

# Youth wage subsidy

## What is the outcry?

On Tuesday 15 May Democratic Alliance (DA) supporters clashed with those from the Congress of South African Trade Unions (Cosatu) leaving scores of people injured. DA supporters had attempted to deliver a petition on the youth wage subsidy to the federation at its offices in Braamfontein, Johannesburg but Cosatu supporters would hear none of it, writes **Elijah Chiwota**.

According to the Quarterly Labour Force Survey, Quarter 1, 2012, unemployment stood at 25,2% or 4,5 million people. This figure is very high when the country is compared to other middle income countries.

Together with poverty and inequality, youth unemployment has reached crisis proportions as at 72% it is more than double the overall unemployment rate. The majority of the unemployed in South Africa being young especially black Africans below the age of 34. Therefore, addressing poverty, inequality and unemployment is important to the country's social and economic development.

This explains why the youth wage subsidy is such an emotive issue to the DA and Cosatu. However, the debate on the youth wage subsidy is not new as the issue has been on the cards for some time. To begin with, the proposal for the youth wage subsidy did not even come from the DA but from the National Treasury which commissioned studies on youth unemployment.

During the budget speech in February, Finance Minister Pravin

Gordhan said the youth wage subsidy was under discussion at the National Economic Development and Labour Council (Nedlac) where 'the labour constituency has expressed reservations.'

### WHAT IS A WAGE SUBSIDY?

According to a discussion paper from the National Treasury entitled *Confronting youth unemployment: policy options for South Africa* wage and employment subsidies were incentives that helped to create jobs by 'lowering the cost of labour to the employer or raising the wage a worker receives.'

The subsidy to the employer, also called employer-side subsidies, raised the labour demand by reducing the cost of labour. It is this type of subsidy that the National Treasury is proposing.

This subsidy, which can be described as being on the demand side, focused on job creation for young people aged 14 to 34.

The other type of subsidy is given to employees to make them keep jobs and to be motivated to do their work. This is known as an employee-side subsidy. However,

this subsidy is not under discussion in South Africa as the matter is not to keep people in jobs but to create new employment as the majority of the youth is unemployed.

There is yet another subsidy that is on the supply-side as it increases the number of workers who are able to find work. This is aimed at improving skills that will make young workers be sought-after on the job market.

For example, the subsidy that is being debated would cover the cost of employer risk in the hope that the young worker gains experience and skills that enables them to get a job in the future. The fund will be administered through the Pay As You Earn system of the South African Revenue Service.

It is estimated that about 423,000 jobs would be created by the subsidy which was allocated five billion rand. The subsidy will be worth R12,000 rands per worker over two years.

### DA POSITION

In agreeing with the National Treasury proposal, the DA argues that South African wages are too

high and that this made it difficult for employers to hire more people.

'The high cost of hiring labour in South Africa is the key reason why 4.5 million job seekers fail to find work each month.'

'Lowering the cost of employment – through the relaxation of labour legislation for small businesses, the unwinding of the "unintended consequences" of the Labour Relations Act and the Basic Conditions of Employment Act, and adapting the extension of bargaining council agreements – would be the biggest single step towards solving the unemployment problem,' says the DA in its document *Youth wage subsidy now* released in October 2011.

The DA attributed labour objections to the youth wage subsidy, especially from Cosatu, to power struggles within the Alliance. It says these struggles have taken precedence over employing young South Africans.

'But, for the past 16 years such reforms have been blocked by organised labour's unwillingness to compromise, and government's unwillingness to lead.

Unfortunately, Cosatu's public support for Jacob Zuma's run at the Presidency has entrenched its leaders in the Cabinet, weakened the President's resolve, and lessened the likelihood of fundamental reform,' argues the DA.

### COSATU POSITION

Cosatu's proposals on dealing with youth unemployment are different from those of the National Treasury and the DA. The federation sees youth unemployment as being caused by neo-liberal economic policies that have been implemented in the past such as the Growth, Employment and Redistribution (Gear) framework that did not prioritise on job creation. However, Cosatu hopes that the New Growth Path economic policy will meet its target of five million jobs in the next 10 years.

