

# Reply to Nicoli Nattrass & Jeremy Seekings

## Trade unions, the state and 'casino capitalism' in South Africa's clothing industry

Nattrass and Seekings (N&S) have penned a highly critical piece on the Southern African Clothing and Textile Workers Union (Sactwu) published in the *Review of African Political Economy*, attacking virtually everything it is and does, including its trade policies, its affiliation to the Congress of South African Trade Unions (Cosatu), its investment company and in particular its intervention into Seardel. This response contests many of the assumptions they make about the union and its approach to the world but perhaps more importantly seeks to shed some light on the collapse of the largest clothing and textile corporation in the country (Seardel) and the union's attempts to rescue it from liquidation, writes **Johnny Copelyn**.

### SUMMARY OF ARGUMENTS

The N&S article starts by making the point that Cosatu and several of its member unions have lost their edge and are no longer organisations representing the interests of their members. Three allegations are put up to explain this:

- (1) Cosatu's alliance with the governing party has neutralised its capacity to represent the political interests of workers as it used to do prior to the advent of democracy
- (2) Unions have become embroiled in 'corporatist structures' particularly industry wide bargaining councils which, according to the article, are creations of post-apartheid labour legislation

- (3) The success of the unions resulted in them paying many 'perks' to their officials which have distanced the union from its members.

These factors are cobbled together to explain the split in ranks between militant trade unions who can no longer take the degeneration in the trade union movement represented by Cosatu and are on a path to forming a new federation, that presumably will be far more responsive to workers than the contaminated Cosatu style of leadership.

The split in Cosatu's ranks implicitly requires each affiliate of Cosatu to choose whether it wishes to remain with the degenerate federation moving increasingly out of step with

worker interests or whether it wants to leave Cosatu and follow the real interests of its members.

All this macro analysis is cited with its well documented academic trail of supposed authority, to demonstrate a key proposition that Sactwu chose to stay in the Cosatu stable for a simple reason: It preferred to abandon its real mandate to serve worker interests in favour of other interests. Without pausing to check whether the dichotomy the article sets up has any basis in reality at all, the authors plunge into the heart of the point they are burning to make:

'Sactwu's hesitancy to burn its bridges with the ANC accorded with its evolving relationship to both state and capital.'



*Sactwu members: The union has been at the front of saving jobs. Credit: William Matlala.*

The extraordinary degree of the treachery to its mandate being perpetrated by Sactwu is caused by two cardinal sins.

The first is its 'heavy dependence' on the state. Through this indispensable crutch, the union has been able to secure 'control of non-unionised employment through wage regulation' as well as procure 'industrial policies that facilitate higher wages for its members'.

The second is occasioned by its 'deepening business interests' which depend on the state 'rigging the odds in its favour' - 'Casino capitalism' at its most grotesque.

Just in case the above is not sufficient to appall the reader, the professors add the following addition from their research. These 'deepening business interests

reinforced its preference for relatively high wage and capital intensive production models that produced fewer but better paid jobs.'

### **A FEW GENERAL OBSERVATIONS**

While in general I would like to focus this response on the N&S critique of the union's investment in Seardel it is unavoidable to respond to some of the other analysis.

Is it true as N&S insists, that Sactwu remaining in Cosatu reveals its dependence on the ANC rather than remaining true to its mandate to fearlessly represent the interests of its members?

The launch of Cosatu a little over 30 years ago was the result of a determined effort by trade unionists of many differing political shades to put aside their differences in the interests

of trade union unity. Its fragmentation today is not part of the story of workers regaining their lost voice. It is a pitiful statement that union leaders rather than workers, have come to the view that their differences are more important than trade union unity.

I spent 20 years in unions from 1974 to 1994 trying, alongside others, to pull disparate unions in the same industry into a single non-racial organisation dedicated to protecting workers from abuse. In the end we managed to merge six racially and regionally divided unions into a single organisation - Sactwu.

In the same period we spent years trying to unite unions into a single non-racial trade union federation. We started as TUACC, formed Fosatu and finally united under the banner of Cosatu.

The leadership of Sactwu that went through all that knows better than anyone how difficult it will be to repair the damage being done to the workers' movement and its ability to influence the way in which South Africa develops from here. Far from the 'new' federation representing a simple return of union organisation to its grassroots, it is far more likely to be characterised alongside Cosatu, primarily by the fact that they represent disunity.

