

# The Labour Market

Wage increases in South Africa (in contrast to demands) have been alarmingly timid over the past decade.



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# Chapter

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Forward not  
forgetting

Our Solidarity

Peoples of the world  
together join to serve  
the common cause  
so it feeds us all for ever  
Workers of the world  
uniting that's the way  
to lose your chains.  
Black or white or brown  
or yellow leave your  
disputes behind  
when starving or wh  
forward no

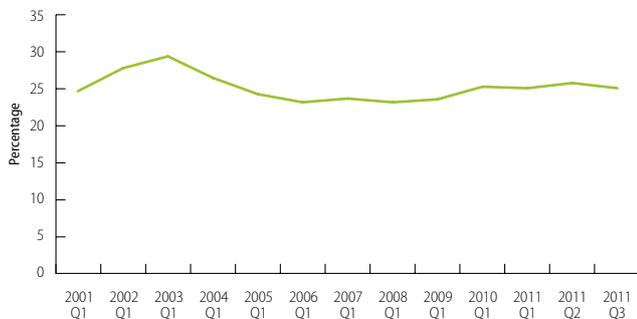
otherwise my city  
will always interfere  
with your comfort  
remember  
when a poor man's stomach  
begins to cry  
it shouts  
the rich should be  
punished

I have seen  
the gods go  
when their needs come

# The Labour Market at a Glance

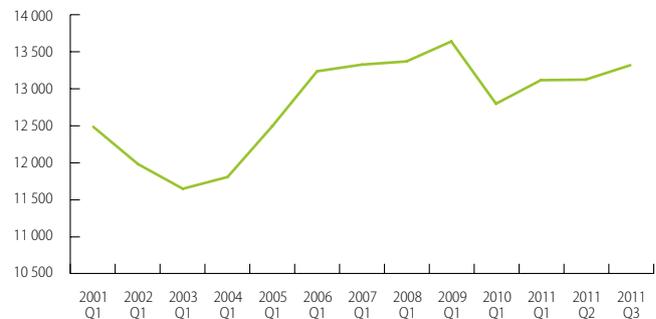
High levels of unemployment remain the South African economy's Achilles heel. At the end of 2011, formal unemployment stood at around a quarter of the population. This is significantly higher than any of its emerging market peers. The crisis in the labour market is most pronounced amongst young South Africans, with just over 70 per cent unable to find employment. Given the precarious position of workers, strike action has often been protracted and costly to the economy, peaking in 2010 with an extended public sector strike that amounted to about 20 million working days lost.

**NARROW UNEMPLOYMENT RATE BETWEEN 2001–2011**



Source: Statistics South Africa, Quarterly Labour Force Surveys 2008–2011

**NUMBER OF FORMALLY EMPLOYED SOUTH AFRICANS ('000)**



Source: Statistics South Africa, Quarterly Labour Force Surveys 2008–2011

## South African unemployment in a comparative perspective

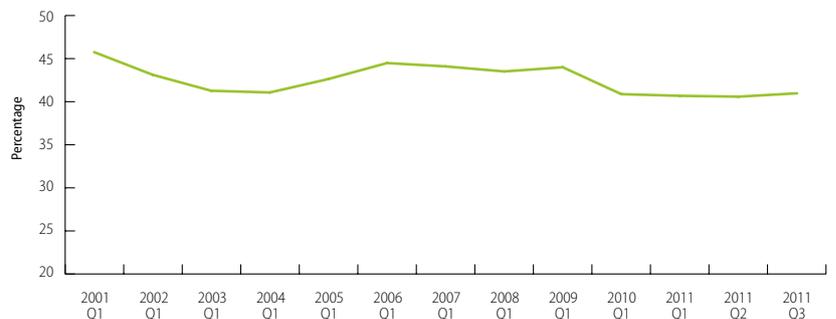
	2007	2008	2009	2010	2011
Brazil	9.29	7.90	8.10	6.70	6.70
China	4.00	4.20	4.30	4.10	4.00
Egypt	9.21	8.78	9.52	8.99	10.41
Indonesia	9.11	8.39	7.87	7.14	6.80
Mexico	3.71	3.97	5.46	5.37	4.50
Nigeria	4.50	4.50	4.50	4.50	4.50
Russia	6.10	6.40	8.40	7.50	7.30
South Africa	22.23	22.91	23.94	24.91	24.51

Source: International Monetary Fund, 2011

Note: Unemployment rate can be defined by either the national definition, the ILO harmonised definition, or the OECD harmonised definition. The OECD harmonised unemployment rate gives the number of unemployed persons as a percentage of the labour force (the total number of people employed plus unemployed). [OECD Main Economic Indicators, OECD, monthly]. As defined by the International Labour Organisation, unemployed workers are those who are currently not working but are willing and able to work for pay, currently available to work, and have actively searched for work. [ILO, <http://www.ilo.org/public/english/bureau/stat/res/index.htm>]. Estimates start after 2010.

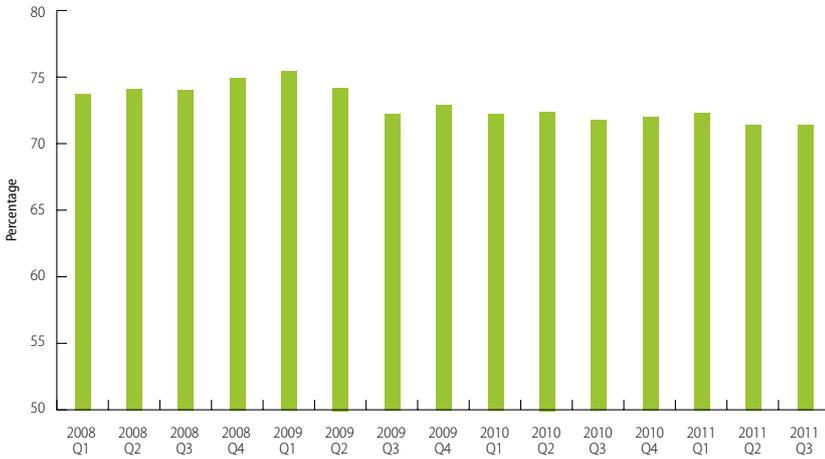
**40.9%**  
Proportion of sector workers in skilled positions

**EMPLOYED SOUTH AFRICANS AS A PERCENTAGE OF THE TOTAL WORKING-AGE POPULATION (15–64)**



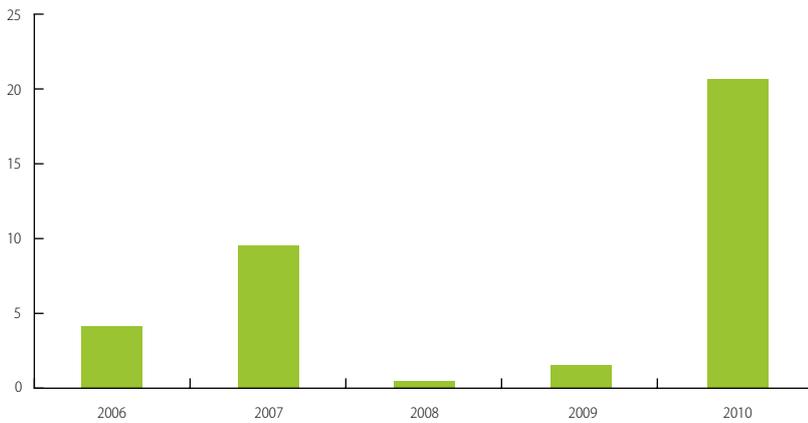
Source: Statistics South Africa, Quarterly Labour Force Surveys 2008–2011

### YOUNG PEOPLE AGED 15–34 AS A PERCENTAGE OF UNEMPLOYED SOUTH AFRICANS



Source: Elaborated using data from Statistics South Africa, Quarterly Labour Force Surveys 2008–2011

### NUMBER OF WORKING DAYS LOST\* DUE TO INDUSTRIAL ACTION (MILLION)



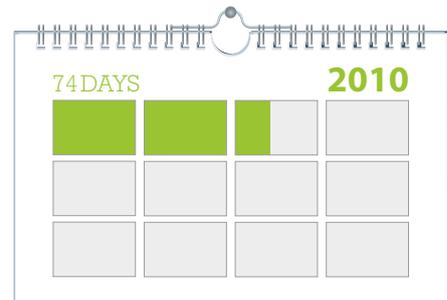
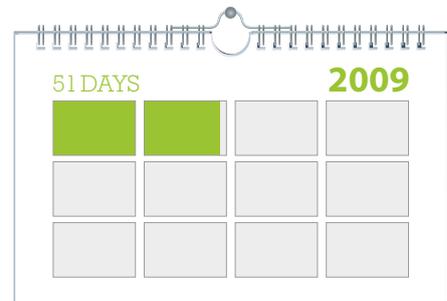
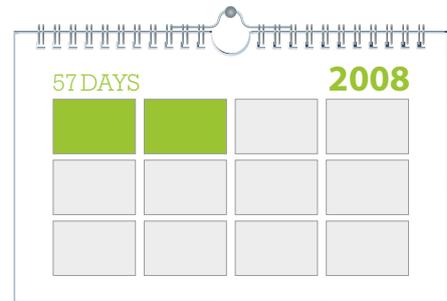
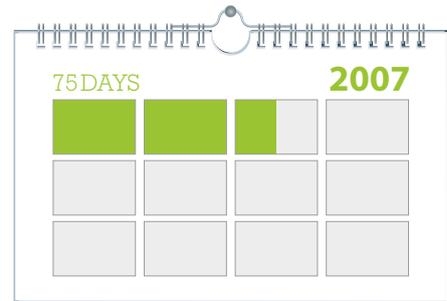
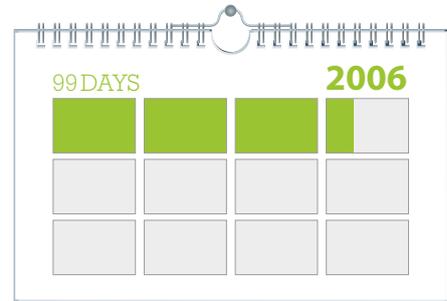
Source: Department of Labour, 2010 Annual Industrial Action Report

Note: \* Working days lost = the number of workers on strike or lockout multiplied by the length of the work stoppage.

