Economic Notes

Economic Notes is supplied by Labour Research Service (LRS), Cape Town

Directors get big pay rises

In 1990, company directors got increases of R560 per week (or 18,8%) - much higher than the wages most workers earn in a week. After these increases each director earned R3 540 per week on average.

These are the findings of the Labour Research Service's annual survey of directors' pay. The survey covers the 1 079 directors who control the Top 100 industrial companies listed on the Johannesburg Stock Exchange.

Consol directors gave themselves the highest pay increase. Their weekly pay went up from R1 612 per week to R4 186 per week - an increase of 160%.

The 129 directors employed by the ten top-paying companies took home just under one million rand in pay each week in 1990 - enough to buy 11 Mercedes Benz cars every week!

Malbak - Gencor's industrial arm - paid directors the most. In 1990 each of Malbak's 10 directors earned R9 615 per week. This does not include their many perks and their membership of a share incentive scheme. Through this scheme each Malbak director got R2967 per week in dividends on average.

Some directors don't have to rely on a "share incentive scheme" to get dividends. Aaron Searll, for example, earned a massive R25 250 per week in dividends from his shares in Seardel - South Africa's largest clothing company.

Mining house directors' pay was also surveyed. These directors earn even more than

The Top Ten League

Malbak	R9 615
Trencor	R9 474
Barlow Rand	R8 814
Murray & Roberts	R8 028
Wooltru	R7 051
Seardel	R6 584
FSI	R6 361
Plate Glass	R6 308
Rembrandt	R6 282
Sentrachem	R5 522

industrial companies.The twelve directors of Johannesburg Consolidated Investments (JCI) gave themselves R6,9 million in 1990.

So each director got R11 058 per week, on average. This is seventy times larger than the weekly wage of R157 paid to a grade 4 underground mineworker at a JCI gold mine!

Directors in the steel sector awarded themselves a 54,8% increase on average. This was the highest average increase amongst the 14 sectors of the Johannesburg Stock Exchange surveyed. For example, the directors of Highveld Steel earned R3 760 per week in 1990. ❖

Profit and principles: ethical investments

Ethical investment is now big business in America and Britain. Twenty years ago few had even thought of the idea. In the United States social investment funds are worth a massive US$900 million while in the United Kingdom some £200 million is invested in ethical and environmental unit trusts alone.

Avoidance of South African investments has been important for most overseas ethical investment funds. There are many other criteria, however. Some funds adopt a positive approach, and seek to invest in companies which provide clear-cut benefits for society, such as pollution control or health care.

Others adopt a negative stance, and avoid holding shares in companies which are involved in armaments, tobacco, nuclear power, gambling, animal testing, alcohol and repressive regimes.

Eiris (the Ethical Investment Research Service) is based in the United Kingdom. It was set up in 1983 by a number of bodies including the Quakers and Oxfam. Eiris is one of a number of organisations which now advise trade unions and individual investors on the ethical and social aspects of investment.

Researchers at Eiris assess investments against ethical criteria. The ethical criteria are determined by the investors. Eiris then produces a list of acceptable investments which meet the ethical criteria.

Many ask the question: would an ethical investment policy mean losing money? Eiris says that it "depends on the criteria you adopt".

Their research has shown, however, that restricted investment opportunities does not make a great deal of difference to the performance of the fund.

Through their members' retirement funds unions in South Africa could play a major role in investment decisions. Here the experience of organisations like Eiris would be of great value. ❖

Retirement industry booms

but fund managers are sitting on their assets

The retirement industry is sitting on a massive R25 billion cash pile. Instead of lying idle in cash deposits, this money could be used actively to support projects which create new jobs, develop skills, and invest in new machinery and factories. But it isn't!

During the 1980s, unions won large retirement benefits for their members. The money collected by the retirement funds (pensions and provident funds) and invested on behalf of the many union members, now plays a major role in the economy.

Over the past ten years, retirement funds have grown from R20,5 billion to their present R150 billion!