By saying this I don't mean to blame the National Union of Metalworkers of South Africa (Numsa) or even the Association of Mining and Construction Union (Amcu) for this collapse of unity. Numsa did not walk out of Cosatu. It was expelled. That was a devastating blow to the future of Cosatu being the centre of trade union unity. Sactwu did not favour that expulsion, nor does it hold that differences between trade union leadership in relation to political outlook should be the basis of which unions should be admitted to Cosatu.

The fact that the union does not wish to participate in splintering Cosatu has absolutely nothing to do with the reasons cited by the authors. Rather, it has everything to do with resisting the fragmentation of the trade union movement.

Has Sactwu lost connectivity with its membership base and if so is this the consequence of offering its officials too many perks?

N&S sets up a completely undocumented accusation that Sactwu has lost its connection with workers, resulting in its members becoming ungovernable.

Where unions become disconnected from their members, expressions of worker militancy spill into the open despite the union rather than through it. The authors boldly assert this phenomenon is the consequence of the many 'perks' offered to union officials.

The critique of Sactwu offered in this regard is most unfair. To the best of my knowledge, there has been no militancy of clothing and textile workers whatsoever outside of struggles in which the union has been very much a part. Nor have splinter unions, so characteristic of union weakness in other industries, been a characteristic of clothing and textile worker organisation. I am not aware of any criticism whatsoever from any section of the union about the salaries of officials nor have they changed in any remarkable way over time. They remain at perfectly inoffensive levels.

Are the efforts of Sactwu to reduce wage differentials in different parts of the country through a national bargaining council a proof of a contemptible reliance on the state?

N&S take great umbrage at the fact that Sactwu has sought to regulate the wages of the clothing industry nationally by the creation of a national bargaining council. This strategy of the union they take to be further evidence of the contemptible growing dependence of the union on the state.

Despite the authors' assertion that bargaining councils arose after the introduction of the 1995 Labour Relations Act, they have been in existence for a hundred years. The clothing industrial councils were in general created in the 1920s or early 1930s and have been fundamental to the setting of wages in that industry ever since.

Ironically, the union held up as the model of worker representivity, not subject to any of the criticisms N&S throw disparagingly at 'Cosatu', namely Numsa, has its entire capacity to mobilise its membership centred in national bargaining councils. This was as true on 1 December 1985 when Cosatu was formed, as it continues to be today.

Developing a national bargaining council is not a statement of dependence on the state that

is available to unions which are involved in alliances with the African National Congress (ANC). It is the consequence of a century of trade union struggles greatly valued by unions of every age and stage in our country's history. The notion that the only way to create jobs in an industry is to allow some areas to undercut agreed labour rates of more established areas is simply one of the most anti-union propositions one might hope to advance.

The N&S elaboration that the heretical deviation of which Sactwu is allegedly guilty, demonstrates a degenerate 'heavy dependence on the state' and 'deepening business interests' is simply not true.

Worse I feel it is a denial of the reality of apartheid's effect on the clothing industry since the 1970s.

Is Sactwu's commitment to a National Bargaining Council a commitment to a 'higher wage fewer jobs' strategy in direct conflict with the interests of its members.

The next broadside attack on Sactwu's outlook offered by the N&S critique relates to the union's alleged 'preference' for higher wages and fewer jobs. This critique arises from a fundamental difference the authors have with Sactwu's efforts to address historical structural imbalances in the sector.

In essence, the authors object to efforts made by Sactwu to compel employers in Newcastle and other such areas to raise the wages of their employees. Essentially they assert it would have been far wiser to leave these wages at the level they were as this would have allowed more jobs to be created. They postulate that the wage levels were thoughtfully determined by 'progressive technocrats' working for the state after 1994.

To get some historical perspective on the problem, perhaps one should start with the basic effects of government policy on the development of the clothing and textile industry over the last two decades of apartheid.



