIC SYSTEM.

The firm sells it products. From the revenue it receives, it has to pay for the basic costs of production. The money left over is divided into wages for the workers, and profits for the owners.

We have described the main basic costs. We have looked at the way in which wages are paid. We have explained how factories are owned and controlled, and how profit is calculated and distributed.

But one large problem still remains. How is it decided how money will be divided between wages and profits? What can the workers do to make sure that they get the bigger share?

In part it is a question of power. The owners, through their Board of Directors, have the legal right to make the division between wages and profits. But, if the workers have a strong trade union, they may have enough power to make the owners listen to them. There is a conflict between the power which the owners derive from their legal rights, and the power which the workers derive from their organisation and solidarity.

While the power of the two groups in the factory plays an important part, it is not as simple as that. What happens in the factory is also affected by what is happening in the rest of the economy.

There are two special arguments which owners bring forward to justify high profits and low wages:

1. They argue that high profits are needed because profits can be invested in building new factories, which can give jobs to more workers.

2. They argue that wages are set by the law of supply

and demand on the labour market, and so that there is nothing which individual firms can do about it.

Both these arguments say that it is not what happens in the factory which decides the division between profits and wages. Instead, it is what happens in the economy as a whole. So if profits are high and wages low, that is not the fault of the owners. It is a result of the workings of the economy, and the owners cannot do anything about it.

It is very important to understand these arguments, and to see where they are true and where they are false. But to understand them, it is necessary to understand the relation between your factory and all the other factories which go to make up the whole economy. So we shall begin by talking about the economy as a system.

In a simple village-society each family has its own piece of land. On this land they grow their own food. They build their own houses,and they may even make their own clothes.

There may be a few things which are not produced in the village. Probably salt for cooking and iron for tools will be brought from far away. But most things will be made and used in the village itself. Most of the things that people do not make themselves they get by exchange from their neighbours.

Such a system is called a SUBSISTENCE ECONOMY. In a subsistence economy each village and each family is more or less completely independent. Things are made (PRODUCED) in order to be used (CONSUMED).

It is obvious that the position of workers in South Africa is very different from the position of people in such a subsistence economy.

1. The workers do not own their own land and tools.

Instead, they have to work in factories which are owned by other people.

2. They do not use what they make. Workers no longer make all the things that they need. Instead, each factory makes only one kind of thing, and in the factory each worker makes only one small part of the thing. One factory makes blankets, and within that factory one worker spins the cotton, and another weaves the material.

3. Workers do not take home some or all of the things that they make. They do not take home the blankets they make, and then take a blanket down to the bakers to exchange for some bread.
The owners of the factory sell the blanket for money, and pay part of this money to the workers. The workers then use this money to buy the things that they want to use (to consume). They buy bread and beer and perhaps even one of the blankets that they helped to make.

In a subsistence economy, the MEANS OF PRODUCTION (the lands and the tools) are owned by the people who work with them. Production is for use. Anything which is not produced by oneself is obtained by direct exchange with the producer.

In South African economy today, the means of production are privately owned by some people (See Chapter 4) and other people have to work for the owners for a money wage. There is DIVISION OF LABOUR between many different workers each making a different part of the same thing. Goods are produced in order to be sold for money. Direct exchange of one product for another (BARTER) is replaced by indirect exchange through the use of money. I do not give you my blanket in exchange for your bread. I sell my blanket to somebody else, and then I use the money to buy your bread.

An economy with:

Private ownership of the means of production ;
Wage labour;
Division of labour between different workers;
Exchange by means of money.

is called a CAPITALIST ECONOMY.
South Africa has a capitalist economy. In this book we are explaining how a capitalist economy works.

DEPENDENCE.

One of the big differences between a capitalist economy and a subsistence economy is this. In a subsistence economy each village and each family is more or less independent from every other.
But in a Capitalist economy:
Workers are dependent on owners and owners are dependent on workers.
Through the Division of Labour, each worker is dependent on all the other workers who are making parts of the same product.
Each factory is dependent on other factories which make the machines and the materials which it uses.
Each person is dependent on all the different factories and industries which makes the things which he or she wants to buy.
Each factory is dependent on the people who might or might not want to buy its goods.

Look around the room in which you are reading this. Some of the things in it may have been made in your town, but many will come from other places.
Perhaps you have a transistor radio "made in Japan", a pair of trousers "made in USA".

In the kitchen you perhaps have tin of fish from Cape Town; a packet of sugar from Natal; a packet of tea from Ceylon, and a bag of mealie meal from the Orange Free State.

Look around the place where you work. Where do the machines in the factory come from? Perhaps some came from England and others came from Germany.

Where do the materials which you use come from? Perhaps some are made in other factories in the same city, while others come from elsewhere in South Africa, and some from other countries.

So you are dependent on:

the owners of the factory in which you work,
the other workers who co-operate with you in producing the finished product,
the other factories from which come your machines and materials,
the people who buy the product of your factory,
the people who make the things which you need to buy.

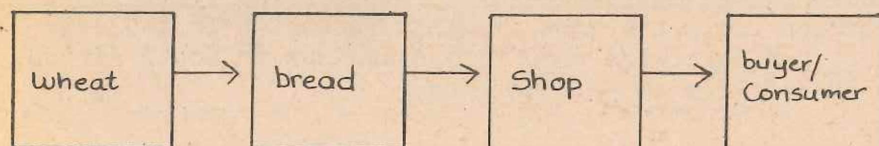
AND THEY ARE ALL ALSO DEPENDENT ON YOU.

All these relations of dependence together make up the economic system. It is a system for the production and distribution of goods.

You need to understand:

Your own place in the system,
The way in which the different parts of the system fit together.

Each family used to make its own tools and grow its own food, using its own seeds. Now, different people do these different things. If we think of how we get bread, we see that first a farmer grows the wheat, then he sells the wheat to the bakery. The bakery bakes the bread and sells it to the shop and we buy it from the shop. We can show this in simple diagram:



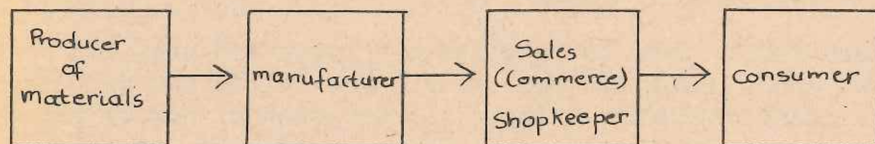
We can see that for the bread to get to us, three different kinds of businesses are needed:

1. There is the business that produces the MATERIALS, that is, the farmer who grows the wheat.

2. There is the business which uses the materials to MANUFACTURE THE PRODUCT, that is, the baker who makes the bread.

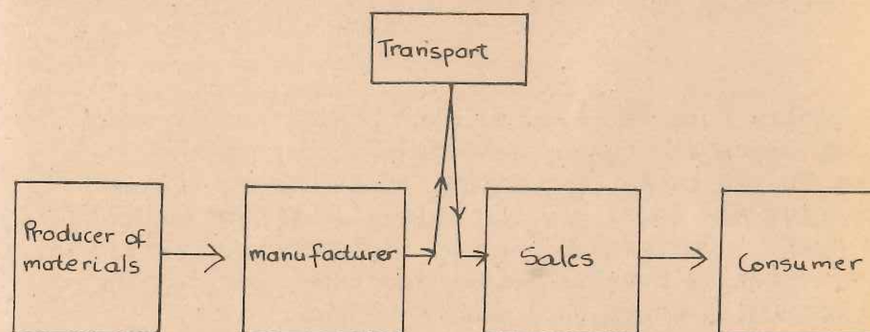
3. There is the business which sells the product, that is, the shop.

We can put this in the diagram:



But how does the wheat get to the baker, and the bread get to the shop?

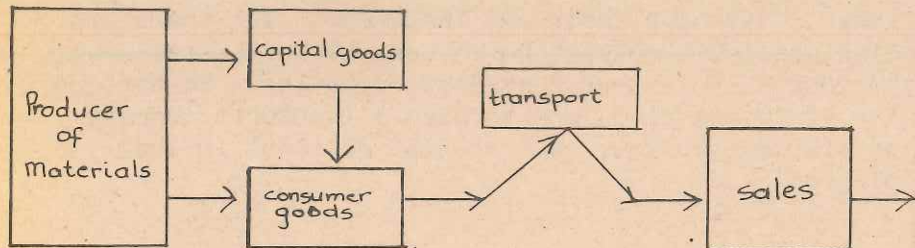
Some businesses have their own lorries and delivery vans. They have their own TRANSPORT. But there are also special transport businesses, like the railways, the docks, and other transport companies. So perhaps the bread has also gone through a transport company on its way to you. We can also put that in the diagram:



The bakery workers use machines to bake the bread. The machines are made by different factories, using different materials like iron, steel, rubber and chemicals. Factories which make machines are part of the CAPITAL GOODS INDUSTRY.