Two thirds of these investments are managed by the life assurers (like Sanlam and Old Mutual) and one third by privately administered pension funds. (This does not include the assets of the state pension funds).

To get an idea of the size of these retirement funds, compare its R150 billion with the following:

- the total value of the Johannesburg Stock Exchange at end September 1990 was R388 billion.
- the government's 1991/1992 budget is R81,1 billion.
- the estimated stock of housing in South Africa is R75 billion.

The potential influence of trade unions

Trade unions, through the retirement savings of their members, could exert a powerful influence on the economy. But up to now investment decisions have been taken by the managers of the retirement funds.

Financial institutions earn large fees for the management of retirement funds.

Union trustees play an important role as watchdogs over their members' retirement funds. But in practise the trustees make very few investment decisions. The financial institutions make the investment decisions and often refuse to disclose the investments even to the trustees!

The investments could well be providing capital to anti-union companies and even to buy up privatised companies (such as Iscor).

Old Mutual, using the retirement funds it manages, has invested R480 million in Iscor, equal to 13% of the shares. Old Mutual is also the largest shareholder of Barlow Rand with 39% of its shares.

As unions win greater retirement benefits for their members and as employment grows, retirement funds will get bigger. As a result these funds will play an even larger role in the economy.

Shouldn't the trade unions make sure that their vast funds are used for job creation and growth? ❖

Profile: Toyota

Productivity is the main item on the bosses' agenda at this years automobile negotiations. The bosses claim that the productivity of workers, measured by the numbers of cars produced per worker, has fallen between 1960 and 1990. We investigate productivity at Toyota.

The number of vehicles produced per worker has fallen at Toyota. So is the bosses analysis correct? No, in fact it is manipulative! The bosses' analysis ignores two important changes:

If the "product mix" was different in 1990 compared to 1960, then more labour would have been needed (say, for more luxury cars).

And far more of the car us now made in-house than in 1960. Then, components were brought in from outside.

A fairer measure of productivity would be profit per worker. This takes account of changes in the product mix, increased complexity of the modern vehicle, and any other factors, not under the control of the worker, which would affect productivity.

The profit before interest and tax per worker, to be fair to Toyota, has been deflated by the Production Price Index to eliminate inflation. Productivity by this measure rose by 11,6% between 1988 and 1990, from R16 287 profit per worker, to R18 170 profit per worker (in 1985 rands).

What about the productivity of capital?

The employers frequently agitate themselves about worker productivity. They are generally silent about the productivity of capital, over which workers have no control. What are the facts at Toyota?

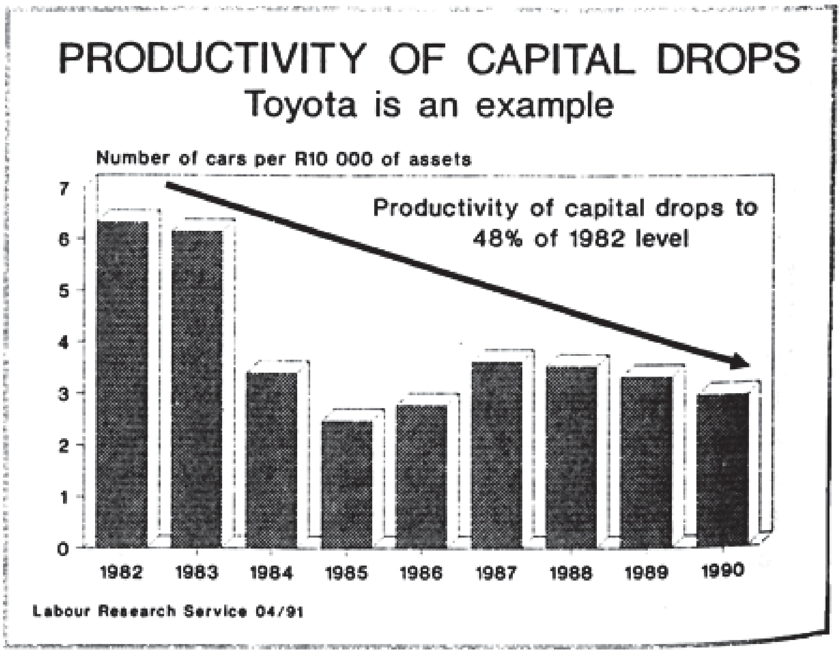
The graph below shows how the productivity of capital has fallen at Toyota.