Working days lost by industry in 2010 (actual days)	
Sector	Days
Agriculture	108
Mining	361 113
Manufacturing	384 980
Electricity	7 681
Construction	3 787
Wholesale, retail trade	394 584
Transport	640 757
Financial Intermediation	15 196
Community Services (Civil Service)	18 866 531

Source: Department of Labour, 2010 Annual Industrial Action Report

### NUMBER OF WORK STOPPAGES AS A RESULT OF INDUSTRIAL ACTION



# REVIEW | Employment under pressure: Inclusive strategies are in everybody's interest

Saliem Patel

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2010 saw one of the most protracted and highly charged public service strikes since this country's transition to democracy, with an estimated one million workers taking to the streets. Negotiations started in April and were concluded only in October, culminating in Resolution 4 of 2010 in the Public Service Co-ordinating Bargaining Council (PSCBC). Amongst its provisions were a 7.5 per cent salary hike and an R800 per month housing allowance.<sup>1</sup>

On 16 August 2011, another agreement was struck between the single employer, the state, and unions in the PSCBC, this time without any strike activity. Apart from the wage offer of 6.8 per cent, backdated to 1 May 2011, the remainder of the new agreement was about the need to negotiate numerous outstanding and new demands.<sup>2</sup>

The outstanding issues included medical aid, housing allowances, a minimum service agreement and a remuneration policy, each with different processes and proposed dates for resolution. The new demands covered time off for shop stewards, overtime, review of a previous agreement on pensions, performance management and development systems, compliance with the Occupational Health and Safety Act 85 of 1993, and the delinking of housing allowances from spouses. Importantly, the issue of outsourcing, which has become a standard item on the agendas of unions across all sectors, was included.

The document also stated an intention to reach a long-term agreement for the period 2012–2015, but several factors may delay its adoption. These include the large number of unresolved issues, their complexity, union members' mounting dissatisfaction with the approach of and offers from the state over the past two years, and the number of unions involved in the public sector. Gauging from the number of other negotiations that started early in 2011 and are still to be concluded, all indications are that settlements will be difficult to attain. In the case of municipalities, the employer, the South African Local Government Association (SALGA), implemented a unilateral decision on wage increases that led to protests and strike action. At this stage, therefore, the eventual outcome of the process remains anybody's guess.

However, in the interest of forward planning and projection, informed guesses are better than mere speculation. This article reviews labour market indicators and industrial action patterns

of the recent past, in search for clues of discernible trends. It concludes that recent trends in the context of economic stagnation lean towards an approach by all social partners that focuses on self-interest with short-term gain. Social dialogue, therefore, needs to be prioritised in order to prevent a scenario where the cost of stagnation is borne by the poor, and, conversely, to ensure that benefits are distributed evenly where gains have been made. Failure would result in the battle of redistribution spilling over into the streets once again – this time in growing numbers and intensity.

## Striking a bargain

It is often assumed that there are too many strikes in South Africa, and from an economic point of view one strike is always one too many. Companies lose profits and employees lose wages. Leslie Owen, from the University of KwaZulu-Natal, believes that the incidence of strikes in South Africa is comparatively much lower than elsewhere, when measured in terms of the number of days lost per one million of the population. He shows, for example, that in 2008 South Africa trailed countries like Denmark, France and Italy in Europe; Brazil, Peru and Argentina in Latin America; India and Korea in the East; and Canada in North America in terms of strike activity.<sup>3</sup> All these states are vibrant democracies, and collective bargaining is a function of democratic labour relations. Freedom of association, the right to collective bargaining and the right to strike, despite short-term economic consequences, build stable democracies with more predictable and sustainable economies.

Owen's contention is supported by the Department of Labour's *Annual Industrial Action Report 2010*, which notes that strike activity has been low over the past three years, when compared to the 99 stoppages in 2006.<sup>4</sup>

Yet, an assessment of stoppages alone can create a false impression of the actual impact of strikes. It is also important to take sector and union size into consideration when making such an assessment, as is demonstrated in Figure 2.1.1. Industrial action by one large union, therefore, may have as much impact on the economy as action by a large number of small unions. The 99 stoppages in 2006, for example, resulted

in the loss of 4.1 million working days, and the 75 stoppages in 2007 amounted in 9.5 million working days. When looking at the comparable figures for 2010, the full extent of last year's strike is put in perspective: 74 work stoppages resulted in 20.6 million working days lost. This is more than double the number recorded in 2007. For both of these years, the high number of days lost can be attributed to public sector strikes. Indeed, the 2010 figure represents the highest ever number of working days lost in one year. Public service action accounts for 90 per cent of this. It is estimated that 18 million working days were lost when approximately one million employees went on strike for 18 working days each.

In 2009, the transport industry topped the list with the highest number of industrial action incidents, but in 2010 it was overtaken by the mining industry (see Figure 2.1.2). The number of incidents in the manufacturing industry doubled, due largely to the fact that prior agreements in the sector had reached their termination date and had to be renegotiated in 2010. The long-term agreement of 2008–2010 within the Metal and Engineering Industries Bargaining Council, for example, came to an end and, as a result, new negotiations had to commence.

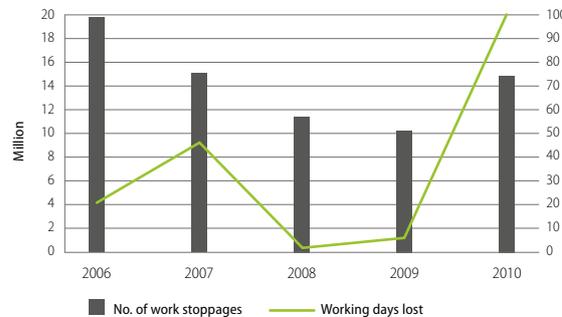
The lowest number of strike incidents occurred in agriculture, construction and energy. Fewer incidents in the first two can be attributed, by and large, to lower levels of unionisation and the precarious forms of employment in these sectors; in the case of energy, Eskom's monopoly and regulations around its status as an essential service account for the relative lack of strike activity in this sphere. It is important to note, however, that in 2010 over 3 000 workers in the sector embarked on a strike, because of frustration with the offer of a 5 per cent wage increase at a time when Eskom executives were being paid salaries regarded as excessive and not in line with their actual performance.

Due to the first-ever nationwide strike in the construction industry, it also recorded unusually high levels of working days lost in 2009 (see Figure 2.1.3). The strike action was the result of greater co-operation between trade unions affiliated to different federations that began working together in 2007 around the infrastructure development for the 2010 World Cup.<sup>5</sup> The campaign for decent work in this sector raised awareness among union members and developed a sufficiently strong and co-operative relationship to mobilise and co-ordinate a national strike.

It was in the mining industry that most industrial action incidents occurred during 2010. The number of incidents does not necessarily correspond with the number of working days lost; as shown in Figure 2.1.3, the number of working days lost in the mining industry was surpassed by the manufacturing, wholesale and retail, transport, and community services industries in that year.

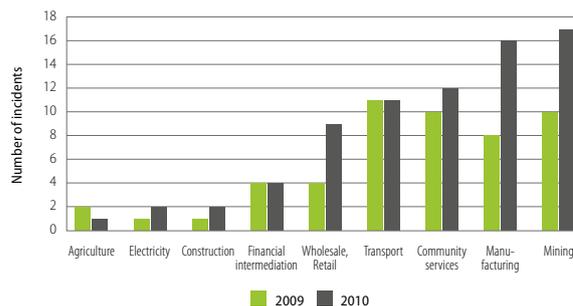
The significant year-on-year increase in the retail and wholesale industry between 2009 and 2010 was due to the September 2010 strike at Pick n Pay, which has a total staff

Figure 2.1.1: Number of work stoppages and number of working days lost, 2006–2010



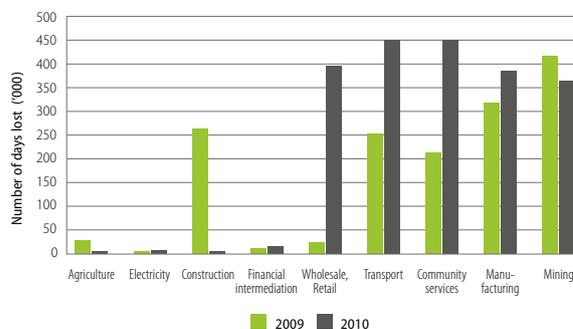
Source: DoL (2011)

Figure 2.1.2: Number of incidents by industry, 2009–2010



Source: DoL (2011)

Figure 2.1.3: Working days lost by industry, 2009–2010



Source: DoL (2011)



Wage increases in South Africa (in contrast to demands) have been alarmingly timid over the past decade.