The Capital Goods Industry makes things which are not for direct use by the consumer, but are to be used to make other goods. Goods which are made to be sold directly to the consumer are called CONSUMER GOODS. So we can divide manufacturing into:

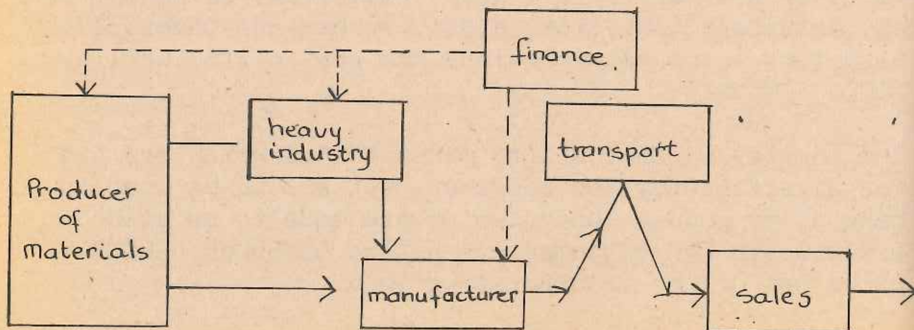
CAPITAL GOODS INDUSTRY
CONSUMER GOODS INDUSTRY



The bakery does not keep all the money that it needs to pay wages and to buy materials. It puts the money in the bank. Sometimes, if it wishes to buy expensive new machinery the bakery will borrow money from the bank. Businesses like banks, which work with money, keeping peoples' money for them, and lending and borrowing money, deal with FINANCES.

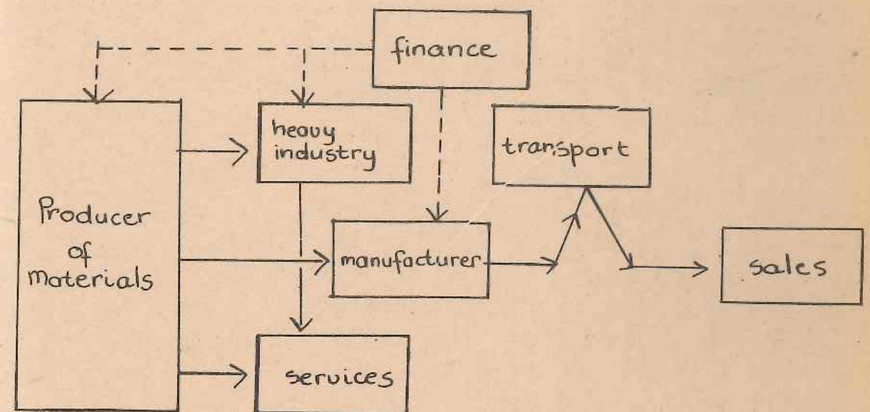
Building societies and insuransance companies also lend money to firms and to people. They are also part of FINANCE.

We can put financial businesses into the diagram:



Now we have a diagram which shows the different kinds of businesses involved in making and selling the things which you buy. We still have not included all kinds of business in the diagram.

Sometimes you do not buy goods with your money. Instead you pay somebody to do something for you. You pay somebody to mend your wireless, or you pay somebody to wash your clothes for you. You are not buying goods, you are buying SERVICES. The people who sell services also use materials and machines to do their services. We can put services in the diagram:



This last diagram shows all the main different kinds of business. You should be able to find the kind of business in which you work here.

What does it mean to be part of an economic system, instead of being an independent producer in a subsistence economy?

It means many things.

A factory can only continue to produce if it can sell its goods. If for some reason the people who usually buy the goods get less money, they will no longer be able to buy them. For example, a tractor factory may find it sells less tractors if farmers have had a bad harvest. So the profits of the tractor factory will be affected by the income of the farmers.

If the tractor factory can no longer sell its products, it may lay off workers. These workers will all be looking for jobs. When there are many people looking for jobs, it is easier for factories to get workers, even if they are paying low wages. Let us say that there is an engineering factory in the same town as the tractor factory. It will now find it easier to get trained workers, and so it may lower its wages. So the wages of workers in the engineering factory will have been affected by the drop in the incomes of farmers.

There will be more unemployed people in the town and those with jobs will be earning less money. So the workers in the town will not be able to buy so many goods from the shops. The shop will discover that they are selling fewer blankets. They will not order more blankets from the textile factory. The textile factory will have to cut production and lay off workers. So the job of workers in the textile factory will have been affected by the drop in the incomes of the farmers.

From this ~~one~~ example you can see that a change in one part of the economic system can have effects in many other parts of the system.

In this book we shall not try to explain how all parts of the system fit together. We do this in another book, THE WORKER IN SOCIETY. Here we are more concerned with arguments about wages in the factory. We shall look at two aspects of the economic system

which most closely affect the question of wages.

The first aspect is the question of INVESTMENT AND GROWTH; that is, the relation between profits and the creation of new factories which can increase the number of jobs and the total amount of wealth which is produced.

The second aspect is the question of the LABOUR MARKET; that is, the relation between wages in the factory, and the number of workers who are looking for jobs.

Remember, in the next two chapters, that we are talking about what happens in a capitalist system, in which the factories are privately owned. Many people believed that capitalism is a bad system, and that it is unfair to the workers. But when you are negotiating for higher wages within a capitalist system, you must know how that system works, whether you like it or not.

CHAPTER 10.

PROFIT, GROWTH AND INVESTMENT.

One of the main arguments in favour of high profits is that high profits are good for economic growth. What is economic growth? How does economic growth help workers? Does economic growth require high profits?

Let us begin by seeing how a company grows. Every firm has to save a little money each year in order to be able to buy new machines when the machines that they are using wear out. This is called DEPRECIATION. Money saved for depreciation is counted as part of costs, not as part of profits. It is used to replace old machinery, not to make the factory bigger by getting a bigger amount of machinery.

i) NEW INVESTMENT.

If the company wants to expand its factory, then it has to get new money from somewhere. A company can get the money it needed for *new investment* in three different ways:

It can keep some of its own profits, and use them for re-investment, instead of distributing them to shareholders as dividends.

It can borrow money from a bank, or from some other lender.

It can issue new shares on the Stock Market, and use the money which people pay for the new shares to pay, for the new investment.

INVESTMENT AND PROFIT.

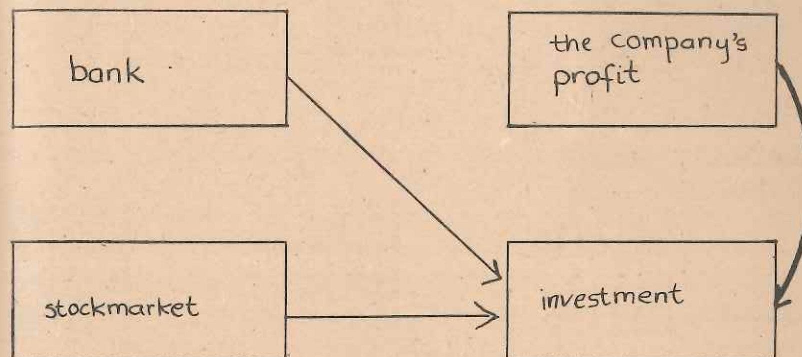
If we look at these three ways of getting money, we can see that there is an important relation between profit and investment.

If there is no profit the company cannot keep a part of the profit to re-invest.

Nobody will lend money to a company unless they are sure that they will get it back. If the company is not making profits, they will be afraid that it will not be able to pay the interest on the loan and that it will not be able to pay back the money when the time comes.

People buy new shares because they want to get a share of the profit of the company. If it is not making profits, nobody will want to buy its new shares.