In that period, government dreamt up a key industrial policy aimed at preventing the 'influx' of black workers to cities. This was the development of 'border industries'. Certain areas bordering on 'homelands' were to be developed as industrial areas with enormous subsidies in an effort to ensure that development of labour intensive industrial sectors would be skewed towards these areas. These subsidies included tax breaks, free rentals in state built factories for several years, and a subsidy of 95% of wages up to a certain maximum level. If employers chose to increase the level of wages above this level they were on their own!

In this crude manner, the state drove wages of workers in these areas to their lowest possible levels. These areas were developed outside the jurisdictions of the industrial councils and were maintained as areas for cheap African labour with little room for trade unions by virtue of the racial limitations on membership of registered unions. The exclusion of African workers from registered trade unions rendered it impossible for such unions ever to create enough pressure on employers to grant union rights to their workers or to resist the depression of the level of the social wages payable there.

These were not conditions imposed by 'progressive technocrats'. They were the most grotesque racist manipulations of the labour market to the great disadvantage of workers, by people who were totally indifferent to their suffering.

With time these became cesspools of draconian labour practices such as employing female workers on night shifts, locking them into the factory so the owner would not have to waste money on hiring security workers at night. There were cases of workers being trapped in these plants when a fire broke out and several cases of pregnant women who could not

get out of the factory when they went into labour. There were several stories of workers being physically beaten as a disciplinary measure. Wage levels were set at below half those of urban areas and invariably unscrupulous employers would pay rates even lower than that, all with the connivance or total disregard for worker rights by the state.

I do not think that the N&S assertions about smart government technocrats trying to develop a 'low wage high employment' model in these areas after 1994 is helpful. In truth the work done by these workers relies on orders placed by the very retailers who previously used to order clothing from factories in the traditional areas of clothing manufacture like Durban and Cape Town.

More depressingly the weakness of these utterly fragmented and disorganised clothing manufacturers resulted in those retailers devouring every bit of the additional margin that manufacturers might have made through the cheap labour practices imposed on their workers.

It seems to me in short that every garment made in these areas undercut the price paid for identical garments manufactured in metro areas and in consequence virtually every job created in these areas was a job destroyed in some other area. Every cent saved through cheap labour practices went to the retailers which grew and grew as the manufacturers yielded every cent they underpaid their workers.

The cost of labour in many manufacturing operations is around 10 to 12% of the cost of manufacture. In the clothing industry it is over 30%. The profit margin on mass manufactured clothing virtually never exceeded 5% of the cost of manufacture anywhere, any time in our country. The consequence of allowing such enormous disparities in wages of workers in different local areas allowed non-metro factories to undercut metro prices by at least

10% forcing them to operate at a loss unless they moved. It is the projection of Rev Malthus on steroids – a race to absolute poverty without even waiting for the population to grow!

For the authors to suggest that it was in some way wrong for the union to create a national bargaining council as quickly as it could and to set its sails firmly on limiting the disparities in wage levels of competing local firms, is nothing short of diabolical.

To postulate that it would have been better to rely on government technocrats developing a new 'model' to protect the interests of clothing workers, could be the sort of idea that might come from the pen of a consultant to the retail industry. However, to simultaneously postulate that Sactwu's problem is that it has 'too great a dependence on relations with the state' requires a special blend of such interests wrapped tightly around a Houdini. How can the authors offer up the advice that the union should have relied on the guidance of 'progressive government technocrats' to set wages through wage boards while clinging fiercely to a damning criticism of unions that 'access state power'?

What is truly amazing is the total indifference of N&S to the facts of the wage differentials in metropolitan and non-metropolitan areas. While it goes on for pages about the 'high wage' strategy of the union and how this eliminated jobs in the 'low wage' centres like Newcastle, nowhere does it ever deal with the actual wages of the workers involved. I say this even though it includes a table reflecting the wages earned by qualified metro machinists, as its authors seem simply not to have internalised its content in any way. The table reveals that the current wage of a qualified machinist with two years' experience in Newcastle in 2016 is only R3,000 a month and in Cape Town is only R4,000 a month.



Power salute: Sactwu members during a march. Credit: William Matlala.

This is the 'high road' that the authors find so offensive. It is the result of the 15-year struggle of Sactwu to raise Newcastle rates in relation to metro rates. Over this period the gap has narrowed from a 50% discount on metro rates to a 25% discount.

