Jobs and equity
the social democratic challenge

The idea of an accord has been floating around for many years. **Stephen Gelb** and **Eddie Webster** argue that unions should play a central role in any job creation strategy. They propose a 'social pact' to achieve these objectives.

Nicoli Natrass and Jeremy Seekings in SA Labour Bulletin 20 (1), reiterate the link between employment and poverty alleviation in arguing that what is needed in South Africa is not a welfare state but a labour-intensive growth path. 'The idea that we can create a meaningful welfare state which can adequately support unemployed people is a trade-off between the interests of organised/employed labour and those of the unemployed in this trade-off interests of the unemployed must prevail. They suggest that rising wages for employed workers have contributed to unemployment in the past and therefore must be excluded from a labour intensive strategy. 'The high wage, high productivity growth path suggested by the union movement is likely to exacerbate this trend.'

The only specific policy they recommend to bring about this labour-absorbing growth strategy is the abolition (or at least strict limiting) of extensions of agreements struck at bargaining councils to parties not directly represented in the councils. Extensions, they argue, could be used to 'squeeze out small, low wages employers' who threaten both trade unions and larger competing firms in an industry. Joint action by the latter two groups to use extensions to impose high wages levels across industries could force small firms into bankruptcy, undermining labour-intensive growth in the entire economy. Implicit here is the assumption that small firms are labour-intensive and are the major source of new jobs. In an earlier article (Weekly Mail, 8/9/1995), the same authors propose an explicitly defined 'labour-intensive sector', automatically excluded from wage agreements reached in bargaining councils. This position is remarkably like the two-tiers labour market proposal in the South African Foundation's Growth For All document. 'Reforms are needed to allow a free entry, flexible-wage labour tier – in the formal sector – to emerge next to the existing high-wage capital intensive tier.'

Such a two-tier labour market would require 'eliminating intentions of industrial council agreements to non-parties' (Growth for All, 17). There are serious gaps in the logic of Nattrass and Seekings' arguments for 'no extensions'. On one hand, they argue that real wage 'cuts' for the current labour force is necessary for job creation. How will 'no extensions' produce these cuts? The only possible inference is through the weakening of the unions (even though Nattrass and Seekings make explicit their – qualified – support for the labour movement). On the other hand, they imply that a policy of 'no extensions' will simply draw a boundary between the two-tiers of the labour force, with the upper tier of currently employed 'high wage' well-organised workers able to obtain further wage increases, with no impact upon the growth of the lower wage second tier. Each group pursues its own interests independently of the other. But if the latter is the case, where is the supposed trade-off between the two groups upon which Nattrass and Seekings insist? The two authors need to clarify which of these two possible interpretations of tier argument they prefer.

SMALL FIRMS

A related problem is Nattrass and Seekings' overly simple view of the relation between small and large firms. They appear to be concerned only with competition between small and large firms in the same industry. But this is only one dimension of these relations amongst small and large firms, and ignores a wealth of empirical evidence about opportunities and constraints faced by small firms. Small firms are often able to establish markets amongst particular groups of consumers whom bigger companies cannot or will not supply. In addition, small firms often supply large firms in their own or other industries as subcontractors. This implies that large firms do not always have an interest in eliminating small firms in the same industry. The point is that the continued existence of small firms, and thus of the jobs that they create, is not simply dependent on their wage rates relative to the rest of their industry.

Finally, the two authors fail to consider the social, political and economic costs of their two-tiers strategy, focussing only on what they see as its benefits for growth and employment creation. It should be self-evident that any attempt (intentional or not) to undermine the trade union movement will be faced with stiff resistance, and result in serious labour unrest. This will further damage investor confidence, both local and foreign.

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THE SOCIAL DEMOCRATIC PROJECT

Job creation must be at the centre of any strategy to overcome poverty and inequality in South Africa. The labour movement has a central role in achieving these objectives. This is the point of departure for the social democratic project, whose essence is to improve living standards for all, but more so for the poor than the rest of the population. That there is a trade-off between wage increases for the employed and jobs for the unemployed is not in contention. Indeed such a trade-off exists for any given level of the total wage bill (average wages multiplied by employment). But an essential aspect of a social democratic system is that the total wage bill increases in response to the growth stimulus, so that the working class as a whole gains.

PROFIT-LED GROW

Global competition in both trade and finance, as well as narrow fiscal constraints make such a 'wage-led' strategy more difficult to defend and sustain, given the link between unit labour costs and international competitiveness.

Today, social democracy must take a different approach, with the more pressing problem on the supply side of the economy, requiring 'profit-led' growth. In the short-run, profitability improvements can be achieved through (real) wage cuts (or more accurately, a reduced wage share of a given level output); though over the longer term the only sustainable strategies are those which enhance productivity.