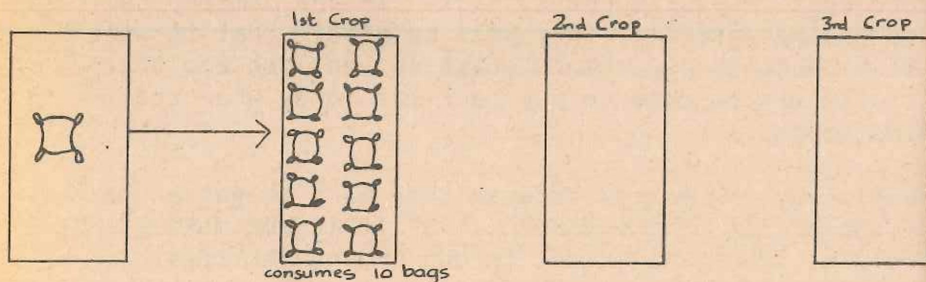
So unless a company is earning good profits it will probably not be able to grow.
There is also another relation between profits and investment. A company can borrow money or raise money by selling new shares, only if there is somebody with money to lend, or money to spend on new shares. This is there can be no new investment unless somebody is SAVING money.



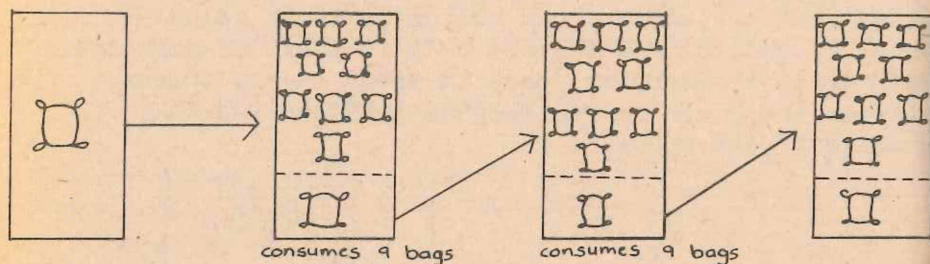
SAVINGS AND INVESTMENT.

If everything we produced was used consumed straight away then there could be no new investment, and the economy could not get bigger. Only if we produce more

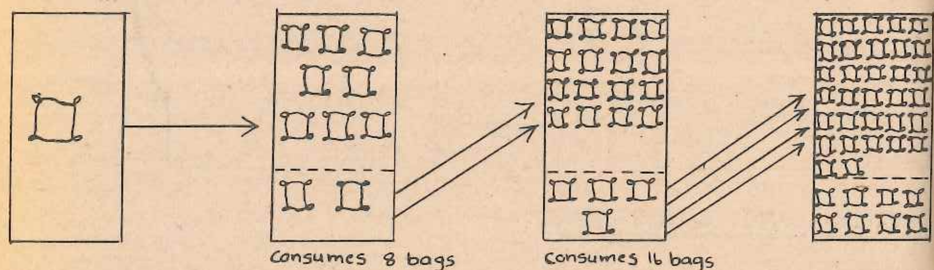
No Investment:



Re-investment but no growth:



Re-investment and growth:



than we consume can we reinvest some of our products so as to be able to produce even more. Let us take a simple example.
Assume that with ONE bag of mealies you can grow ten bags of mealies. If a farmer plants his bag of mealies, and then consumes ten bags of mealies that he grows, he will not have any left to plant the following year. This would be like a factory which did not save any money for depreciation.

If the farmer consumes 9 bags of mealies, and keeps the tenth bag to plant the following year, then he will be able to get the same amount of mealies again the next year. But, if he only keeps one bag each year, he will never be able to grow any more than ten bags a year. If he wants to grow more mealies each year, then each year he must save more than one bag of mealies. Say he saves one and half bags of mealies, then the next year he can grow 15 bags, and if he saves 2 bags out of the 15, then he can grow 50 bags the following year.
So each year he must save enough to replace his first investment (1 bag), plus some more to make a new investment, so that each year he can grow more than the previous year.

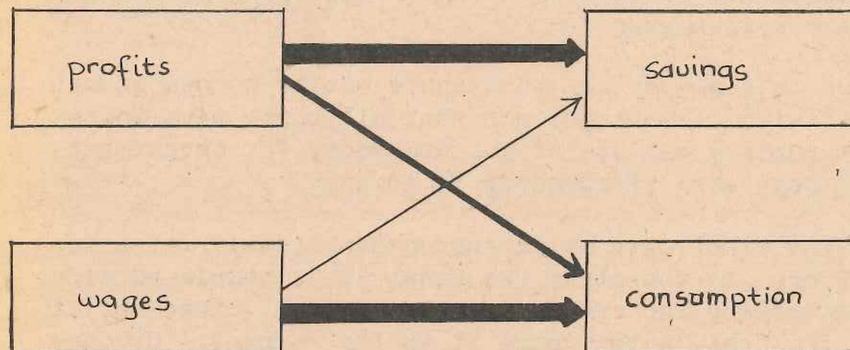
From this we can see that there can be no new investment without savings, and that all three ways which the company can use to get new money for investment can only work if somebody is saving.

In the first case it is the company itself which is saving. In the other two cases it is people outside the company who are saving their money. They put it in the bank, which lends it to the company. Or they use their savings to buy the company's new shares.

What is the relation between savings and profits? Obviously the company cannot save some of its profits to reinvest unless it is making some profits.

But profits are also, in a society like ours, important for the other kinds of saving. If workers got high wages, then they could save some of their wages, and invest it by buying shares, or by putting it in the bank. But, as it is, most workers do not get enough to live on, and they cannot afford to save. This means that most of the saving is done by the rich people, who get more money than they can consume, and also save more of it. Most of these people are shareholders, and get their money from the profits of companies.

Because of this owners often say that profits must be high so that there can be high savings. They say that they want high profits not for themselves to consume, but so that they can help everybody by reinvesting the money and helping the economy to grow.

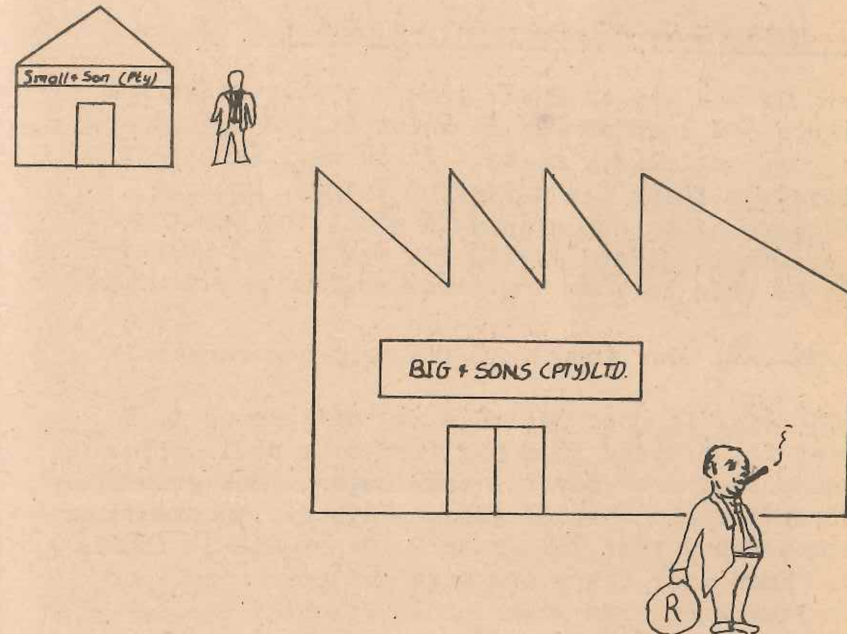


Most savings come from profits

ii) WHY IS GROWTH IMPORTANT?

It is easy to see why owners and managers want their companies to get bigger. If it gets bigger the company will make more profits for the owners. Even if it gets bigger by reinvesting profits, instead of paying them to the owners, the owners still benefit.

As the company gets bigger, the value of everything that the company owns (its ASSETS) gets bigger. This means that the owners' shares are getting more valuable, so that if they want to sell the shares they will get a lot more than they paid for them.



Why managers and owners want growth.

Management benefits in two ways from the growth of the company. Usually the salary of a manager grows bigger as the number of people under him grows bigger. A manager will be paid more for managing a factory of 1000 workers than for managing a factory of 50 workers. Also, the more workers a manager has under him, the more important he feels. He can order more people about, which is something managers like doing; they like POWER. Also, the bigger the company which he manages, the more other people will look up to him. They will think that he must be a very clever man, he will have a lot of PRESTIGE.

So if the company grows, the managers usually get bigger salaries, more power and more prestige.

HOW DOES GROWTH HELP THE WORKERS?