Policies including Reconstruction and Development Programme, Gear, Strategy and the Accelerated and Shared Growth Initiative for South Africa did not create enough jobs. Marina J. Mayer and others in *Towards a youth employment strategy for South Africa* say these policies created a 'the growth-employment-poverty-inequality dynamic' because they were not labour-absorptive.

Therefore, the economic growth that was recorded under those policies did not create jobs. In other middle income countries such a growth would have created around six million jobs. By not creating job opportunities for young workers to enter the labour market, these policies perpetuated poverty and inequality.

Cosatu disputes that unemployment is caused by the high cost of labour. 'Our proposals differ with the proposal of a youth wage subsidy. The wage subsidy assumes that part of the causes of unemployment is the high cost of labour. Thus, subsidising firms to hire young people lowers their cost and thereby encourages firms to demand more labour from young people. Indeed this is the primary reason the National Treasury seeks to introduce a youth wage subsidy. Given the meagre wages that are earned by African workers in particular, we question the validity and appropriateness of this strategy.'

Instead the federation says unemployment is a product of apartheid policies, a poor education and post-schooling system, and a weak state.

'It should be mentioned that *this strategy fails to address the structural causes of youth unemployment* namely the porous education system, weaknesses in the further education and training (FET) and Higher Education and Training sectors, the persistence of the structure of production ownership and control of the economy we inherited from the apartheid and

the withdrawal of the state from directly tackling unemployment thorough the measures outlined above in particular, and generally from guiding investment and the delivery of infrastructure and basic service', argues Cosatu in *A growth path towards full employment*.

It points out that one of the causes of unemployment was that the youth were unable to find jobs after completing school.

'The type of unemployment we have is clearly generated by the lack of choices for school leavers to further pursue their studies. The closing down of FET colleges meant that those who could not make it to universities and the then technikons had very limited options than to enter the unemployment pool.'

According to Cosatu, the subsidy tries to correct an imbalance in the economy without necessarily trying to address the economic conditions that created unemployment in the first instance.

'Without tackling these and the associated challenges... *the wage subsidy will be a form of fundraising for business interests to boost their profitability*, whilst at the same time creating a three-tier labour market system that further worsens income inequalities, with a miniscule effort on the plight of children of the working class,' says Cosatu in its objections.

According to Sure Kamhunga writing in the *Business Day* the private sector had corporate deposits of over R520 billion 'as companies hoard cash rather than invest in new or existing job-creating projects.' The question therefore is whether the private sector needed the subsidy if they had so much sitting in their coffers.

According to the National Treasury subsidies also have 'unintended consequences'. These include a deadweight loss where a subsidy is used to hire an unemployed person 'who would have been hired without the subsidy.'

# Botswana public sector strike

Firms can also use subsidies to replace unsubsidised workers, in some instances leading to the retrenchment of older workers, who do not qualify for subsidies.

A subsidised firm can also 'crowd out' employment elsewhere as it will be producing goods and services at lower labour costs than unsubsidised firms. This will create a situation of unfair competition.

## CONCLUSION

The clash between the DA and Cosatu on the youth wage subsidy can be described as one characterised by different approaches to the same problem. The DA adopts a National Treasury position which is short-term whereas Cosatu adopts a long-term approach that locates youth unemployment within the broader context of economic policies such as the New Growth Path.

In their suggestions on what the NGP can do toward creating more jobs, Marina J. Mayer and others propose three phases in which youth unemployment in South Africa can be dealt with. In the short term efforts should be made towards enhancing access to the labour market by giving 'second chance learning' to school drop outs, public jobs for youth, skills training, funding for higher and further education and vocational training counselling for learners in Grade 9 and 12.