Despite the trade-off between profits and wages of currently employed workers, profit-led growth can still produce a rise in employment and in the total wage bill, that is, a positive outcome for the working class as a whole. This outcome depends on a strong investor response to greater economic activity and aggregate demand, which is confirmed

empirically for the South African economy. This analysis also underlines the wages-employment trade-offs. Is real wage restraint compatible with social democracy?

INVESTMENT

In return for moderated wage claims, organised labour must have increased influence over the process of investment. This will provide labour with some certainty that the additional current profits are justified, by their contribution to economic growth and job creation, and over time to higher productivity and thus improved living standards for organised workers. Significant direct decision-making over investment flows is not politically feasible at present, whether for labour directly or for the state. Greater influence over investment involves, therefore, a direct role for organised labour in shaping the context for private investment, including both macro-economic policy and the investment regime, the combination of tax incentives and subsidies aimed at encouraging private sector investment.

SOCIAL PACT

All these elements – wage and some price increases, distribution of productivity improvements, macro-economic policy and the investment regime – would form part of a negotiated social pact. The institutional preconditions for such a pact in South Africa have already been laid through the creation of Nedlac; however, in the months since the Labour Relations Act (LRA) success all parties have unfortunately downgraded Nedlac's role to some extent. A national pact would consolidate and extend the shift in industrial relations, which the LRA represents at shopfloor level, from conflict to cooperation and wider participation in decision-making bodies such as the proposed Workplace Forums. Through a pact regularly re-negotiated within Nedlac, labour will have sacrificed current income for enhanced class power. Such a pact would also be to the advantage of business, since it would provide greater certainty over future projections of key cost variables, including wages, interest rates and exchange rates. But most important for business perhaps, is that a pact would provide organised labour with a stake in economic growth, and thus directly contribute to industrial relations stability. The conclusion of a pact should improve investor confidence and contribute to the sustainability of the compromise.

If economic growth and job creation do indeed materialise (and the pact improves the chances rather than making it certain), then the price paid by labour – wage restraint – will have been validated. If investment is not forthcoming despite wage restraint and a stable macro-economic policy environment, the capital will have de facto reneged on the pact and organised labour will undoubtedly do the same, producing a return to a conflict mode.

CLASS ALLIANCE

The link between labour and small business can be founded upon the dual role of wages, as cost and as a source of demand. Through the production of cheap consumer goods, job creation and rising living standards for workers (organised and newly employed) can be linked with growing markets and profits for small businesses (which over time will be predominantly black-owned). The recent proposal to the Labour Market Commission for a wage subsidy, also recommended in a 1992 World Bank paper on South Africa (Fallon), could encourage this link. The government would pay firms a predetermined amount (set either in rand terms or as a proportion of the wage) for each worker hired.

By lowering the cost to firms of hiring workers, firms would expand their employment. Wages would continue to be set in the usual way. The cost of the subsidy would have to come out of taxes, but one possibility is that a new tax could be levied on capital. Government revenues would be unaffected.

The importance of both the subsidy and the tax is that they both affect employers differentially, according to labour intensity. In other words, those firms which employ higher numbers of workers for each rand of capital equipment they own (labour intensive firms) will receive a large subsidy and could be persuaded to support the policy. Capital-intensive firms will bear the brunt of the cost of the policy, and clearly will oppose it. One estimate suggests that a 1% subsidy would increase employment by about 1%, that is, about 80 000 new jobs.

LABOUR'S KEY ROLE

The key political role in constructing and leading a social democratic alliance will have to be played by organised labour. Two features of the South African labour movement's record are worth underlining. Firstly, it has demonstrated a commitment to the promotion of social interests beyond the narrow boundaries of its membership. It also has the organisational and political capacity to promote those interests effectively. Secondly, the unions have often adopted pragmatic positions to secure economic gains for their members, sometimes over the long term. In a wider perspective, several unions are putting the considerable financial muscle of their retirement funds behind 'black empowerment' initiatives, which create a tiny super-elite of black business, but promise significant flows of dividends back to the investing unions.

MILITANCY

Adam Przeworski and others have shown that there is an 'optimal' level of militancy, for which workers will maximise future income. 'Too much' labour militancy can have negative economic outcomes, undermining future income by extracting too much profit, while 'too little' militancy will deprive workers of future wage gains by allowing capital to invest too small a share of the surplus. The approach of strategically withholding militancy rather than exercising it at every opportunity has been shown elsewhere to yield the greatest gains for the working class through securing a stable environment for investment and productivity improvements.

What remains to be seen is whether the South African labour movement can find this 'optimal' level of militancy during the remainder of this decade, and support sustainable growth as we enter the 21st century.

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This is an edited version of an article, which appeared in SA Labour Bulletin 20 (3), June 1996.