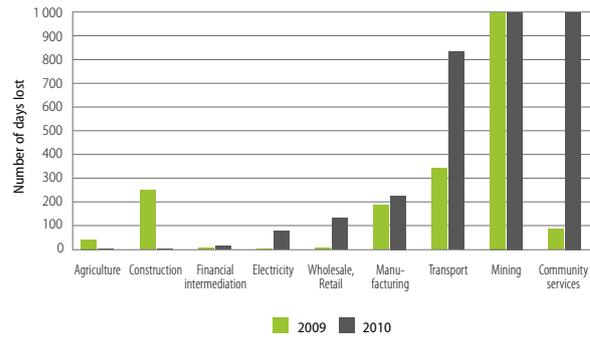
complement of 50 000 employees. Other notable action within this industry included the South African Commercial, Catering and Allied Workers Union (SACCAWU) protest in May 2010 against the DisChem chain's refusal to recognise the union. This was not the first time that the union has had to fight for recognition; in 2008, another major retailer, Woolworths, refused to respect its status as a representative of workers. This industry is not amenable to unionisation, and, to date, SACCAWU's longstanding demand for a bargaining council has fallen on deaf ears.

Another apparent feature noted in Figure 2.1.3 is the smaller year-on-year variance in the number of working days lost in the mining and manufacturing industries during 2009 and 2010, compared to that of other industries during the same period. This is due to the number of negotiations that unions are involved in annually in these industries, albeit with different employers from year to year.

The number of working days lost between 2009 and 2010 increased exponentially from 1.5 million to 20.6 million. As noted above, this was due to the duration of, and the number of employees involved in, the 2010 public sector strike. Given this dramatic increase, the obvious question to ask is what impact it has had on the economy. Figure 2.1.4 shows that 7 045 days were lost for every 1 000 employees in the community and social services industry for 2010, an average of 7 days lost per employee. This is the same number of public holidays we have on an annual basis, without counting the religious holidays also regarded as public holidays. In 2009, the number of days lost per employee in the same industry was a minuscule 82 days per 1 000 employees, or an average of 40 minutes lost per employee for the entire year. Over the two years, the average would come down to 3.5 days lost per employee per annum. This year, an agreement was reached in the public sector without a nationwide strike, which would lower even further the average number of days lost per annum in the industry over three years. In short, the level of strike activity in the industry that recorded the highest number of days lost in 2010 is not as high, and its impact more muted, than one might have expected.

Figure 2.1.4 shows that the mining industry lost just over a day per employee per year to strike action in both 2009 and 2010. While the transport industry came close to this level in 2010, the average in 2009 was lower, at one-third of a day lost per employee per annum. The numbers are very low in the agriculture, construction, financial, and retail and wholesale industries, although there are variations from one year to the other.

Figure 2.1.4: Number of days lost per thousand employees, 2009–2010



Source: DoL (2011)

Table 2.1.1: Average minimum wage (AMW) across all bargaining units, 2003–2010

	Year	Wage (R)	AMW increase (R)	AMW increase (%)	Inflation (%)	Real increase (%)	Real wage (R)	Real increase/decrease (R)
	2003	1 940			5.8			
	2004	2 015	75	3.9	1.4	2.4	1 987	47
	2005	2 236	221	11.0	3.3	7.6	2 169	154
	2006	2 429	193	8.6	4.6	4.0	2 336	90
	2007	2 639	210	8.6	7.1	1.5	2 466	37
	2008	2 819	180	6.8	11.5	-4.7	2 514	-125
	2009	2 939	120	4.3	6.6	-2.3	2 754	-65
	2010	3 305	366	12.5	4.3	8.2	3 179	240
Estimate	2011	3 569	264	8.0	5.0	3.0	3 404	99
9 years	2003–2011		1 629	84.0	55.3	28.7	2 497	261
8 years	2003–2010		1 365	70.4	47.9	22.5	2 375.7	436
5 years	2006–2010		876	36.1	38.0	-1.9	2 382.0	-47
3 years	2008–2010		486	17.2	19.2	-2.0	2 763.8	-55

Source: Actual Wage Rates Database (AWARD) of the Labour Research Service (LRS) <sup>6</sup>

Note: Inflation calculated from the Statistics South Africa (Stats SA) Consumer Price Index (CPI) <sup>7</sup>

## Demanding a strategy

Wage demands on employers have been growing by between 15 and 20 per cent in recent years. When compared to the low rate of inflation over the past two years, this appears to be excessively high. During this period, unions have also put increased emphasis on non-wage demands, which range from housing and medical allowances to job security and the use of labour brokers. However, an analysis of these settlements suggests that this is more part of union strategy to start high and leave room for downward negotiation. Employers, in turn, use the same strategy in reverse, and place counter-demands of retrenchments, reducing wages and cutting benefits on the table.

Wage increases in South Africa (in contrast to demands) have been alarmingly timid over the past decade. Contrary to the notion that demands are driven by high wage expectations, it appears that the demands are being led by growing fears of reduced real income. Table 2.1.1 is revealing on a number of levels.

It shows that, on average, nominal monthly wage increases since 2003 have been below 10 per cent per annum, except for 2005 when it was 11 per cent and 2010 when it was 12.5 per cent. In real terms (percentage increase minus inflation), annual increases of the monthly wage were less and there was an actual reduction in wages of 4.7 per cent and 2.3 per cent in 2008 and 2009 respectively. This has seriously affected the long-term pattern for improvements to minimum wages, and has had equally severe short-term implications for incomes.

Over the period 2003–2010, there was a nominal increase

of 70.4 per cent in the average minimum monthly wage, but when inflation is factored in, this drops significantly to a real increase of 22.5 per cent or R436 over the entire period of 8 years – an annual average increase of R54 per annum or R4.50 per month.

Between 2006 and 2010, the average minimum monthly wage actually declined by R47 in real terms for the entire period, or on average by R9.40 each year. The annual real loss grows to an average of R18.33 a year over a three-year period between 2008 and 2010. In this time, the average minimum monthly wage decreased by 2 per cent or R55 in real terms.

It is estimated that the average minimum monthly wage will increase by about 8 per cent in 2011, as a result of the most recent settlements. If we assume an inflation rate of around 5 per cent for 2011, then the losses experienced in 2008 and 2009 will be overcome. The average minimum monthly wage would increase by R99 from the previous year and by an average of R9 per annum over the period 2006–2011.

A closer look at Table 2.1.1 reveals the tyranny of percentages, and how low wages for the majority of South African workers really are. This fact is borne out in successive household surveys by Stats SA. The latest results at the time of writing, released in August 2011, show that the expenditure of two-thirds of South Africa's households is R2 500 or less. This differs by racial group, with 80 per cent of African households, 50 per cent of coloured households, 30 per cent of Indian households and 13 per cent of white households falling in this category.<sup>8</sup>

The approach to cushion the real wage losses of workers by adding non-wage demands has not been successful. Employers

have used strategies, such as outsourcing or threats of retrenchment, to curtail any real improvement to benefits and conditions of work. In fact, numerous negotiation rounds have been bedevilled by employers attempting to convert what is regarded as overtime work into normal hours. When taken to its logical conclusion, it amounts to reduced remuneration for workers working overtime, and a lower wage bill for the company.

Such measures remain highly contested, and both sides are working tirelessly towards an improvement in their bargaining position by legalistic means. Trade unions and employers alike are campaigning strongly for amendments to the labour laws. Unions have been calling for legislation to ban or restrict labour broking, thereby extending the wage and non-wage benefits of the main company or contractor to employees who currently work for labour brokers. Employers, on the other hand, are campaigning for a relaxation of labour laws that would allow for lower retrenchment costs, which, if achieved, would make the practice of labour broking redundant.

## Employment and unemployment

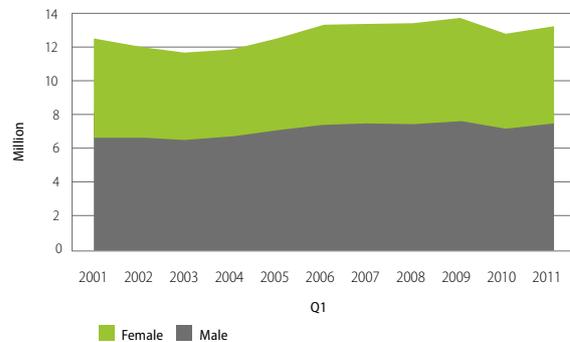
An assessment of the South African labour market cannot ignore the racial and gender dimensions inherited from apartheid. They remain intact and, arguably, much of the marginal gains that have been made since 2003 have been eroded by the brief recession of 2009. Before proceeding to look at these dimensions in more detail, we first consider the more general employment patterns of recent years.

The comparative data in Figure 2.1.5 show that there were 624 000 more jobs in the first quarter of 2011 than there were at the same time ten years ago in 2001. This is a growth of 62 000 jobs per annum. To put this annual figure in perspective, it is sobering to note that it amounts to only 10 per cent of the number of pupils who wrote the 2010 Grade 12 examinations. Another disconcerting fact is that today there are 139 000 fewer women in the labour market than ten years ago, while the number of men increased by about 760 000 during the same period.