Productivity of capital is defined here as the number of cars produced per R10 000 of fixed assets. Fixed assets have been deflated by the Production Price Index to eliminate inflation. Fixed assets include machinery, buildings, tools and delivery vehicles, etc. In 1982, R10 000 of real fixed assets produced 6,3 cars. By 1990, R10 000 of real fixed assets could produce only 3,0 cars. This is only 48% of the 1982 figure.

Why can physical productivity appear to fall, while profit productivity rises?

The answer is that Toyota is not merely in the business of making cars - it is in the business of making profits. What has happened is this: the profit made on each rand of sales has increased. This is known as the profit margin.

The profit margin on each



vehicle sold has greatly increased, more than adequately compensating for the slight decrease in the number of vehicles made per worker. Since 1986:

- vehicles produced have increased by 23%
- sales have gone up by 193%
- profits have gone up by 654% ❖

Productivity of capital takes a nosedive

The productivity of South African capital is only 41% of levels in other major economies. And capital productivity is falling by 2,2% every year.

The latest expose from the Labour Research Service? No, these are the figures released by SACOB, the businessman's lobby (*Financial Mail*, 7 June 1991, page 39). SACOB, the SA Chamber of Business, says these figures reflect an "inefficient use of what is a scarce resource". Capital basically means factories and machinery - or money which could be used to buy factories and machinery.

SACOB has now confirmed what the Labour Research Service said in 1989 (see *Productivity: a trade unionists' guide* written by the Labour Research Service and LERC, and published by the IMF). South African capitalists wail about workers' productivity, which is rising every year - while allowing the productivity of 'their' capital to fall every year. Labour is plentiful in South Africa. So the productivity of each individual worker is not very important. Production could be increased merely by employing more workers.

But capital is scarce. So its productivity is very important. Every piece of capital equipment should be made to work very hard, all the time, to help workers produce more goods and services. Instead, South African factories were using only 82,7% of their capacity in November 1990.

One way of increasing capital productivity is to have night shifts. That way, production could be doubled using the same machinery. Now employed workers don't like night-shift - but perhaps unemployed workers do! ☆

Inflation

Area	Consumer Price Index (1985=100) May 1991	Annual rate of inflation (% increase over 1 year) May 90 - 91
Cape Town	229.3	15.3%
Port Elizabeth	234.1	16.3%
East London	224.1	14.3%
Durban	217.1	13.3%
Pietermaritzburg	224.9	15.2%
Witwatersrand	235.6	15.8%
Vaal Triangle	222.7	13.7%
Pretoria	239.7	14.6%
Klerksdorp	240.9	15.8%
Bloemfontein	199.3	10.6%
OFS Goldfields	230.7	16.4%
Kimberley	216.6	13.1%
South Africa	**230.8**	**15.2%**
Area	**Apr 1991**	**Apr 90 - 91**
Cape Town	231.8	15.6%
Port Elizabeth	235.2	16.0%
East London	226.3	14.6%
Durban	218.5	13.0%
Pietermaritzburg	226.0	15.0%
Witwatersrand	237.1	15.8%
Vaal Triangle	223.5	13.3%
Pretoria	241.0	14.5%
Klerksdorp	242.3	16.0%
Bloemfontein	200.7	10.8%
OFS Goldfields	233.2	16.8%
Kimberley	219.4	13.9%
South Africa	**232.4**	**15.2%**

Source: Central Statistical Service