There is one way in which growth always helps the workers and another way in which it CAN help them, but does not always do so. It is very important to understand these two different things, because employers often use arguments about the importance of growth to defend paying low wages, and workers must be able to show how these arguments are wrong.

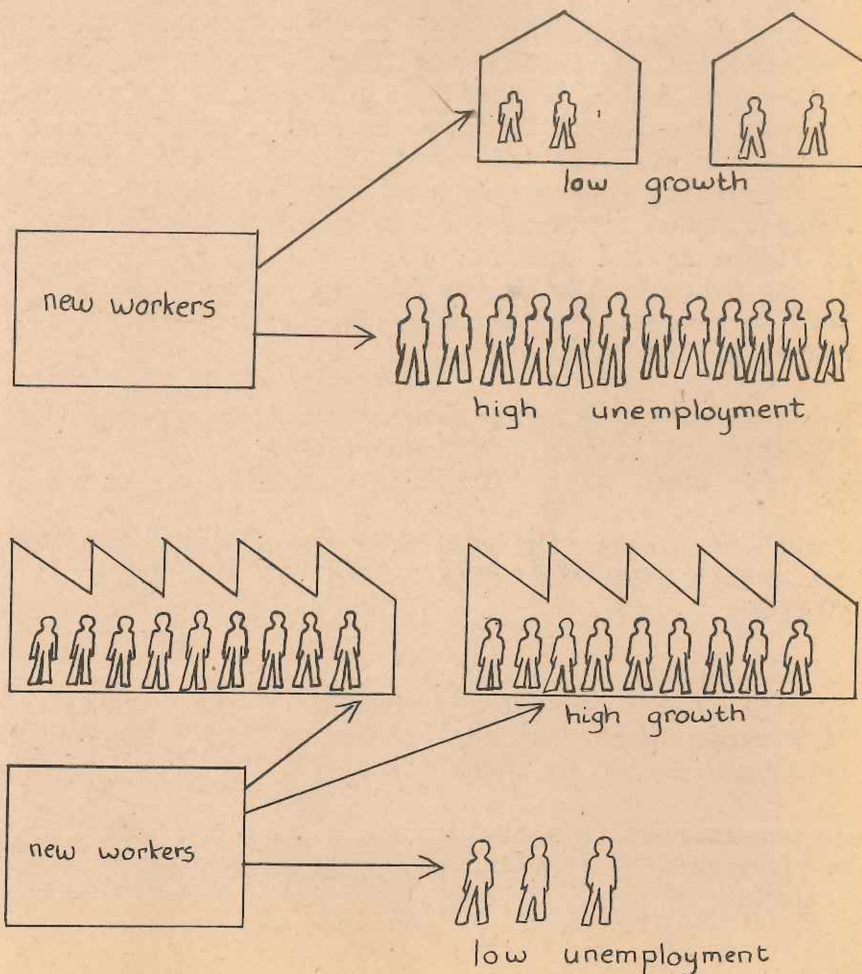
In what way does growth ALWAYS help the workers?

In one way, it does not make any difference to a worker if he works in a big firm or a small firm, because they both pay the same wages. But growth increases the number of jobs. This is important, because every year THE NUMBER OF WORKERS INCREASES. Each year there are more children born, and each year there are more people reaching the age when they start looking for jobs.

IN SOUTH AFRICA THERE ARE OVER 200,000 NEW WORKERS EACH YEAR. If the economy did not grow, then these workers would not be able to find jobs.

This would be bad for them, and it would also be bad for the workers who do have jobs. It would be bad for the workers who do have jobs because the more people there are looking for jobs, the easier it is to keep wages down. When there are many people UNEMPLOYED, then companies can always find workers, even if they pay very low wages.

GROWTH IS IMPORTANT FOR WORKERS BECAUSE IT HELPS TO STOP UNEMPLOYMENT.



iii) GROWTH AND LIVING STANDARDS.

There is another way in which growth can help the workers, although it does not always do so.
New investment usually does two things at once.
Firstly, it increases the SIZE of a factory, or the NUMBER of factories.
Secondly, it improves the QUALITY of the factory.
New kinds of machines are always being developed to do jobs better. Often these new machines are more expensive than the old machines that they replace, so they cannot just be paid for out of depreciation. They require new investment. But because they are better, they help to increase productivity in the factory, and they help to increase the total product of the society. If the total product of the society is increasing faster than the number of people in the society, then it is easier to increase the standard of living of the workers.
If the productivity of the factory is increasing, then it is easier to increase the wages of each worker in the factory.

So new investment and growth can help to improve the standard of living of the workers.
BUT IT DOES NOT NECESSARILY DO SO.

Growth increases the wealth of the society, but the new wealth DOES NOT NECESSARILY GO TO THE WORKERS.

We can see why if we look at one company. The result of growth is that the REVENUE of the company increases. What does the company do with this revenue revenue? It can do three things:

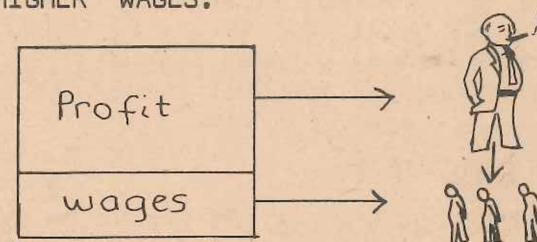
It can increase the dividends, so that the shareholders benefit from the growth getting bigger incomes.

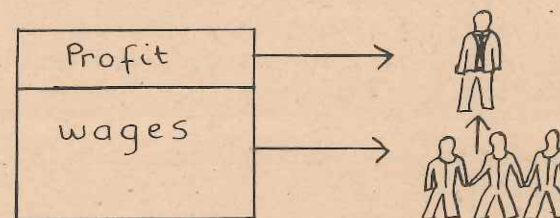
It can increase its own investment, so that the firm grows even more. In this way the shareholders do not benefit by getting a bigger income, but they benefit in that as the value of the company's assets increase so the value of their shares increase.

It can pay higher wages, so that the workers get bigger incomes as a result of the growth.
WHO DECIDES WHICH IT WILL DO?

If the workers are weak, the management and the shareholders will decide. They will want to increase dividends and to increase investment, not to increase wages.

ONLY IF THE WORKERS ARE STRONG CAN THEY MAKE SURE THAT THEY GET SOME OF THE NEW WEALTH IN HIGHER WAGES.





In fact, instead of using growth to raise wages, employers often use the importance of growth to argue that wages must stay low. They say that if wages are low, then the company can save a lot of money to reinvest, and that this growth is so

important that workers should be willing to accept low wages in order to let it happen. They say that if the workers accept low wages now, then sometime in the future there will be so much wealth that they will be able to get much bigger wages.

BUT THEY HAVE BEEN SAYING THIS FOR A LONG TIME, AND WAGES ARE STILL LOW.

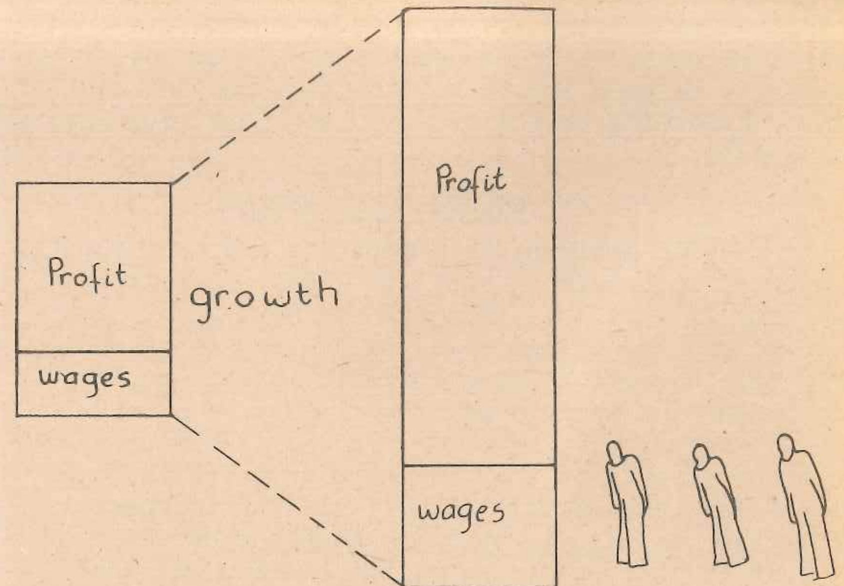
The reason is this. If the wages are low, profits are high, and there is a high rate of reinvestment, who benefits?
The main people to benefit are the shareholders, because their assets get more and more valuable. When the company finally is big enough, and decides not to reinvest so much of its profits, it increases its dividends and benefits the shareholders again. IT IS THE WORKERS who make possible the growth, by accepting the low wages, but it is THE SHAREHOLDERS WHO BENEFIT most because they own the new bigger company, and can decide what to do with its bigger profits.
(see diagram on page 145)

This does not mean that the workers should be against growth. But it does mean that only if they have a strong organisation can the workers make sure that they get a fair share of the benefits of growth. If the workers are strong then they can make sure that they have a part in the decision about what to do with the increased wealth.