The figure further shows that while 2001–2008 was characterised by higher employment growth, its benefits have since been eroded by the economic crisis that began in 2008 and impacted on employment in 2009. Employment peaked during the first quarter of 2009 at 13.64 million, but then dropped dramatically to 12.8 million in the first quarter of 2010 – over 800 000 jobs were wiped out in one year! By the first quarter of 2011, this figure had increased slightly again by 300 000 to 13.1 million, but it still remained 500 000 shy of the 2009 figure. As far as the gender profile of job shedding during this period is concerned, the data show that 360 000 fewer women were employed in the first quarter of 2011 than at the same time in 2009. The comparable figure for men is 140 000.

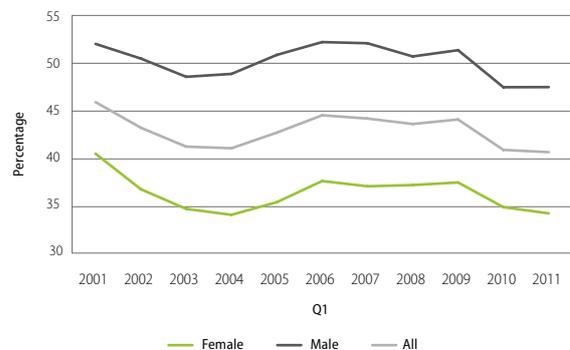
Another disturbing fact, which is brought to the fore in Figure 2.1.6, is that only 40.6 per cent of working-age South

Figure 2.1.5: Number of men and women employed, 2001–2011



Source: Stats SA, Quarterly Labour Force Survey (for 2008–11) and the Labour Force Survey: Historical Revisions (for 2001–2007)

Figure 2.1.6: Percentage employed of total working-age population, 2001–2011



Source: Stats SA, Quarterly Labour Force Survey (for 2008–11) and the Labour Force Survey: Historical Revisions (for 2001–2007)

Africans were employed during the first quarter of 2011. Ten years ago, in 2001, the comparable statistic was 45.8 per cent. This decline of 5 per cent is cause for serious concern, because it suggests that the economy is far from able to absorb greater numbers than those who annually enter the labour market.

When viewed from a gender perspective, the realities presented in Figure 2.1.6 are unambiguous. In South Africa, only 34.2 per cent of working-age women are employed, while the comparative figure for men is 47.4 per cent – a difference of 13 per cent in the first quarter of 2011. Another important dimension of the gendered nature of work emerges when we evaluate employment by occupation. In South Africa, 1 out of every 7 working women is a domestic worker, while 1 out of every 24 men finds himself in this occupation (Patel 2011). Many women remain trapped in low-paying occupations. In *Labour Market Dynamics 2010*, related data, which have been broken down in terms of sex and occupation, reveal that whereas 738 000 men were employed in a managerial position, less than half the number of women (312 000) found themselves in this category.<sup>9</sup>

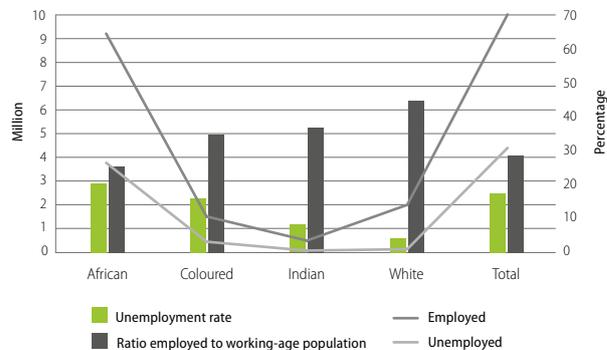
A demographic breakdown of the labour force shows that black Africans (78.2 per cent) make up the vast majority of employed workers, followed by white (9.6 per cent), coloured (9.3 per cent) and Indian (2.9 per cent) workers. However, as a proportion of the total working-age population, employed black Africans trail far behind the other groups. Only 36.2 per cent of this group find themselves in employment, compared to 49.5 per cent of the coloured, 52.5 per cent of the Indian and 63.8 per cent of the white groups.

An analysis of employment in terms of racial representation at the level of occupations points out that apartheid characteristics are entrenched in the labour market. Lehohla (2011) notes that in 2010 there was a much higher percentage of white employees (60.6 per cent) in skilled positions, compared to any other racial group. For Indian employees, the figure stood at 47.1 per cent, while for coloured and African employees it was 23.1 per cent and 15.9 per cent respectively.<sup>10</sup>

During the first quarter of 2011, there were 3.7 million unemployed black Africans, which translates into 85.7 per cent of the total number of 4.36 million unemployed in the country. Other groups constitute much less of this total number, with coloured, Indian and white unemployed at 436 000, 64 000 and 124 000 respectively. The unemployment rate was 25 per cent early in 2011; however, a demographic analysis again highlights entrenched apartheid characteristics. Figure 2.1.7 shows that unemployment within race groups remains extremely high for both the African and coloured groups, at 29 per cent and 22.6 per cent respectively, and much lower for the Indian and white groups, at 11.5 per cent and 5 per cent respectively.

Unemployment is the major concern in the labour market and is regarded as the cause of numerous social ills. It stood at 25.2 per cent in the second quarter of 2010. Stats SA's

Figure 2.1.7: Employment and unemployment by racial group, 2011



Source: Stats SA (2011) Quarterly Labour Force Survey, July



## South Africa remains unable to produce faster, cheaper and in greater volumes ...

*Quarterly Labour Force Survey* of July 2011 shows that unemployment abated to 25 per cent in the first quarter of 2011; however, it again increased to 25.7 per cent in the second quarter, instead of abating as the economy grows.<sup>11</sup>

### Productivity, unit labour cost and economic growth

Everybody is looking towards the transformation of the economy to stem unemployment and restructure apartheid employment patterns. However, low productivity, high unit labour cost and sluggish economic growth, especially in labour-intensive industries, give the impression that the cart is indeed before the horse. After so many years, South Africa remains unable to produce faster, cheaper and in greater volumes, while numerous other countries have done so.

As shown above, the levels of strike activity are muted and wage increases have barely kept up with inflation; hence, unions and their members can hardly be held responsible for this situation. Another indicator – the wage gap – reveals that a worker earning the minimum wage will have to work for 154 years to earn what the average director of a South African company earns in just one year. This worker will have to work an extra 100 years on top of that (255 years) in the case of the average remuneration of a CEO (see LRS 2011). Clearly, our economy lacks balance and equity, and it seems as if true transformation has been sacrificed for inflated bonuses.

Adrian Saville, investment officer at Canon Asset Managers argues that 'productivity is our best currency' and opposes the idea that the rand should be devalued to make South Africa more competitive. He views labour productivity as the key to global competitiveness, with the qualification that labour productivity does not necessarily have to be based on the Chinese model of low wages. On the contrary, he suggests that 'the focus should be on promoting productivity and sharing gains in productivity', and that those looking for quick fixes 'would be surprised to find that this world of higher productivity and higher incomes correlates with a stronger Rand, greater global competitiveness of South African firms and higher standards of living for South Africans generally' (Saville 2011).

The possibility of another recession so quickly after the previous one of 2008/09, and the grave consequences it will have especially for manufactured exports, unfortunately may push back long-term solutions in favour of quick fixes. The rand has devalued slightly over the past year and the debate continues with a slant towards the increasing cost of imports.

If productivity and shared productivity gains should be the focus, recent trends show the contrary. The Reserve Bank has

indicated that the percentage growth of economy-wide labour productivity slowed down quarter on quarter throughout 2010 and that this trend continued in the first quarter of 2011. In addition, the rate of salary increases also receded faster than productivity growth, which resulted in slower growth in unit labour cost from 7.7 per cent in the fourth quarter of 2010 to 5.3 per cent in the first quarter of 2011. In manufacturing, however, productivity growth accelerated as a result of increased output at lower employment levels (see SARB 2011).

In general, there are increasing concerns about the sustainability of South Africa's economic recovery. Although it was sustained throughout the four quarters of 2010, growth remained sluggish, resulting in GDP growth of 2.8 per cent for the year, after the economy shrank by 1.7 per cent in 2009. While growth for the first quarter of 2011 was 4.5 per cent, it declined to 1.4 per cent in the third quarter (Stats SA 2011). The Treasury revised its growth forecast downwards to 3.1 per cent from the initial 3.4 per cent for this year, with a caution that the continuing debt crisis in Europe could have severe repercussions locally.<sup>12</sup>

### Skills and stimuli

When unemployment is a major feature of the labour market, it is expected that a political solution will be sought to increase the potential of job creation and to ensure that skills are acquired for employment. It is widely acknowledged that the level and quality of education present a major impediment to higher levels of employment in South Africa (see Stats SA 2011). Sufficient and appropriate economic stimuli by way of direct and indirect subsidies by the government to transform the labour market are also lacking. Unfortunately, an analysis of current data reveals unsatisfactory results.

Average education levels of the labour force are low, with 52 per cent having less than a full secondary education (there being substantial variations across racial groups) – 58.7 per cent of the employed black African population, 50.6 per cent of the employed coloured population, 25.6 per cent of the employed Indian population, and 14.5 per cent of the employed white population fall into this category. While 15.7 per cent of the employed population have a tertiary qualification, the racial variations are once again notable, with 11.5 per cent of the black African group, 10.7 per cent of the coloured group and 24.1 per cent of the Indian group having tertiary qualifications – far less than the 42.6 per cent of the white group with such a qualification (Stats SA 2011).

These figures reveal only the level of education attained by the employed, and this should not be confused with the quality of education attained. Over the past decade and a

half, significant resource investments have been made in the country's education system. This is yet to bear fruit, and, as contributions elsewhere in this publication suggest, it will take much more than just monetary investment to turn the system around.