In the medium term the strategies should include 'vocational counselling, placement, structured exposure to the labour market; and a review and restructuring of secondary schooling and vocational education'. In the long term the educational system should be transformed to match required skills and the economy should also be changed in such a way that it absorbs labour. <sup>LB</sup>

## There is more at play

The 2011 public-sector strike in Botswana was a dynamic process with many players. **Mojalefa Musi** places the strike within the context of the country's history and struggles for the trade union organisation in an environment dominated by a strong state, unsure role of capital and a traditional leadership with a political agenda.

**T**his article is a summary of a longer research report and a response to Carthage Kenosi's article (*SALB* 35.3). The public sector workers' strike that took place between 18 April and 13 June 2011, the longest strike in the Southern African region for three months, was a watershed moment in the history of Botswana, considered to be a country without a struggle history. Various reasons are given as to why Botswana have become a fairly peaceful society in modern and historical terms. However, it is critical to state from the outset that because Botswana's socio-economic and political dynamics are unknown it is thus important to locate the strike in its historical and political economic contexts.

### HISTORICAL AND POLITICAL CONTEXT

Botswana, a former British Protectorate got its independence

in 1966 under the leadership of the Oxford University-educated Seretse Khama. At independence, the post-colonial government of Botswana inherited a barren economy without both mineral or oil deposits beneath the soil. Its key source of revenue and earner of foreign exchange: kimberlitic diamonds was only discovered just after the colonial administration 'handed over' the country to Khama's Botswana Democratic Party (BDP).

Botswana is a country with a narrow industrial base and whose economy is mainly agricultural. After diamonds, which accounts for not less than 70% of its exports, beef is also an important commodity, which brings about 5% of its export revenue mainly from the European market. This explains the peaceful transition to independence from the colonial rulers to BDP of which Seretse Khama was founding president.



Learners joined the strike.

Political economy scholars such as Ian Taylor have argued that the post-colonial development path and the industrialisation strategy of the country are similar to newly industrialised countries (NICs) developmental states. Its central feature is the ability of the state to lead development using a number of policies and institutions.

Monageng Mogalakwe, a development sociologist based at the University of Botswana, dubs it a country of 'mistaken identity' due to her impressive record on the human development front in this regard unique compared to the rest of the continent. Post-colonial scholarship on Botswana seems to agree that she was ranked well among her European and South East Asian counterparts between the 1970s and the 1990s when universal access to health, education and social security were guaranteed due to the state-led and relatively self-sufficiency development path.

Botswana is a classical case where the state in the post-colonial period has led the development agenda and crowded out the emerging national capitalist class and continues to 'overcrowd' the stationary modern

capitalist class. In addition, similar to these societies the Botswana state helped by Western powers and the international financial institutions, has knowingly weakened the development of an independent civil society. This is the context of a weak civil society and a tame labour movement.

Labour migration is an important contributor to the evolution of civil society of many societies including South Africa. This is the point Janet Munakamwe makes in her article (*SALB* 36.1) about the injustices immigrant communities are often up against in host countries such as South Africa. Botswana has arguably been a socially impenetrable society as she did not attract large numbers of immigrant communities. Also important, due to its coherent national identity, considered important in the developmental state debates, communities migrating to Botswana from Namibia, South Africa and Zimbabwe, the three countries that sandwich her, have almost been integrated into the ethno-dominant Botswana culture thus imposing, what the research reports describe as a diverse society's dominance by a single culture.

## STRIKE ACTION

The strike took place against the backdrop of the global financial crisis. There seemed to have been an unspoken agreement of a wage freeze for three years. The inflation figures showed that during that period the country's inflation had shot up by 28%. The purchasing power of working-class people was severely eroded as a result. In response, the unions demanded a 16% increase. They argued for less than inflation as part of their national sacrifice. So they asked for 13% inflation adjustment and 3% nominal wage increase almost half of the inflation rates of the three years put together.