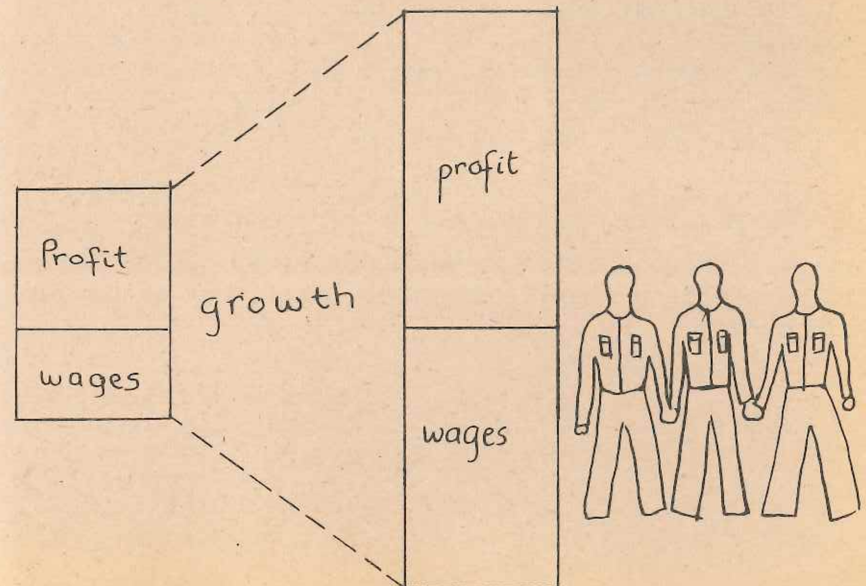
There is no reason why the workers should help the firm to grow unless:

1. They are guaranteed immediate improvements in their wages.

2. They are guaranteed a full share in the future benefits of growth.



Organised workers benefit from growth.



Before accepting any argument from management about wages having to stay low because of growth, they must also insist that management show them the company's Balance Sheet, so that they can see what is really happening to the profits, and what dividends are being paid.

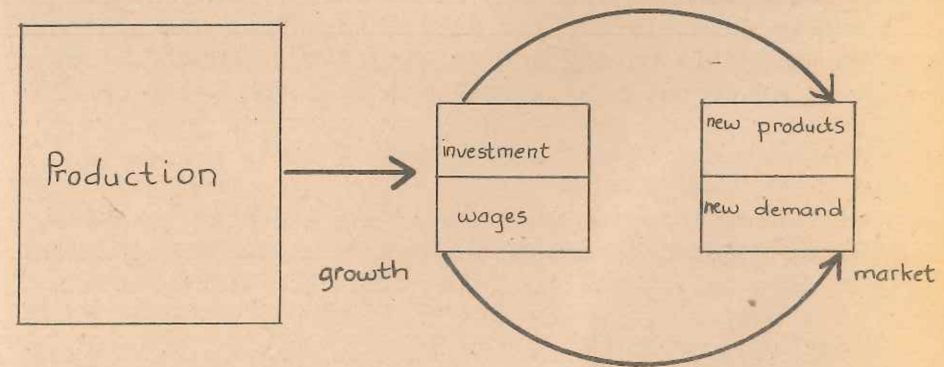
iv) GROWTH AND DEMAND.

There is also another very important argument about the relation between growth and wages. A factory can grow in size only if there are more people who want to buy the things that the factory is producing. They can increase in size only if there is an increasing DEMAND for their product.

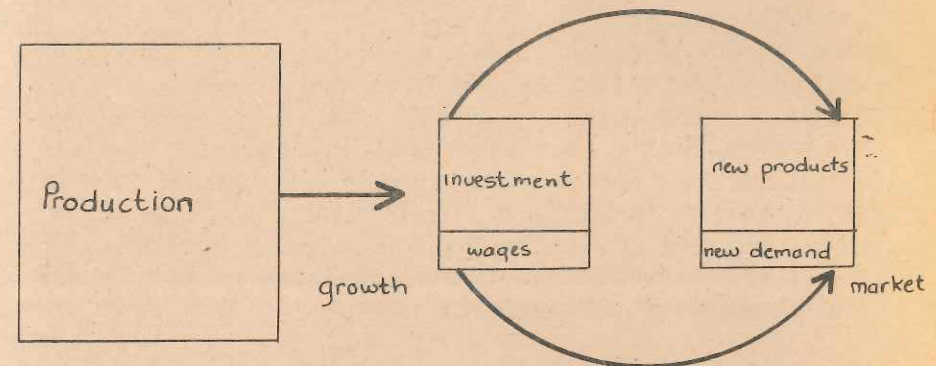
An economy can grow only if there is an increasing demand for its product. But if all the increase in production is used to buy more machines and none of it goes in increasing wages, then people will not have any money to buy the products that can be made by the new machines.

This means that it is also important for growth that wages should increase. When wages increase there is more demand for goods, and this encourages companies to produce more goods, by improving productivity, and investing in new machines and new factories.

So growth needs BOTH AN INCREASE IN DEMAND AND AN INCREASE IN INVESTMENT. It is up to the workers' organisation to make sure that the increase in demand is a result of better wages, not of higher dividends.



New demands and new products balance.



Not enough demand to buy the new product.

CHAPTER 11.

WAGES: PRICE OR SHARE?

In the economic system, all the different factories and individuals buy and sell things from one another. We call this buying and selling "THE MARKET". By this we do not mean a real market place where people go to sell and buy things. We mean the total of all the selling and buying in the whole economy.

Of course this includes some real markets, like the local vegetable market, or the stock exchange, which is also called the Stock Market. The Stock Market is a real place where people go to buy and sell shares.

But we are not talking about such real markets. We are talking about an imaginary market, which includes all the real markets, all the shops, and all the other places where anybody buys and sells anything in the country. We describe all this as the Market, because everything that happens in this Market affects everything else.
When somebody sells something, they cannot ask just any price for it. They have to take account of the prices on the market. We shall begin by showing how this affects the prices of ordinary goods. Then we shall look at the special case of the LABOUR MARKET, which is the total of all the workers looking for jobs, and all the employers looking for workers. We shall see to what extent the situation of the labour market affects the wages of workers.

Of course, it is not only the labour market which affects the wages of workers. The price at which a factory can sell its goods will also affect the wages it can pay. There are always other factories making the same things, and this means that the factory cannot set any price it likes. It cannot always decide to

raise prices in order to increase revenue, and so increase the amount of money available for wages. If the other factories are still paying low wages, then they will not have to put up their prices. People will buy from them, not from the factory with high wages and high prices.

The different factories want to try to sell their goods. They COMPETE with one another to sell their goods, and the best way of COMPETING is to try to keep their prices down.

So if one factory raises wages, but its COMPETITORS keep low wages, then that factory may not be able to sell its goods.

So wages depend partly on the prices that the factory can ask for its products, and these prices depend partly on the COMPETITION between the different firms making the same product.

To understand wages we have to understand something about prices.

i) PRICES AND THE MARKET.

A factory must sell its goods. This means that it must find people who want them and who have enough money to pay for them at the price asked. If there are many people who want the goods, then the factory will be able to put the price up. But if not many people want them, or if they have not got enough money to pay for them, then the factory might have to put the price down. So the factory cannot ask just any price it choose.

How does the price get fixed? Let us take a very simple example.

A fruitseller is selling pineapples. She brings ten pineapples to the marketplace, and she askes 10 cents for each pineapple. After she sells the first two, she sees that there are many people who want to buy pine-apples. So she decides to put up the price to 20c. Not

all the people who were wanting to buy pineapples at 10 cents each will also want to buy them at 20 cents, but there will be enough customers left to buy the 8 pineapples that she has left.

If many people want pineapples AND CAN PAY FOR THEM AT THE PRICE, then we say that there is a big EFFECT-IVE DEMAND.