In recent years, much has changed in the thinking around government involvement in employment creation. Since the 1980s, policy-makers generally frowned on the idea of increasing state involvement in stimulating economic activity and employment. Today, the contrary is true and it is no longer a challenge to orthodoxy to suggest that the state is not doing enough in this regard.

Intervention in the form of bank bailouts, export subsidies, protection of vulnerable economic sectors, employment subsidies and even governments bailing out other governments have become increasingly commonplace since 2007. In South Africa, government subsidies have been provided for certain sectors, such as the motor industry and the government's expanded public works programme, to stymie unemployment. The onset of the economic crisis has resulted in broader and more targeted stimuli in the form of tax rebates for investment in strategic industries related to the New Growth Path strategy, as well as employment subsidies, such as the Jobs Fund for the creation of new jobs, and the training layoff scheme for reskilling and preventing large-scale retrenchments. In addition, the introduction of a youth subsidy will be targeted at skilling young people (aged 15–34 years), who make up 72 per cent of the unemployed (see Stats SA 2011). Finding the first job, and gaining job experience, appears to be a big challenge to employability (National Treasury 2011). Whether a lowering of the wage cost of young people will increase labour demand in the economy for this section of the population will be tested when the subsidy comes into effect next year. The government has allocated R5 billion over the next three years for its implementation.

The government's target for all these initiatives is the creation of 5 million jobs by 2020 – an average increase of 500 000 jobs per annum. This is 100 000 fewer than the number of pupils sitting for the Grade 12 examinations in 2011, and will be inadequate for bringing down the rate of unemployment even if these interventions are successful.

## Accords and discord

The concluding paragraph of the declaration at the bargaining conference of the Southern African Clothing and Textile Workers Union (SACTWU) in March 2011 reads as follows: 'Conference called on all SACTWU members throughout the country to

effectively prepare themselves for the upcoming round of substantive negotiations in our industry, and to be on high alert to confront employers head on, should they refuse to grant us our demands.'<sup>13</sup> Early in October, seven months later, newspaper headlines lauded a 'landmark' deal in the textile sector. The highlight of the agreement was that wages for new employees could be 30 per cent lower than for currently employed workers. The condition attached to this was that 5 000 jobs should be created by 2014. It was seen as a win-win agreement, as employers seeking to expand their workforce would pay less, the union would potentially benefit by more employment as it could increase its membership, and the development of the country, which is struggling to compete with cheaper imported goods, could be enhanced.<sup>14</sup> This agreement is significant, however, as it sets the precedent for other sectors to follow. An important concern remains that new workers will be bound by an agreement that they were not party to, and which would see them earning less than others at the same level.

Another accord that has made headlines is an agreement between the government, labour and business on 31 October 2011, which seeks to save and protect jobs by setting a 75 per cent local procurement target for employers. This accord will be hard to monitor, given limited access to company and government procurement data.<sup>15</sup> The significance of the accord lies elsewhere, namely in the creation of a space to develop common ground around inclusive and coherent strategies to counter the adverse impact of global conditions on the local economy.

## Results and prospects

The labour market indicators discussed above broadly reveal that post-apartheid legislation and policy have not effectively changed the gender and racial characteristics of the labour market as it was under apartheid. Nevertheless, it is not worse. Furthermore, the country has achieved less frequent, and reduced levels of, industrial action (with the exception of public sector strikes in 2007 and 2010). The higher wage demands, together with an increasing range of non-wage demands from unions across the federations, and the inability of management to address these adequately, raises the possibility of heightened levels of industrial action.

Economic prospects appear very uncertain, with continuing economic stagnation in industrial countries, which is underpinned by a financial crisis in the Euro zone. These countries are important trading partners of South Africa and our economy is highly dependent on exports to them. If the crisis

It is widely acknowledged that the level and quality of education present a major impediment to higher levels of employment in South Africa.



persists, a decline in exports will lead ultimately to retrenchments, which will put trade unions on the back foot, given that 50 per cent of the jobs lost in 2009 have not been regained, and wages have not improved in real terms over the past six years. When jobs are on the line, more violent forms of action can occur, even if unions condemn this.

At this stage, there is insufficient evidence to suggest that the government, business and labour have reached a new consensus on how to address the unequal gender and racial characteristics of the labour market, to reshape the economy to meet the needs of employment and social protection, and ultimately to reposition South Africa in the global economy. This, however, is a long-term agenda. A good start would be to ensure that immediate and narrow stakeholder interests, which are being squeezed by a flailing global economy, do not overshadow our longer-term developmental objectives.

## Notes

1. Home page of the PSCBC web site (<http://www.pscbc.org.za/>) downloaded 28 August 2011.
2. The agreement, Resolution 2 of 2011, can be downloaded from the PSCBC web site.
3. Owen (2011). His sample includes the following countries (and strike days per million of the population): Denmark – 373 820; Uruguay – 292 166; Brazil – 75 095; Peru – 52 446; France – 40 179; Canada – 26 534; Argentina – 21 034; Korea – 17 285; India – 14 432; Italy – 12 460; South Africa – 10 151; Turkey – 9 985; USA – 6 365.
4. DoL (2011). See Chapter 4 for statistics on strike activity.
5. For more information on the dynamics and settlement of the construction sector strike, see Cottle (2011).
6. The AWARD was started by the LRS in the mid-1990s to capture wage and non-wage data from collective bargaining agreements. It captures information from agreements entered into between union/s and a company (bilateral agreements), bargaining council agreements (often made up of more than one union and more than one company) and sectoral determinations, which are legislated minimums for certain kinds of work rather than agreements between unions and companies. The database can be accessed online and data are updated continuously. AWARD can be accessed through the LRS web site – [www.lrs.org.za](http://www.lrs.org.za).
7. CPI inflation is obtained from Stats SA, which releases monthly inflation data for the country. Inflation data prior to 2008 were revised by Stats SA; consequently, the revised CPI was used for that period. The information is available at [www.statssa.gov.za](http://www.statssa.gov.za).
8. Stats SA (2011) *General Household Survey*, 2010.
9. Lehohla (2011) – see Table 3.5 on page A-12 of the publication's appendix.
10. Lehohla (2011:11) – see Figure 4.9 in the publication.
11. Stats SA (2011). See table A on page vi.
12. See the speech by the minister of Finance to Parliament presenting the Medium-Term Budget Policy Statement, 25 October, at <http://www.treasury.gov.za/documents/mtbps/2011/mtbps/speech.pdf> [downloaded 28 October 2011].
13. See SACTWU web site – <http://www.sactwu.org.za/pr-and-news/184-nbc2011> [downloaded 28 October 2011].
14. See *Business Day Online* – <http://www.businessday.co.za/articles/Content.aspx?id=155236> [downloaded 28 October 2011].
15. See *Business Report*, 1 November 2011.

# OPINION | Are labour unions still serving the interests of the entire working class?

## REINVENT TO REMAIN RELEVANT: THE CHALLENGE FOR UNIONS AS THE VOICE OF THE WORKING CLASS

*Ebrahim-Khalil Hassen*

### Introduction

Have trade unions become an obstacle to the achievement of South Africa's developmental goals? The balance of opinion in contemporary public policy debates seems to suggest that this is the case. Trade unions, so the conventional argument goes, represent full-time workers, entrench their advantaged position and, in so doing, replicate an economic system characterised by high inequality and high unemployment. Unions, as is to be expected, reject this notion. The view, across union federations, is that they are still the drivers of a redistributive agenda, which speaks for the voiceless poor and challenges the unjust structural underpinnings of employment and distribution patterns. Far from becoming an obstacle to societal change, trade unions argue that they remain as relevant as ever in supporting a more egalitarian society.

This article has two themes. The first is the ongoing, important role that trade unions play in representing their members and in advancing South Africa's economic transformation agenda. In the parlance of the Congress of South African Trade Unions (COSATU) 'transformative unionism' shapes the choices, campaigns and conflicts that unions engage in.

However, the criticism of the trade union movement raises significant challenges that cannot go unanswered. Innovation in several areas of union activity is urgently required to foster the unions' role in achieving a more inclusive society. The methods and means of reimagining trade unionism are the subject of the second theme.

### Insider-outsider

Trade unions in South Africa have made major gains since 1994. These have included significant improvements to labour legislation, the entrenchment of collective bargaining in several sectors and social dialogue forums – especially the National Economic Development and Labour Council (NEDLAC) –

which have transformed many aspects of apartheid labour relations. In winning these gains, some have asked whether unions have not become 'insiders' of the very system they criticise? More bluntly, have trade unions been co-opted into a system that they once criticised and, thereby, become part of the problem? The 'insider-outsider' hypothesis argues that trade unions have indeed become 'insiders', and contribute (perhaps inadvertently) to shutting the door on 'outsiders'.

Jeremy Seekings and Nicoli Nattrass (2006: 375) provide a compelling background statement to this argument:

The post-apartheid distributional regime displays strong continuities from its predecessor, the late apartheid distributional regime, because the biggest losers under both have remained politically weak. The unemployed, especially the rural poor without easy access to urban land markets, were unable to use their electoral strength to secure pro-poor reforms, in part because it was unclear precisely what reforms would be pro-poor in the longer term. The powerful political constituencies in post-apartheid South Africa, on the other hand, were able to mobilize effectively and secure beneficial policies including lowered tax rates and raised wages and salaries for working people with skills.

