Race-to-the-bottom labour policies

A dead-end

In response to Nicoli Nattrass' and Jeremy Seekings' report, **Ilan Strauss** argues that cheap labour policies do not promote development, but are a race to the bottom.

The renowned British economist, Joan Robinson, noted that 'the misery of being exploited by capitalists is nothing compared to the misery of not being exploited at all'. This is the essence of the argument provided by professors Nicoli Nattrass and Jeremy Seekings, as to why the demands of five low-wage Chinese clothing firms in Newcastle are worth supporting. The firms have taken the National Bargaining Council for the Clothing Manufacturing Industry (NBC) and the minister of Labour to court over having to comply with the legislated minimum wage. If bargaining council stipulations are enforced, thousands of jobs could migrate elsewhere, with the losers being South African workers.

It is a powerful argument. But is the economics behind it correct? And should it be supported? It is worth revisiting Robinson's views on the matter.

Reducing the real wage was defined by Robinson in 1937 as one of four 'beggar-my-neighbour' policy weapons. The others being exchange rate depreciation, export subsidies, and import restrictions. Within a single country, Robinson argued, a beggar-my-neighbour policy would have a similar effect to an increase in domestic investment. Assuming it led to a rise in the trade balance, it would increase employment, output, and income. These similarities evaporate, however, when analysed from the global level, as a beggar-my-neighbour policy might increase a single country's sales but only at the expense of another's, said Robinson. The best-case outcome then is that global levels of employment, trade, and income remain unchanged. In contrast, Robinson noted that 'an increase in home investment brings about a net increase in employment for the world as a whole'.

BEGGAR-MY-NEIGHBOUR

In detailing this difference Robinson makes an important distinction, between competition which is unfair, since it competes in a zero-sum manner, and competition which is fair, as it facilitates the progressive expansion of the size of the economic pie. Competition based on technological advances and improved quality is fair. They expand the economic pie and potentially benefit everyone. Beggar-my-neighbour labour policies do quite the opposite. They compete through lowering the real wage and benefits, worsening working conditions, and engaging in unfair trade practices.

Turning to the facts, non-compliant Newcastle firms want to use beggar-my-neighbour labour policies to save 16,700 jobs. These firms compete against low-wage producers from abroad for the domestic market. Despite thin margins and fierce competition, it is improbable that most of the 16,700 workers are at risk. This number is merely the estimated number of clothing workers who are paid below the legislated minimum wage.

As for working conditions, signed affidavits by workers employed at Newcastle firms describe working 15-hour days without overtime pay, having wages deducted for taking longer than 2-3 minutes for a bathroom break, being fired for falling sick, appalling health and safety 'standards', and being locked in the factory during 12-hour night shifts. In one case cited by Nattrass and Seekings, 'a worker gave birth to twins during a night shift, both of whom died because the owner could not be reached and relatives could not access the locked factory'.

Wages for machinists in non-metro areas are R40 to 60 a day, or R200 to R300 a week, according to Nattrass and Seekings. Based on the Southern African Clothing and Textile Workers Union (Sactwu) calculations, this will rise to R73 to R104 per day, or R369 to R534 a week, if the minimum wage is enforced. In comparison, farmworkers now earn R105 a day.

Central to Nattrass' and Seekings' argument is that if low-wage non-metro firms are exempted from minimum wages, skilled and higher paying metro firms will be unaffected. This assumes that metro firms who produce more expensive items do not compete for the same markets as non-metro firms making simpler goods. In practice, such a neat distinction does not exist, according to a long-time Cape Town clothing manufacturer (who asked not to be named). 'Newcastle labour constantly undermines employment in Cape Town', I was told.

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Nattrass and Seekings provide no reasons as to why it would be good industrial policy to support these firms. Support cannot be given indefinitely to producers who are unable to become internationally competitive. And certainly not when paid for by consumers through higher prices.

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Even if concessions are granted to these firms, as Nattrass and Seekings advocate, who can guarantee that still greater concessions will not be asked for when new lower-wage competitors emerge from abroad? The constant hunt for ever 'cheaper' labour creates a 'race to the bottom' on a global scale. This is apparent in the number of apparel firms which have relocated from South Africa to lower-wage Lesotho. This poses a conundrum; for if South Africa doesn't use cheap labour policies, then another country less concerned with enforcing minimum wage legislation might. South Africa's labour and wage standards will only be respected if government and trade unions face up to this challenge.

The crux of Nattrass' and Seekings' argument is that these firms provide 'labour-intensive' employment and so must be supported. For us to properly evaluate this, we need to consider the differences between industrial policy and employment policy.

CHEAP LABOUR UNSUSTAINABLE

More fundamentally, there is no guarantee that any advantage created by cheap labour can be sustained in global or domestic markets. *Sooner or later, technological innovation and mechanisation defeats cheap labour*. Cheap labour is not itself an engine of growth.

Extensive surveys conducted by Simon Roberts and John Thoburn and Mike Morris and Lyn Reed, show that clothing and textile firms in South Africa which competed most successfully in global markets post-1994 were those that invested in technology and human capital and entered into higher value-added niches.

As an employment or social policy, supporting these labour-intensive firms makes little sense. They are effectively already funded through a regressive tax (since poorer consumers who buy this clothing are paying for the quota protection against cheaper imports); do not enhance competitiveness (compared with public works); and provide an unpleasant work experience with little training. The only point in its favour is that wages are a relatively high proportion of costs.

Unemployment should be addressed through investment, upskilling and training, a more targeted and efficient Expanded Public Works Programme, and support for small and medium sized enterprises. These and many other policies must be carefully explored.

National labour legislation is no longer effective against unfair competition based on cheap labour and the race to the bottom. The labour market is a global one, requiring globally agreed and enforced minimum wages and conditions. These promote a competitive raising of skills, efficiency and technique which can end up benefitting everyone.

South Africa might begin working towards this by joining with countries in the region, and other Brics (Brazil, Russia, India and China) members, to lobby at the World Trade Organisation for goods that are made using labour paid below an agreed minimum real wage to be labelled an unfair trade practice.

Beggar-my-neighbour labour policies are a dead-end. Increasing economic opportunities can be provided in a manner which expands the economy as a whole, enhances competitiveness, and without threatening basic labour standards. For this task an entirely different set of tools is required, most notably investment. LB

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