If the effective demand for pineapples is high, then the pineapple seller can raise the prices and still sell all the pineapples.

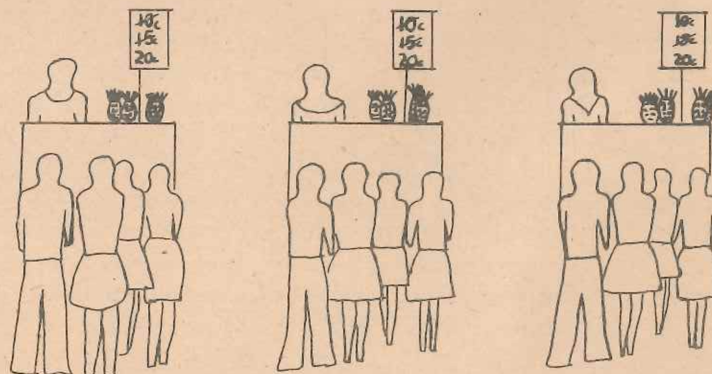
The next day our fruitseller will probably bring 10 more pineapples to the market. If the effective de-mand is still high, then she will be able to sell them all for 20 cents, or perhaps even increase the price to 25 cents.

But what happens if people have not get any money left? Or what happens if people decide that they are tired of pineapples and would prefer bananas for a change?

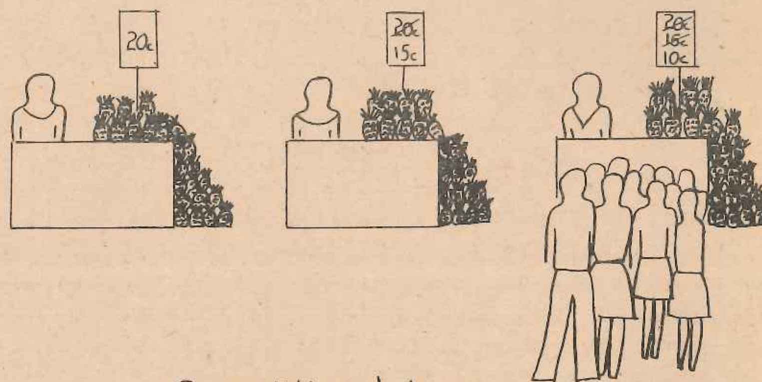
Then the effective demand will drop, and she will not be able to sell the pineapples at the same high price. She will have to lower her price until it is low enough to attract ten people who will buy pineapples at that price.

So if the effective demand goes up the seller can raise prices, but if the effective demand goes down then the seller will have to lower prices.

And what happens if other pineapple growers have heard about the high prices, and also want to sell their pine-apples? Then there will be a lot of pineapples on the market. Each seller will want to make sure that all his pineapples are sold. So, to make sure that his are sold first, he will lower his prices a little. The others



Competition between buyers puts the price up.



Competition between sellers bring the price down.

will do the same, and the prices will come down, perhaps until the price is so low that some of the sellers will decide that it is so low that it is not worth selling the pineapples at all.

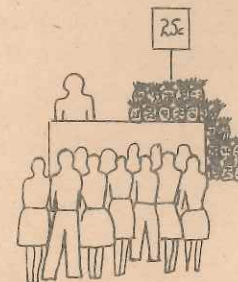
We can see from this that the prices will keep changing until the same number of people want to buy pineapples at a particular price as there are people trying to sell at that particular price. If there are too few pineapples then competition *between the buyers* will push the price up. If there are too many, then competition *among the sellers* trying to make sure that they sell, will push prices down.

As prices go down, more people will want to buy. As prices go up, more people will want to sell.

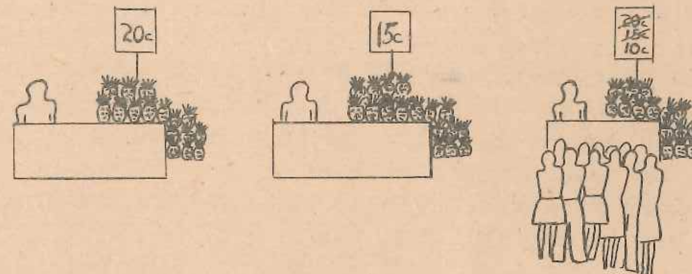
We can say that the price is changed if there is a change in SUPPLY, or if there is change in DEMAND. And the price stops changing when there is a balance between SUPPLY AND DEMAND.

Now, of course, the market for something like cars or suits is not quite as simple as the market for pineapples that we have just described. The prices change more slowly, and when there are only a few firms, instead of many pineapple sellers, then there is not much competition, and the firms can have more say in deciding their prices. But it is still roughly the same. If the price of cars goes up, then there will be a decrease in effective demand, and the car makers will either have to stop making cars or they will have to drop their prices. If there is a very high effective demand, the firm can put up prices a long way above costs, so that they make a big profit and other capitalists will decide to make cars. The supply will increase, and the firms will have to lower their prices in order to sell all their cars.

There is special case when a company does not have to worry very much about supply and demand. This is when the company is the only company producing a certain thing. Then there is no competition, and the firm can raise its prices without worrying about its customers going to buy from another cheaper firm. This is called MONOPOLY.



Monopoly puts the price up.



Competition between sellers brings the price down.

Of course even a monopoly cannot push up its prices too high, because if it goes very high, then the customers will decide that they do not want the product after all, and will buy something completely different. If there was only one farmer growing pineapples, he still would not be able to sell them for R10 each, because if they were that expensive people would buy oranges instead.

So we can say that PRICES ARE DETERMINED BY SUPPLY AND DEMAND.

Competition makes supply and demand more important. Monopoly makes it less important.

If supply and demand in the market set a price which is lower than what it costs the firm to makes its goods, then it will not be able to go on working. This is why firms try to keep down costs. They compete with one another to keep costs down. This is very important for our understanding of wages.

ii) A WAGE IS A PRICE.

For you, your wage is what keeps you alive. It is the source of food and shelter and pleasure for you and your family.

But FOR THE CAPITALIST, YOUR WAGE IS A PRICE. It is the price which he has to pay to buy your ability to work. The capitalist starting a new factory has to buy machines, and buildings. He has to buy materials to be used for producing things. AND HE HAS TO BUY WORKERS TO DO THE WORK. Of course he cannot go and buy a worker for life. Instead, he buys a day's work or a week's work or a month's work from the workers. The wage is the price that he has to pay for that work.

But because a wage is a price, this means that the size of the wage, whether it is a low price or a high price, can be set just like the size of any other price, by supply and demand on the LABOUR MARKET. Of course, if the price of labour for the capitalist was set just like any other price, then it would be silly for workers to argue about wages.
So we have to understand both the way in which wages are just like any other price, and what makes wages different from other prices.

What makes a wage different from other prices is that it is paid to a person, not for a thing. It is the share which the worker gets in the product of the society. The Economy produces things for people, and the workers are also people who want a fair share of those things.

We can say that for the workers the wages is a SHARE IN THE PRODUCT, but for the capitalist the wage is a PRICE.

This means that the capitalist wants the wage to be set just like any other price, by supply and demand, while the worker wants the wage to be set by agreement between all the people that are producing.

If the capitalists are strong, then they can make the wage into a price, but if the workers are strong, then they can make the wage into a share.

We shall look first at how the wage can be made into a price, and then at what the workers can do to make the wage into a share.

THE MARKET PRICE OF LABOUR.

How can the price of labour be set by supply and demand? If there are many workers and few jobs, then all the workers will be competing for the few jobs. The only way that a worker can make sure that it is him and not the man next to him who gets the job is by offering to work for less.
So when there are many workers competing for jobs, they will offer to work for lower and lower wages. Big supply and small demand results in low prices for workers. It results in low wages.

But if there are many factories all looking for workers,

and not many workers who have not got jobs, then the opposite will happen. Each factory will offer higher wages, to make sure that it gets the workers it needs. High effective demand and low supply pushes the wages up.

So we must ask:

What affects the demand for labour?

What affects the supply of labour?

The answer to each of these questions will be different in each country, so to answer them in South Africa we have to understand some things about South African history.

DEMAND FOR LABOUR.

ECONOMIC GROWTH increases the demand for labour. The more factories there are, the more money is invested in new machinery, then the bigger is the demand for labour.