The argument is important because, taken to its logical conclusion, it provides a response as to why inequality remains so high in South Africa. In more accessible terms, Nic Dawes (2011) refers to this as the 'great carve-up'. His view is that that the economy has been carved up between government, big business and organised labour (the insiders), each of which has received an economic benefit, but at the expense of the poor and unemployed (the outsiders). In essence, the proposition is advanced that the social accord created at the end of apartheid (what Seekings and Nattrass call the 'post-apartheid distributional regime') saw trade unions



Through regaining their organisational strength, trade unions could play a more progressive role, instead of being viewed as insiders that have been co-opted into the system.

become part of this deal, and that in securing gains for their members, they entered into a compromise that has perpetuated unemployment.

Seekings and Natrass take the analogy further, arguing that two types of social accord are possible. The first, an 'insider accord', is focused on tweaking the implicit social accord crafted after democracy, which would detail the parameters of wage increases, exclusion for firms unable to pay the agreed wage increases, and improvements in skills training and education. The second, an 'outsider-friendly accord', would include labour market reforms to encourage labour-intensive firms and sectors, support to areas that negatively impact on employment, and changes that benefit the unemployed through measures like public works or a basic income grant. Importantly, such an envisaged package would also include the removal of taxes on employment. In a country with such high levels of inequality and unemployment, the shift from an insider accord to an outsider-friendly accord is a tempting prospect, even if one disagrees with the argument underpinning the shift.

Importantly, the recommendations in both accords are focused on the trade unions making significant compromises and the government providing social security and other reforms; but there are no substantive compromises on the part of big business. In other words, business as an insider would be incentivised to provide more jobs through the compromises reached, and their contribution would be larger numbers of low-skilled jobs. Trade unions have rejected this model. At its 4th Central Committee meeting held in 2011, COSATU criticised this as being unfair, likening it to 'class suicide' (COSATU 2011).

The structuring of possible accords points to weak redistributive channels. It is revealing that the primary transfer occurs from the middle strata to the lowest strata, and not from the top to the middle or lowest strata. The trade union defence of its role in economic policy has been anchored on this feature of the 'insider-outsider' hypothesis. Their core argument has always been that a more just social dispensation would entail a steadier stream of resource and wealth transfer from the top end of the income distribution to the lowest end.

More to the point, trade unions have argued that there are clear linkages between the organised working class and the unemployed in the day-to-day interactions in the economy. South Africa has a high dependency rate (which measures the number of people a working person supports). The National Planning Commission (NPC) provides the most recent estimate, indicating a dependency ratio of 3.9 people for every one

worker (NPC 2011). Thus, there is sufficient evidence of existing redistribution channels from the organised working class to the unemployed, through workers that support unemployed members of society. This is significant, because it challenges the simplistic 'insider-outsider' dichotomy, which assumes little or no solidarity between organised labour and the unemployed.

A more disconcerting truth for trade unions is that the living standards of workers have not improved significantly, despite worker militancy in several sectors. Labour's share of the economy has declined (COSATU 2010). More importantly, settlements on wages and salaries have not been significantly high. Data provided by the National Treasury, for instance, clearly shows that the real wage increase across the economy between 2008 and 2010 was 14.2 per cent (National Treasury 2011). At face value, the increase seems high, but if one considers that labour's share of the national economy has declined, one can infer that other actors in the economy have done significantly better than workers (even those represented in collective bargaining arrangements). Here again, the distributional issues are important, as they show that the higher income earners have benefitted more than workers. Simply stated, organised workers have not managed to attain increases to wages and salaries that would entail the carving up of a small economic pie.

Trade union activity is not limited to collective bargaining. All union federations in South Africa regularly campaign on matters of public policy. COSATU, as the largest federation, leads the way with its focus on changing economic and social policy in South Africa. Solidarity, a union representing mostly white workers has a programme to train apprentices and regularly comments on the impacts of policies such as affirmative action. The Federation of Unions of South Africa (FEDUSA), the second largest trade union federation in South Africa, has a distinctly pro-market stance, and advocates a set of public policy positions to this end. There are, thus, disagreements between trade unions on the exact public policy prescriptions, but there have been contributions to wider public policy issues and debates that suggest a more comprehensive focus than merely representing union members.

Collective bargaining arrangements, too, have placed greater emphasis on smaller firms, the introduction of flexibility to support productivity, and linking employer and employee demands. In the motor industry, there have been several agreements supporting continued work at factories; in the mining sector, there are similar examples. More recently, the agreement in the clothing sector to introduce lower entry-

level wages in exchange for increased employment, suggests that the unions are finding more innovative ways to address the challenges that South Africa faces.

The picture is not all rosy, however, with Webster and Von Holdt (2005) showing that restructuring at the workplace after democracy has taken various forms of co-operation, but in several instances also authoritarian restoration (where managers actively seek to assert their authority, as opposed to pursuing co-operative arrangements). There are instances, moreover, where small business players have been unable to meet the commitments reached at bargaining councils, especially when agreements are extended to non-parties to the bargaining council.

The details of innovative wage settlements, and the impact of these on small business, are beyond the scope of this article. However, they do show that the insider-outsider paradigm, which portrays unions as an obstacle to South Africa's developmental goals, is a highly problematic simplification of a much more complex relationship between workers and owners.

## Bureaucratisation and politics

There is also a more left-leaning critique of trade unions, which is comprised of three major arguments.

Firstly, the victory of democratisation and the consequent changes to labour laws have turned trade unions from activist organisations into more bureaucratic organisations. In a challenging book, titled *Paradox of victory: COSATU and the democratic transformation in South Africa*, Sakhela Buhlungu (2010a) argues that with democratisation trade unions have lost the organisational muscle they once had. Buhlungu (2010b: 60) says of trade unions:

In South Africa, the crisis of the industrial union model is best illustrated by its inability to cope with labour market changes, such as the segmentation of the labour market into a core workforce, comprised of workers in permanent positions with benefits and relative security of tenure, and a peripheral workforce, made up of workers in precarious forms of employment.

The argument being made is similar to that advanced by Seekings and Natrass, but the political project is different. For Buhlungu, trade unions need to regain their militancy to fight fights that are focused on social justice. In other words, through regaining their organisational strength, trade unions could play a more progressive role, instead of being viewed as insiders that have been co-opted into the system. However,

Buhlungu points to the increasingly inward-looking focus of trade unions as limiting their ability to organise and represent outside of formal workplaces. It is a valid criticism, even if somewhat overstated.

COSATU, in particular, has consistently retained close linkages with civil society, as part of its political programme. Its campaigns on fiscal policy, social security and economic policy have prioritised coalitions with a wide range of civil society actors. More to the point, over the last decade, it has consistently managed to bring out the numbers onto the street for campaigns focused on poverty and unemployment. Over a period of three years in the mid-'00s, it held one-day strikes under the theme, 'Crush poverty! Create quality jobs!'. Moreover, its anti-privatisation strikes campaigned for public service delivery by the government, and not as an extension of markets in the provision of public goods and services.

Secondly, the politics of the tripartite alliance have largely played a disciplining role in respect of the organised working class. The relations between alliance partners are difficult to decipher, even for insiders to this process, as there is a constant shifting of positions. Here again, the criticism has merit, especially as it has the potential to divide COSATU. Steven Friedman (2011) makes the point that the 'economic freedom' march by the African National Congress Youth League (ANCYL) had the impact of dividing COSATU affiliates. Friedman further stresses that layering the agenda of workers with politics in the ANC could result in significant weakness and paralysis in the trade union movement.

Trade unions, themselves, are divided by their distinctive political strategies. While COSATU continues to maintain strong relations with the ANC, FEDUSA and several independent unions are fashioning themselves as a 'non-political' trade union centre. There are profound disagreements, thus, amongst the major trade unions on how to engage with the dominant ANC.

Thirdly, new forms of organisation, such as social movements, are emerging outside of the trade union movement. Webster and Von Holdt (2005) argue that trade unions need to find innovative strategies to engage with these new actors and their modes of protest, which are located in communities but linked to the wider changes in what they call 'the world of work'. The relationship between community struggles and wider economic conditions is important to understand in order to grasp why and how such new forms of organisation are beginning to emerge.

COSATU has attempted to engage with social movements and self-organisation efforts by workers on the periphery, primarily by offering support and adopting sympathetic resolutions at its congresses. However, it has not yet managed

The insider-outsider paradigm is a highly problematic simplification of a much more complex relationship between workers and owners.





To ensure that trade unions continue to play a wider role, they must first ensure that the arguments they make reflect a wider social reality, and not just the perspectives of their members.

to build strong and sustainable linkages with social movements; nor has it managed to find ways to organise atypical workers. This is an area of weakness that must be addressed, and is given expression in the following rhetorical flourish by Zwelinzima Vavi (2009):

It must unite unionised and the un-unionised workers, it must bring together blue collar and black professionals. It must unite the workers with permanent jobs with those employed by the labour brokers. The campaign must have clear demands and time frames how these should be realised by when.

COSATU, thus, recognises the challenges that it faces in building a broad alliance that could support a more egalitarian social outcome. However, it would need to undertake significant changes to achieve these outcomes; this is discussed in the final section.

## New directions

Thus far, the substantial weaknesses of the rigid 'insider-outsider' hypothesis have been raised, but contextual realities also point to the significant challenges to their relevance that trade unions have to face up to. If it is to sustain its progressive and transformative role, the organized working class will have to adapt to these new realities. How then can it continue to play this role?

