

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

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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.

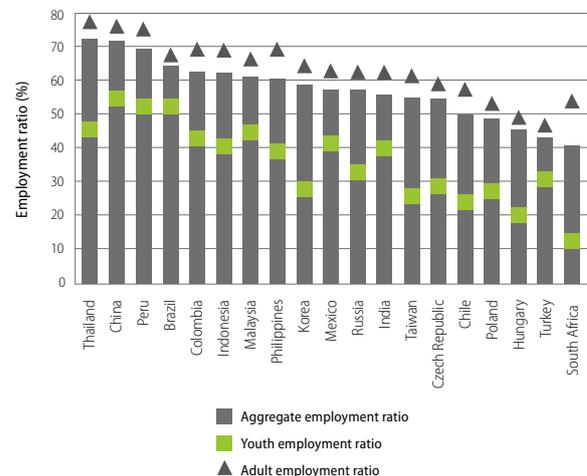
South Africa's high and sustained rate of unemployment is almost unparalleled anywhere in the world, according to the Organisation for Economic Co-operation and Development (OECD) 2010 country survey. One quarter of the workforce is unemployed and looking for work; at least a further 5 per cent are discouraged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



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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 every-one 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,



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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).

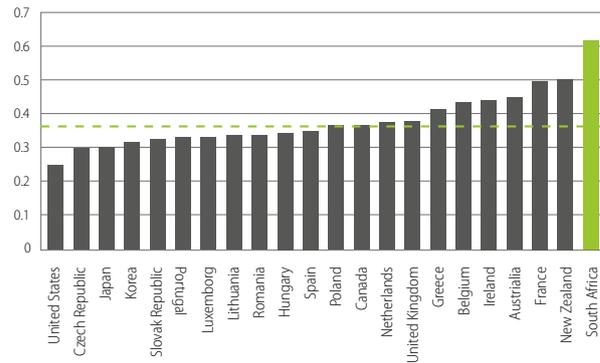
Again, objections of this sort are ideological rather than pragmatic and are based on the principle of self-preservation, which COSATU does not want compromised.

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>.