So in a country in which there are many factories the demand for labour will be great, and the market price for labour will be high. This is why the Government usually wants to make the economy grow as quickly as possible, to make jobs for as many people as possible.

It is usual to call a country with many factories a DEVELOPED COUNTRY and a country with very few factories where most people live by farming, an UNDERDEVELOPED COUNTRY.

Countries like Britain, Japan, Germany, Russia and the United States are developed countries, and have high wages.
Countries like Portugal, Egypt, India and Kenya are underdeveloped countries, and have low wages.

South Africa is somewhere between the two. It has

many factories, but not as many as Britain or Japan. Because it has many factories there is quite a high demand for labour. This means that to understand the low wages we have to look at the supply of labour.

SUPPLY OF LABOUR.

What changes the supply of labour is a little more complicated. The supply of labour is the number of people looking for work, and people look for work for a number of different reasons.
If they have enough land to work on to grow the things they want and to sell enough of their crops to buy the other things that they need, then they do not look for work for wages.
If they have their own tools so that they can make and sell things to earn enough money for their needs, then they do not look for work for wages.

So what is important for the supply of labour is not the number of people in the country, but the number of people who have not enough land or tools of their own, and so have to work for wages for other people.

It is not only the number of people looking for wage jobs that is important. It is also the kind of jobs that they know how to do. If there are only a few people who can do skilled jobs, and many people who can only do unskilled jobs, then there might be too big a supply of unskilled labour, leading to low unskilled wages, and too small a supply of skilled labour, leading to high wages.
This is in fact what happens in South Africa, and we must ask why.

To understand the labour market in South Africa we must ask two main questions:

Why is there a big supply of labour?

Why is there a small supply of labour to do the skilled jobs.

Both questions can only be answered by looking at South African history.
When people from Holland and later from Britain came to South Africa they fought with the people already living in South Africa for control of the land. They managed to capture the land from the Hottentot and Bantu-speaking tribes, who were left with too little land. It was for this reason that Africans had to leave their homes to work on the mines, and then in the factories which were built with the wealth from the mines.
So the big supply of labour was made by taking away much of the land from the people who used to live on it. The people who owned the land, and the mines that were found under the land, could get the workers to work for them for low wages, make big profits, and use the profits to start factories. As it became more and more difficult to live on the small lands in the reserves, more and more people had to come to work for wages in these mines and factories and farms. When there were not enough workers, the government made the people living in the reserves pay money taxes, so that they would have to go to the towns to work to get money. Also they imported Indian workers from India to make sure that there would be a big supply of labour in Natal, so that farmers would not need to pay high wages.

There is a big supply of labour because the land reserved for the Africans is too poor and too little for them to live on, and because the Coloured and Indian workers did not ever have much land in South Africa.

But why is there a shortage of skilled workers? This is not a natural thing. People are not born either knowing how to work a machine or not knowing how to work a machine. They are not born either skilled or unskilled. Everybody is born unskilled, and has to be taught how to do things. If there are many workers, but not enough skilled workers, it is because not enough people are being taught the skills.

Why is this? Parliament makes the most important laws in South Africa. It is parliament which decides how much money will be spent on schools, and who will be able to go to the schools. In South Africa it is only White voters who choose parliament. Because of this, parliament has spent a lot of money on training white South Africans, but very little on training black South Africans.

Also, because some of the White voters wanted to make sure that they got the best jobs when there was competition for jobs between different workers, they got parliament to pass a law saying that some jobs can be done only be White workers. This is called JOB RESERVATION. Not all job reservation is by law. Often it is just white employers giving jobs to other Whites.

All this means that in South Africa it is usually the Whites who have the education and the skills needed to get the better jobs. Even when the Whites are not very skilled, or when there are Blacks who have skills and education, there is job reservation to make sure that the better jobs are kept for the Whites.
For this reason it is difficult for the black workers to compete for the jobs that need education and skill, and because there are not so many Whites, there is a shortage of them to do these jobs. As a result the wages for these kinds of jobs are very high, while the wages for the less skilled jobs are very low, because there is such a big supply of workers competing for them.

In 1973 the average wages for different workers in MANUFACTURING WERE:

Sept. 73.		Monthly av. wage		No. Empl.	Total Inc.
African	p.m.	R71	x	696 700	R49 465 700
Coloured	"	R101	x	213 500	R21 563 500
Indian	"	R108	x	78 700	R8 499 600
White	"	R383	x	279 400	R107 010 200

From this we can see that white workers earn over 5 times

as much as black workers. In other countries skilled workers usually earn only about one and a half times as much as unskilled workers.

From all this we see that although a big supply of labour is what causes low wages, the supply of labour itself is often caused by the action of the government and by the laws.

iii) A WAGE IS NOT A PRICE.

We saw earlier that capitalists want to turn a wage into a price which is set by supply and demand on the market, while the workers want to turn the wage into a share in the product which is set by negotiation between all the people who help to produce the product. Now we must ask: What can the workers do to fight against the force of supply and demand when too big a supply of labour is making wages low?

How does the law of supply and demand work? How does a big supply force down the price, and a big demand force up price?
THE LAW OF SUPPLY AND DEMAND WORKS THROUGH COMPETITION. Prices go down when the sellers compete with one another to sell the many goods, and prices go up when buyers compete to buy the few goods.

This means that workers can only stop their wages being kept low by supply and demand if they can STOP COMPETITION. If the workers stand together and demand a higher wage, then the employer cannot find other workers to offer lower wages to, and so they have to pay the higher wages.
If the workers compete amongst themselves for jobs, then they are all worse off. There are still the same number of jobs, but they are all getting paid less. By combining and standing together, workers can set wages through negotiation instead of letting wages be set by supply and demand in the market.

By combining, the workers can also help to end competition between employers to keep down costs by cutting wages. One employer cannot raise wages too high, because his competitors will be able to sell more cheaply, and so people will stop buying his goods. But if the workers in many factories combine together, then they can make sure that the wages in all the factories go up at the same time.

Competition between workers for jobs keeps wages down.
Competition between factories over costs keep wages down.
Combination by the workers can stop both kinds of competition.

Of course this does not mean that the workers can then expect to get any wage they like. If the wage is a share in the product, it cannot be higher than the total value of the product. Also, if wages go very high, then the employers might decide to try to use the machines instead of workers, and this could cause unemployment. Even if all the factories in an industry raise wages together, if the wages go too high, then prices will have to be raised so high that people will stop buying any goods from the industry.
The workers will still need to understand the cost structure of the industry, and the market for the industry's goods. But this knowledge will not show them the wage that they MUST accept. It is knowledge that they can use while negotiating over the share that they will get in the income of the industry.

THE WORKERS' SHARE.

The income from the industry is shared among many different people.
Some of the income is profit which is reinvested.
Some of the income is profit which is distributed to the shareholders as dividends, and is consumed by them.
Some of the income is used to pay very high salaries

to the managers, and high salaries to the office staff.
Some of the income is used to pay very high wages to skilled white workers and foremen.
Some of the income is used to pay the wages of african, coloured and indian workers.
Some of the income is used to pay for machines and materials.

The part for machines and materials is fixed, but the way in which the income is shared out among the other groups is not fixed by market prices. It is fixed by the bargaining power of the different groups of people. If the workers are strong then they can make sure that they get a bigger share, even if means that some of the others have to get a smaller share. In South Africa all the groups except the black workers get a bigger share than would workers doing the same jobs in other countries.

Workers only want a fair share of the product, but they will not be convinced that the share they are getting is fair until they know exactly what share other people are getting, and are shown why other people have to get those shares. This means that management must negotiate with workers about the way in which the product is shared out.

CHAPTER 12.

UNDERSTANDING WAGES

Let us end by summarising the main things which you need to know in order to understand wages.

1. You need to know exactly what wages you are getting paid at present. You need to understand:
    Your PAY-SLIP which gives full details of the various things which go to make up your nett wage.

    The GRADE and the RATES for the different jobs.

2. You need to understand the COST STRUCTURE of the industry in which you work. You need to understand all the different things which are needed to make the industry possible.

Your wage is dependent on three things:

a. The total REVENUE received from the sale of the products.
b. The BASIC COSTS which have to be paid out of this revenue.
c. The way in which the money left over is divided between WAGES and PROFITS.

3. The REVENUE is fixed by the total number of products that can be sold, and the price for which they can be sold. This in turn is dependent on how many other companies make the same goods, and on how many people want to buy the goods. It is dependent on SUPPLY and DEMAND. This means that the firm cannot just decide by itself what revenue it will have.