The debate about the youth subsidy provides signposts to the answer of this question. Trade unions opposed a proposal from the National Treasury to provide a subsidy for employers to employ young unemployed workers. Their concerns stemmed from the risk of creating a 'dual labour market' for members, but also the fear that the inherently skewed structural nature of unemployment would remain unaddressed. The arguments find empirical support in an important paper by Burger and Von Fintel (2009) who suggest that structural reforms are needed to address structural unemployment; hence, the extension of a youth subsidy would be a meek response. In other words, to ensure that trade unions continue to play a wider role, they must first ensure that the arguments they make reflect a wider social reality, and not just the perspectives of their members.

Secondly, unions must develop policy proposals. In the case of the youth subsidy, trade unions have focused on industrial policy, and on public works programmes. The coherence of the policy positions needs to be improved. However, as shown

in COSATU's New Growth Path documents, there is a very conscious effort to speak to smaller business players and seek alliances.

The NPC's Diagnostic Report (2011) also cites Burger and Von Fintel's (2009) analysis of the deeply structural nature of youth unemployment. The depressing conclusion is that the average unemployed 25-year-old youth will still be unemployed at the age of 35 or 45. Yes, there are welcome commitments to expanded public works programmes, and significantly detailed proposals to improve education in the national plan, but the deeper question of how the excluded are to connect with opportunity remains an unmet challenge.

Thirdly, the experiments to organise informal traders, build social movements and even explore new forms of union membership must be sustained. The current membership model for trade unions is beginning to look old in the face of significant changes in the world of work. For instance, informal workers are rarely organised in the workplace, lack regular income to pay monthly fees and often prefer self-organisation. Similarly, social movements are diverse, located in communities or around a specific issue, making old coalitions difficult to implement in the current context. The trade unions must find ways of giving voice to these new forms of organisation, even if it means self-organisation outside of the trade union movement, or membership systems that are flexible enough to accommodate atypical workers. The debate on the youth subsidy showed that trade unions need to build these relationships, not only to garner support, but because the debate on economic transformation must include those outside the formal economy.

## Conclusion

Trade unions continue to play an important role in our society, one that is guided by an egalitarian outcome. Attempts to sustain the 'insider-outsider' hypothesis reflect a significant challenge to the role that trade unions argue that they play. Ultimately, though, this hypothesis lacks the substantive evidence to be sustained. The criticism that trade unions are facing a significant challenge to their continued role as social actors capable of representing the 'working class as a whole', however, has merit, because that role is not preordained but rather is constructed in the day-to-day work of trade unions.



## TRADE UNION STRATEGIES ARE NOT HELPING THE POOR AND UNEMPLOYED

Carol Paton

The problem with South Africa's economy is that too few people work. While this is a statement of the obvious, the low level of participation in economic activity is remarkable in comparison with other economies. In South Africa, only 41 per cent of adults between the ages of 18 and 60 years do work of any kind, whether full-time, part-time or informal (see Figure 2.3.1).

In comparable developing countries like Brazil and Malaysia, the rate of participation in the economy by working-age adults is around 66 per cent. In developed economies, such as the US and UK, it is 70 per cent.

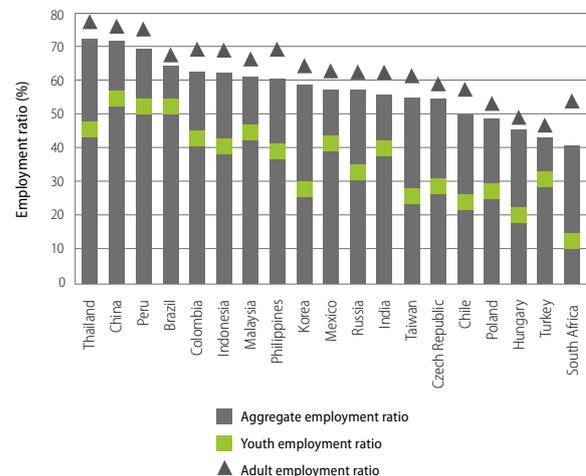
South Africa's high and sustained rate of unemployment is almost unparalleled anywhere in the world, according to the Organisation for Economic Co-operation and Development (OECD) 2010 country survey. One quarter of the workforce is unemployed and looking for work; at least a further 5 per cent are discouraged from looking for work at all; and the broad rate of unemployment has been well over 30 per cent since the 1990s (OECD 2010).

That this must change is something on which everyone agrees. Job-creation, say the government, business, labour and political parties, is South Africa's overriding priority. However, the debate on creating jobs has been mired in political conflict and has made little progress. Anyone arguing for increased flexibility in employment conditions has been labelled anti-worker, anti-poor and anti-transformation. With a political zeal that has eliminated the possibility of reasoning and genuine engagement, organised labour has defended every inch of space won under the labour regime that came into being in the 1990s.

At the other end of the political spectrum, the mission to reverse labour's gains in order to increase labour market flexibility has been held up mistakenly for many years by free market champions as the panacea for our unemployment problems. However, as countless analyses have shown, the reasons for unemployment are deep and historical, and cannot be attributed to any one cause or to the actions of any one social actor. In particular, it has been pointed out in several authoritative studies by, among others, the International Monetary Fund (IMF) and the OECD, that labour laws – those governing hiring and firing – are not the cause of high unemployment.

Misconception, fear and resentment have poisoned the

Figure 2.3.1: Youth and adult employment ratios in South Africa and selected emerging market economies



Source: National Treasury (2011)



The reasons for unemployment are deep and historical, and cannot be attributed to any one cause or to the actions of any one social actor.

atmosphere for engagement. The result is that in achieving what is undeniably its most important goal, South Africa remains no closer to finding solutions than when the transition to democracy began 17 years ago.

The trade union movement must take its share of responsibility for the stalemate. Its ideologically laden and outdated theoretical analysis of the unemployment problem and how to solve it is one of the roots of the impasse.

In the past five years, many excellent analyses have diagnosed the unemployment problem from a variety of standpoints. The National Planning Commission (NPC), the National Treasury, the International Panel on Growth (popularly known as the Harvard group) and the OECD have all produced high-level studies on South Africa's economic weaknesses, all outlining a similar picture.

The problem has been summed up as follows. While South Africa's colonial economy, shaped by the extraction of minerals and the development of agriculture, produced large volumes of cheap, black labour to work on the mines and farms, the demand for low-skill jobs was too weak over time to absorb the growing labour force. For most of the twentieth century, the mines and farms employed large numbers of low-skilled people, but there was a very large decline in jobs in these sectors over the past 20 years.

The loss of jobs in mining and agriculture was not compensated for by the growth of manufacturing, which during apartheid was both highly protected and capital intensive. In fact, employment in manufacturing began to decline in 1982 and, by 2004, had fallen by 21 per cent (Hausmann 2008).

So, while the country's development path created masses of low-skilled labour, employment opportunities for this group began to decline markedly from the 1980s. This coincided with the beginning of the end of apartheid and the lifting of restrictions on the movement of black people that had been at the heart of the system. In other words, as most of these studies point out, there was a very large reduction in the number of unskilled jobs at a time when the demand for exactly that sort of work was growing rapidly.

Combine this with the fact that apartheid had all but destroyed the capacity for subsistence and peasant agriculture – which, in many developing economies, continues to provide livelihoods during industrialisation – and South Africa's massive unemployment problem is put in perspective.

What these analyses tell us is that the unemployment situation is deep, historical and structural. On a political level, it is important to acknowledge this, because it means that no social actor – whether trade union, business or government – can be held solely responsible for the development path the economy has taken.

From the 1980s, a further bias against labour-intensive production developed, with employment growth shifting towards skills-intensive sectors such as services. It is widely agreed that the shrinking of employment in manufacturing is probably the most important single factor in the economy's failure to absorb labour in sufficient quantities, but it is here (in the manufacture of goods that can be exported), where relatively low-levels of skill are required, that jobs need to be created. According to the Harvard group, for instance, this is important not only in order to ensure that the growth that South Africa produces is sustainable, but also because 'such a pattern of growth is needed to create the kinds of jobs that use the human resources that the society has at its disposal' (Hausmann 2008: 4).

This means encouraging the growth of industries and firms that can employ large numbers of people in low-skill (and, unfortunately, low-pay) jobs. Preferably, the goods they produce must be made for export, which means again that the wage component of the cost of production must be globally competitive.

COSATU's typical response to these reports has been to dismiss them as ideologically biased. In September 2010, the union federation published an in-depth analysis of its own – *A growth path towards full employment* – in which it advocated a range of radical policies (COSATU 2010a).

Although internally coherent in an abstract, theoretical way, the policy ideas take no account of global economic realities. The argument is that to overcome the exclusion from economic participation of the vast majority, the growth path must have redistribution (which includes higher wages for the employed) as its central organising principle. Since this approach is at loggerheads with 'global forces', an 'active state is required to drive economic development'.

Thus, fiscal policy, for example, should involve higher taxes on the wealthy and on companies, permanently higher spending on social infrastructure, and comprehensive social security. Social security should include a basic income grant for those unable to work and the guarantee of employment 'for everyone of working age who is willing to work and able to work'. Industrial policy would include the nationalisation of strategic industries and the creation of state-owned enterprises in a range of sectors.

All of this would be financed by the creation of a state bank to buy government bonds and by bringing the South African Reserve Bank under state ownership and control, so that its balance sheet could be accessed for 'developmental purposes'.