The Botswana labour movement adopted a no 'fault approach' to the global financial crisis. By implication the government had succeeded in making the society believe that the crisis was not of its making and therefore the society had to shoulder the burden as well. Also important, due to the changes underway in the public-sector employment relations where unions have been recognised, workers had a right to strike. Collective bargaining would take place through newly-established bargaining structures. Such a sacrifice would contribute to 'normalisation' of government-union relationships specifically and healthy industrial relations.

Secondly, Botswana is going through a broad social transition whose spillovers are felt in the industrial relations arena. The bargaining structures established in the public service modeled pretty-much like the South Africa's Public Service Bargaining Coordinating Council (PSCBC), mark a radical departure from single to a diverse industrial relations system. This is argued to be a major advance from the state-imposed wage determinations implemented through tripartite salary review

commissions. These commissions, appointed by the state president, recommended annual increases across the national economy.

However, both private-sector employers and the government had an upper hand over trade unions affiliated to both the Botswana Federation of Public Sector Unions (BOFEPUSO) and the Botswana Federation of Trade Unions (BFTU) in terms of representation on to these commissions. Also important, trade unions have been part of the National Empowerment, Manpower and Incomes Council (NEMIC) a toothless tripartite body, which the report notes is similar to the National Manpower Commission (NMC) and National Economic Forum (NEF) phased in during South Africa's democratic transition.

The important change however did not consider the behaviour of government as the single biggest employer in Botswana. Lack of skills and experience mainly from the employer side made the strike difficult to resolve. As Kenosi notes, the government resorted to 'a bull in a china shop' bargaining approach unique to a unitarist model rather than embracing the spirit and the letter of the Public Service Act, the piece of legislation from which predicated the new bargaining structures and practice are based. The collective bargaining process was finally aborted as the full might of the state fell on striking workers with the imposition of 3% on all workers across the economy.

#### YOUTH AND WOMEN WORKERS

It is important to acknowledge that the Botswana labour movement is youngish, with an average age of its leadership being 30. Due to a long history of labour migration of men to South Africa due to the mining boom, Botswana society is women dominated. According to

some informants there is a male-female ratio of 1: 4. The public sector reflects these population dynamics as government is the single biggest employer in the country.

However, the leadership of trade unions reflects a different picture of the membership of the unions and the public service in terms of age and gender. Botswana has a small white population, so a race dynamic does not seem to be as prominent as it is in South Africa and Zimbabwe.

Despite the age and gender leadership-membership mismatch, young workers and women workers contributed enormously to the success of the strike. Their participation was visible in the rallies, pickets, and marches organised to highlight the plight of striking workers. Also important, due to the urgent court interdict handed down in favour of the government when it forced workers classified as working in essential services to resume their duties, the majority of dismissed workers were young and women. Thus a majority of workers who were conditionally reemployed are the pillar of militant unionism in Botswana.

#### BUSINESS COMMUNITY AND BFTU

Kenosi has provided useful insights into how the unions have mobilised communities and other civil society organisations in Botswana in support of this strike. In the nature of the issues that this strike surfaced, the response of the government especially President Khama, including his views in the State of the Nation Address after the strike, it was clear that there was widespread unhappiness about a lot of the socioeconomic challenges that led to the strike. However, there are two important observations to make: the unsure role of Botswana national capital; and the

role of the traditional leadership. Organised business is represented by the Botswana Confederation of Commerce, Industry and Management (Boccim).

The report notes the shifting loyalties of Boccim as the strike wave reached higher proportions. The shift found expression in Boccim trying to broker a deal between public service trade unions and the government. BFTU, mainly organising in the private sector, also gave itself the responsibility of brokering a deal between the disagreeing parties.

There is recognition that the character of Botswana's post-colonial developmental path led to indigenous mechanisms such as the *kgotla* system to contain conflict and build a consensual mode of social dispute resolution. However, there is growing evidence that this not only underscored weak labour dispute resolution bodies established in terms of the Industrial Relations Act, but blurred lines with regard to roles of different social forces such as sections of organised labour and organised business.