4. The BASIC COSTS are determined by two things. Firstly, they depend on the prices which have to be paid for the materials and machines which are needed.

The company has little influence over these prices.

Secondly, they depend on how efficiently these machines and materials are used. They depend on the PRODUCTIVITY of the factory. Productivity depends on:

The quality of the machinery and the materials;
The organising ability of management;
The training which the workers have received;
The workers' wages;
The working conditions in the factory;
The labour turnover in the factory;
The interest of the job.

All these things which affect productivity are the responsibility of management. Bad management causes low productivity. In addition some other things also affect productivity:

Bad living conditions;
Bad transport facilities, so that workers spend too much time travelling;
Job reservation, which prevents the training of black workers, wastes black skills, and creates a shortage of skilled labour.

These things are the responsibility of the government, and the voters who support the government.

However, workers can also help in increasing productivity. They are the people who understand the job best. They are the people who can best see where bad management is leading to waste and to low productivity. Workers have an interest in showing management how to improve productivity, but only if it is they who will benefit from improved productivity.
By cutting basic costs, improved productivity increases the amount of money available to be divided between wages and profits. But this only helps the workers if they can make sure that a big share of this increase

amount of money goes to wages rather than to profits.

4. The PROFITS go to the owners of the company. The owners are the SHAREHOLDERS, and they control the company through the BOARD OF DIRECTORS appointed by them.

The profits can be:

either paid to the shareholders as DIVIDENDS;
or reinvested in the company as RETAINED EARNINGS.

In the first case the shareholders benefit directly. In the second case they benefit indirectly, because the value of the company which they own increases. The shareholders can influence the division between profits and wages in two ways:

Firstly, their Directors make decisions about what wages should be paid.

Secondly, if they are not satisfied with the rate of profit they will sell their shares. This will make it more difficult for the company to raise new capital through loans or through selling new shares.

The company will only be able to continue to exist if it continues to produce profits for its shareholders.

5. Profits are important because they make possible SAVING AND GROWTH. Growth can help the workers by making more jobs available, and by increasing the total amount of goods produced.
But the savings are really made by the workers, who are making growth possible by accepting low wages. They must therefore make sure that they really do benefit from the growth. They must make sure that the growth does not just increase the amount of property and the incomes of the shareholders.
Growth will not benefit the workers all by itself.

It will only do so if they are strong enough to make sure that they will get a share.

6. Wages are also affected by the LABOUR MARKET. If there is a big supply and a small demand for workers then the PRICE OF LABOUR will be low. But the market works through COMPETITION. If the workers can end competition by building solidarity through a strong workers' organisation, then wages will not be so seriously affected by the labour market. By working together, the workers can stop the wage from being a price set on the market, and can turn it into a SHARE set by negotiation and bargaining between owners and workers.

7. Negotiations and bargaining depend partly on power, and partly on knowledge. Workers cannot negotiate unless they fully understand the wage system, and all the different things which affect wages.
But they also cannot negotiate unless they have a strong organisation in the factory.

In this book we have given you the basic information which you need in order to understand wages.
In "THE WORKER IN SOCIETY" we explain more fully how what happens in the whole society affects the workers and their wages.

In "THE NEGOTIATION HANDBOOK" we explain how you can best use all this information in actual negotiations.

In "THE WORKERS' ORGANISATION" we explain how to go about building up a strong workers' organisation.

You should now read all these books. But we must end up by saying that a strong workers' organisation, improved wages and working conditions, and full human dignity for workers cannot come just from reading the right books. It will come only through a long and difficult struggle. In this struggle you will be able

to use the ideas and information in the books. But whether you succeed will depend also on your willingness to work hard and make personal sacrifices in the cause of human dignity.

APPENDIX.

PERCENTAGES (%).

Accountants often talk about PERCENT. You may have learnt about percent at school. But if you are not quite sure how to work out percentages, then you had better read this, because percentages are important to understand. PROFIT is usually measured in PERCENT. Often WAGES RISES are usually measured in percent.
INTEREST is measured in PERCENT.
TAXES are often measured in PERCENT.

What is a percentage?
PERCENT comes from an old word CENT, meaning 100.
For example, South African money has Rands and <u>Cents</u> and there are 100 cents in a Rand.
PERCENT means OUT OF A HUNDRED.

If you get a fifteen percent (15%) increase, that means that for every R100 you are already earning, you get an extra R15. So if you were earning R100 you get ONE extra fifteen rand, and your new salary is
R100 + R15 = R115.

If you were earning R200 before, then you get an extra R15 for EVERY R100 that you were earning, which means that you get TWO lots of R15: 2 x R15 = R30.
So your new salary is:
R200 + (2 x R15) = R230.

If you were earning R50 a week before, then what do you get? R50 is half of R100. So if you get an increase of R15 for every R100, then for every half of R100 you must get half of R15:
R15 ÷ 2 = R7,50.
So your new salary is:
R50 + (R15 ÷ 2) = R57,50

We can write this down like this:

R200 + 15% = R200 + (2 x 15) = R230

R100 + 15% = R100 + (1 x 15) = R115

R 50 + 15% = R 50 + (15 ÷ 2) = R57,50

An interesting thing that we can see from this is that if everybody's wage is increased by 15%, then the people who were already earning the most money get a bigger increase than those who were earning a little. The man who was earning R50 only gets an extra R7,50, but the man who was earning R200 gets an extra R30.

It is important to learn how to work out percentages. This is how you do it.
FIRST you find out how many HUNDREDS there are in the amount that you want to find a percentage of.
So if your amount is R1 000 then to find out how many hundreds there are you must DIVIDE BY 100.

R1 000 ÷ 100 = 10

You can also write this like this:

$$\frac{1\ 000}{100} = 10$$

Whichever way you write it, it means that you have found that there are 10 hundreds in 1 000.

SECOND you must MULTIPLY the number of hundreds by the PERCENT that you are trying to find.
If the percent is 30%, then you must multiply (X) by 30.

10 x 30 = 300.
AND THAT IS YOUR ANSWER.

30% of 1 000 is 300.
We write it all together like this:

$$\frac{1\ 000}{100} \times 30 = 300.$$

Of course, all the examples that we have done so far were easy, because we used numbers which 100 could go into easily. But usually we are not so lucky, and we have to work out percentages of more complicated numbers.

Here we will give you a rule for getting roughly enough the right answer for more difficult percentages.

Say that your wage is R12,65 cents per week, and you are offered an increases of 20%. How much more money will you get? It is quite difficult to find out how many R100s there are in R12,65.
But remember, each ONE RAND is 100 cents. So in R12,65 there are 12 lots of 100 cents, and 65 cents left over.

An increase of 20% means that you will get an extra 20 CENTS for every R1 that you earn. So if you earn R12, then you will get an increase of 20c x 12 = 240 cents, which is R2,40. If you earn R12,65, then you will get R2,40 and a few cents more.

FOR FURTHER READING:

YOUR EMPLOYERS' PROFITS by Christopher Hird, published by Pluto Press, 1975. This is a book written especially for British workers. It gives more details about Companies and balance sheets. If you read it, remember that it is talking about British law, which is not always the same as South African law.

UNDERSTANDING COMPANY FINANCIAL STATEMENTS by Parker, published by Penguin Books. This is another useful introduction to the balance sheet. It also deals with British law, though.

WAGES by Maurice Dobb, published by Cambridge University Press. (If you order this book from a bookshop, remember to ask for the cheap paperback edition). This is a good introduction to the question of wages, of how they are set and how they are paid.

WAGES, published by International Labour Office, Geneva, 1968. This is a workers' education manual about methods for fixing wages, piece-rates, job evaluation and bargaining.

CALCULATING by Joyce and Bill Hutton, published by Hutchinson, 1975. This is a book written especially for trade unionists, to help them in working with percentages and other number problems.

Reference books (books which you do not need to read right through, but in which you can find useful information):

COMPANY LAW by H.S.Cilliers and M.L. Benade, published by Butterworth. This deals with the South African Companies' Act.

BEERMAN'S FINANCIAL YEARBOOK *published yearly by Combined Publishers.* This gives a list of all public companies in South Africa, with information about their activities. It also contains a "Directory of Subsidiaries" and a "Directory of Directors".

Both of these books should be available at your local library.

The IIE has published or is publishing the following books:

The Workers' Organisation
A History of Worker Organisations
The Worker in Society
The Workers' Legal Handbook
The Workers' Negotiation Handbook.