Only in Utopia would such policies be viable. In the real world, where private investment is central to economic growth and employment, and the resources of the state are limited,



It is widely agreed that the shrinking of employment in manufacturing is probably the most important single factor in the economy's failure to absorb labour in sufficient quantities.

policies like these have no place. The only function that they do serve is to propagate the fiction among workers that old-fashioned socialism could be revived if only enough political will were generated and sufficient pressure exerted. The relevance and importance of what has become the most frequently recommended policy solution – that higher employment lies in the fostering of a low-wage manufacturing sector – is, by definition, excluded by COSATU from the debate.

Much of COSATU's analysis and rhetoric argues that the wage struggles of the employed are where the battle for the redistribution of wealth is fought. The poor and marginalised, who are unfortunately not part of this relationship, should be looked after by the state, it is asserted. These arguments are frequently employed to provide a revolutionary justification for the entrenchment of South Africa's historically segmented labour market, in which a small group of insiders enjoys opportunities from which the outsiders are excluded. And because wages for workers in South Africa are low, relative to the cost of living, and the inequalities between rich and poor are vast, it is an argument that has easily seen off any ANC policy-maker bold enough to raise the issue of wage levels.

There is indeed great moral and political difficulty in asking workers to accept low wages in the interests of restructuring the economy. However, weighed against the objective of drawing more people into work, it is not as immoral as is often contended. Rather than closing down the discussion, union leaders would do well to look for a practical solution to the question of how the burden of a lower-wage structure could be generalised more equally across society.

To make it possible for trade unions to even contemplate such a discussion, it is important that other social actors make certain acknowledgements.

The first is that while manufacturing wages in South Africa are high by developing country standards, the high cost of living and the poor quality of public services means that workers live poor quality lives. The NPC (n.d.) notes that South Africa's hourly manufacturing wage is five times that of Sri Lanka, India, Philippines and China, and three times that of Russia, Brazil, Turkey and Hungary. Nevertheless, as COSATU think tank, the National Labour and Economic Development Institute (NALEDI) points out, the average wage of an unskilled worker (covered by bargaining council agreement) amounts to R1 909.00 per month, which is below the estimated R2 428.00 per month required to provide nutrition and other basic needs for a family of four (COSATU 2011).

Further complicating the picture is that South Africa's 'high wages' came about not by virtue of large or disproportionate

gains made at any point by black workers (something analysed by the OECD 2010 survey), but rather as a result of a combination of changes in labour supply and demand during the 1990s, as well as the wage bargaining system and union power, which stopped wages from falling as much as they would have needed to for the market 'to clear'.

The second acknowledgement that should be made (by business, in particular) is that the excesses of corporate pay have made a discussion on low-wages for workers politically untenable. Not only that, but the escalation of executive pay – which has been rising much faster than wages – is fuelling an unfeasible level of inequality.

One suggested mechanism that could lower wages without making workers poorer – that of a wage subsidy for youth – initially made by the Harvard group has been rejected out of hand by COSATU unions. The wage subsidy – formally proposed by the National Treasury in February 2011 and due to be implemented on a limited scale in April 2012 – will displace older, expensive workers with cheaper, younger ones, according to COSATU.<sup>1</sup>

This is not necessarily true. While there is the danger of some degree of substitution (older, unsubsidised work-seekers are less likely to be favoured in the competition with younger, subsidised work-seekers), existing employees would remain protected by labour legislation and would not be easily substituted.

A wage subsidy for youth doing entry-level, low- or semi-skilled jobs has another advantage for South Africa's particular problems. Due to union power and the collective bargaining architecture, there is strong evidence that entry-level wages are particularly high and problematic.<sup>2</sup> Drawing on analyses by the OECD, the Treasury states that starting wages for entry-level workers in South Africa are 62 per cent of the average formal sector wage; in OECD countries (which also have high starting wages compared to developing countries), starting wages are 37 per cent of average wages (see Figure 2.3.2).

Since workers with or without work experience cost the same to hire, employers have opted unsurprisingly for those who have worked before, putting youth at a disadvantage and (because of enduring, structural unemployment) at risk of a lifetime of unemployment. The social costs of this phenomenon are high.

COSATU's fear of the proposal, however, lies in the possibility that it might just work. Among some workers, and even one union – the Southern African Clothing and Textile Workers' Union (SACTWU), which recently agreed to such an arrangement – lower entry-level wages make sense, if it

COMRADE  
MANDELA  
WE ARE STILL  
STRUGGLING  
MEFONDINI!





No progress will be made unless ideological positions are softened, revolutionary theories are put aside, and pragmatic and practical solutions are looked at.

means that more people can work. The economic theory of wage elasticity says that it should (the demand for labour should rise when the wage rate falls), and SACTWU's agreement with employers is premised on an anticipated 5 per cent rise in employment. If the increase in employment does not happen over a three-year period, the agreement to employ entry-level workers at lower wage rates will fall away.

Other COSATU unions have responded with outrage to the SACTWU agreement. However, it means that, together with the limited roll-out of the wage subsidy next year, there are two experiments in the field, which will assess the actual and not just theoretical effects of lower wages on labour demand.

A second suggestion for solving the 'high-wage, high-unemployment' problem is an agreement at a society-wide level. Numerous in-depth studies, including the Labour Market Commission in 1996,<sup>3</sup> the national Growth and Development Summit in 2003,<sup>4</sup> the New Growth Path document (DED 2010) and the OECD country study (2010) have all arrived at the same point after grappling with the same intractable problems.

However, COSATU has declared that a pact would be 'suicide', on the grounds that elsewhere in the world similar agreements on wages typically have involved a moratorium on industrial action, which led to the demise of union membership and power: 'If we did sign such an agreement, five years down the line workers would create a new federation, once they see the impact a wage freeze has had on their lives' (COSATU 2010b).

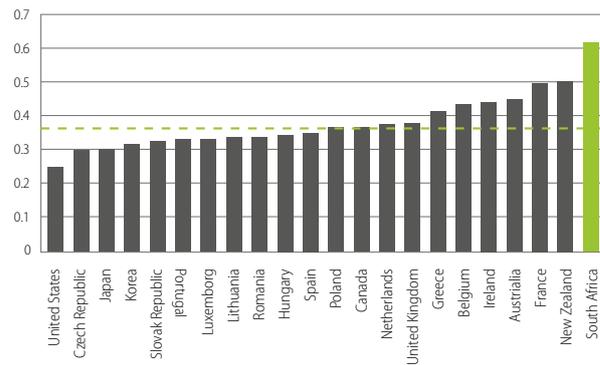
Again, objections of this sort are ideological rather than pragmatic and are based on the principle of self-preservation, which COSATU does not want compromised.

In contrast to the evidence in favour of creating economic activities that would suit the human resources that it has at its disposal, COSATU has done its best to propel the economy in the opposite direction. The campaign for 'decent work' – defined by COSATU (but not by the government) as work that is permanent and has social security benefits – illustrates this trend.

Over the past three years, advocating decent work has entailed a concerted campaign to ban labour brokers, third-party agents that have provided contract employees on a flexible basis with great success. Banning labour brokers, which would mean that employers would have to appoint such workers permanently, is a high-risk strategy for employment. An impact study commissioned by the Cabinet expressed concern that the 'major source of job creation over the past 14 years could be outlawed' (Benjamin & Bhorat 2011).

These are difficult issues for both trade unions and the country to negotiate, but no progress will be made unless

Figure 2.3.2: Ratio of minimum wage to average wage of full-time workers in selected countries



Source: NPC (n.d.)

ideological positions are softened, revolutionary theories are put aside, and pragmatic and practical solutions are looked at. Nowhere is this truer than within the trade union movement, which has continued to take its guidance from outdated theories with an uncertain Utopian destination.

It is unreasonable, however, to expect workers and union leaders to make the necessary leap to a new way of thinking on their own. Others in society need to make it happen by, among other things, spreading the burden of poverty more equitably, committing to reducing inequality, and uplifting the poor and working classes through good quality social services that could compensate for a lower-wage structure. Two issue-based social accords – one on increased skills training, and a second that has set a 75 per cent local target for government procurement – concluded this year between the government, business and labour are excellent examples of how to share responsibility among social actors to promote better employment outcomes. A social accord on productivity would be the next place to look for even greater progress to be made. Trade unions should agree to engage rather than object for abstract ideological reasons.

## Notes

1. The wage subsidy proposed by the National Treasury will subsidise employers who take on new workers between the ages of 18 and 29 and who earn less than R60 000 per year. For the first 12 months, the subsidy will be 50 per cent of the wage to a maximum of R12 000, tapering off in the second year towards zero. Existing young workers will be subsidised for 12 months, at a rate of 20 per cent, tapering off to zero.
2. One reason for South Africa's high starting wages is the bargaining council system, which sets minimum wages across sectors. While big employers and big labour tend to belong to councils, wage agreements can legally be extended to non-parties. In OECD countries, legal extension of agreements to non-parties has been found to be particularly bad for employment outcomes. Empirical research on bargaining councils backs this up, showing that firms covered by bargaining councils pay wages that are 10 per cent to 21 per cent higher than similar firms that are not covered (Magruder 2010).
3. *Restructuring the South African Labour Market, Report of the Presidential Commission to Investigate Labour Market Policy* (1996). Available at: <http://www.polity.org.za/polity/govdocs/commissions/fintoc.html>.
4. *Growth and Development Summit Agreement*, June 2003. Available at: <http://www.nedlac.org.za/summits/presidential-summits/growthanddevelopment-summit/agreement.aspx>.