The report argues that this feature of social transition is similar to how organised business and pre-democracy sections of civil society tried to mediate between Inkatha and the African National Congress (ANC) in the Natal Midlands in the early 1990s. Arguably Boccim has positioned itself and made a bold attempt to lay claim to the democratisation project and the future of Botswana society.

#### KGOTLA SYSTEM

British colonial policy of indirect rule neither crushed nor completely co-opted the traditional leadership institutions of many colonies. Traditional leadership is one of the resilient relics of colonialism in Botswana and thus an important institutional innovation

used to deepen a consensual culture and community-based dispute resolution. Despite the importance of this institutional innovation, traditional leadership and *kgotla* meetings impacted on the strike, especially on the ability of trade unions to mobilise communities.

The report notes that access to public spaces to contest civic politics is mediated by traditional leaders as community meetings should be by consent of a chief. As Kenosi rightly points out, traditional leadership was split down the middle due to the government's attempts to water down their powers. There are cases where chiefs allowed trade unionists to address communities and where this was barred in terms of levels of community mobilisation in cities, especially in Molepolle, Maung and Gaborone where traditional leaders were sympathetic.

### EXTERNAL CONTEXT

The research notes that this strike took place against a backdrop of turbulent times in both national and international politics. On the immediate Southern African front, the developments in South Africa, Zimbabwe and Swaziland have generated a momentum for a groundswell of popular activism. It is also true, according to the imminent pro-labour academic Molaotsi, that the so-called Arab Spring had a bearing on the awakening of a historically pacified Botswana community.

Molaotsi argued that the full impact of the strike and support for it from other forces of civil society will depend, not so much on internal developments within Botswana, but the developments within the region: Swaziland and Zimbabwe to a certain extent and South Africa to a greater extent as the biggest economy in the region and the continent.

This is partly to do with the fact that Botswana is headed for elections in 2014 and the ruling BDP will be holding its elective congress as well around this time. By accident of history, this connects well with the political calendars of Swaziland and South Africa where general elections will be held.

One of the important issues about both geopolitics and international solidarity of the strike is the use of technology to communicate with the country and with organisations outside. Similar to the Arab Spring with regard to the use of Facebook as a means of communication, the short message services on mobile phones (smses) were widely used to communicate on a daily basis in this strike. The leadership of unions would agree to a decision which they would communicate to 20 people who would then pass on to others until the entire membership was covered. This would be followed up by rallies and meetings to get feedback sometimes based on the smses. This helped to keep members and leaders, who had gathered in more than 100 assembly points across the country designated according to the strike rules updated. In addition, the PSI global office, the Southern African office and its affiliates especially in the SADC region were kept abreast of the developments of the strike through short message services.

### RESULTS OF THE STRIKE

The government rammed a 3% increase down the throat of the Botswana working class that was way below the inflation rate of 2011. It also introduced amendments to the Trade Dispute Act, which were pushed firstly through NEMIC and passed in parliament to the dismay of opposition parties and sections of the ruling party that were

sympathetic to the demands of the strike. Approximately 90% of public sector workers are made up of nurses, doctors, cleaning and security services in hospitals and clinics and teachers who are now classified as essential services.

A bulk of private sector workers: mine workers, herd men and all workers in the veterinary services have also been declared essential services. The report argues that these changes, among others, are early signals of a shift from democracy to rule by security arms of the state or securocracy. The dominance of securocrats in the BDP has sent shockwaves throughout the political society including some members of the ruling party. This is because the arrests and victimisation of trade unionists and political activists have continued since the strike.

### RECOMMENDATIONS

A critical recommendation is the need to strive for worker unity between BOFEPUSO and BFTU. Inter-federation rivalry weakened the potential of the strike and will be an obstacle to all struggles of the Botswana working class going forward. The report encouraged a closer relationship between the Swazi and Botswana labour movements, especially because the former has managed to secure the unity of workers resulting in the formation of the Trade Union Congress of Swaziland. <sup>18</sup>

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