While the discount is finally approaching a realistic level, the issue that remains is whether this is the much denigrated 'high road'. How much less should workers earn if Sactwu relied on the 'progressive government technocrats' so ardently urged by N&S?

Unavoidably, what N&S is actually saying, is that the right way to have eliminated the extraordinary wage gaps that were artificially imposed by apartheid on outlying areas and so mercilessly exploited by retailers, was to have allowed all clothing wages to fall to that level. The 'right' way for workers to deal with more and more manufacturing moving from major centres to outlying areas should simply have been to exchange their 'high' wages (currently R4,000 a month) for half of that.

If truth be told, the power behind the throne is not the state. It is a handful of retailers that dominate the conditions of manufacture and constantly scour the world for

cheaper manufactured products. Essentially N&S says the best course of action is simply to surrender.

I can't help feeling this armchair advice is all just too glib to be of any use to any bona fide trade union struggling to best represent the long-term interests of its members.

### GOVERNMENT POLICY IN CLOTHING AND TEXTILE INDUSTRIES

Globalisation has exposed our manufacturing industry to being undercut by the great clothing exporters of the world. South Africa's longstanding policies in respect of the clothing and textile industries from the apartheid period involved three fundamentals.

#### **Border areas**

First was an obsession with the location of places of work which I have dealt with earlier, aimed at limiting the influx of African people to the major cities. While the decentralisation benefits disappeared after 1994, the key scar remained the totally depressed wages paid to workers in these areas.

#### **Protectionism**

Second was protecting the industry against imports to ensure its growth in the local market. It was generally well understood that this was an

industry which could create the maximum number of manufacturing jobs for the least amount of money per job and its protection was fundamental to the country's industrialisation.

N&S appears to suggest that it is a disgrace to 'protect' local jobs against globalisation. It seems to conceive of our failure to be a low cost producer solely as a statement of domestic inefficiency that should never be resolved by protectionism. I think this is too limited a view. There are many factors that go into other countries lowering the cost of producing clothing including the subsidising of raw materials, cheaper electricity, ensuring worker transport costs are at a minimum, producing long runs of the same garment, aside from managing foreign exchange rates like China does, and providing special export incentives specifically targeting South Africa.

It is highly unlikely that South African clothing manufacturers will ever be the cheapest producers in the world. Unless one wants the industry decimated, one has to protect it to some degree. It's one thing to say our protections were too high in the 1980s. It's quite another to say there should be none at all.

At the end of the apartheid period, SA tariffs on importing clothing

were negotiated at the World Trade Organisation (WTO) to fall from 120% to 45% over several years. In their wisdom, both Trevor Manuel and Alec Erwin sliced these tariffs three years in advance of that required by the WTO, causing complete mayhem in the industry in the period 1994 to 2005. Added to this, they abandoned clothing tariffs of 35% between South Africa and neighbouring Southern African Development Community (SADC) countries over the six years from 2000 to 2006, facilitating an avalanche of production shifting from South Africa to such states, paying about a quarter of the rates of South African metro workers. Literally tens of thousands of South African clothing workers lost their jobs. In cavalier fashion, the new government virtually threw the industry under a bus.

Aside from the level of duties payable at law, the key to the viability of all such protections is their enforcement. South Africa's capacity to enforce even the lowest level of duty has degenerated remarkably over the last 20 years. Despite imported goods flooding into the country, duties collected thereon are a small fraction of what they should be. It is utterly commonplace for people to import containers of clothing at nominal prices without being challenged. Likewise it is commonplace for goods to be imported via South Africa, allegedly bound for Lesotho or some other SADC country and either 'fall off the truck' unnoticed before getting to the border or are smuggled back into the country without import duty from there. We have seen the mushrooming of massive cheap clothing bazaars in every major city across the country. All of the goods traded there are imported and all are sold at prices which indicate no duty could have been paid. Nevertheless, this is done without attracting any apparent interest from law enforcement agencies.

All this devastation is of course of no interest to N&S which holds that wage cuts would have resolved the whole problem.

### **Export assistance**

These difficulties cut across the third state commitment to the industry referred to by N&S, namely that of trying to foster the sector as an export industry through a duty credit system whereby duty credits could be earned on exports. In turn these could be set off against duties payable for the importation of textiles and clothing.

The state spent billions of rand on this system despite union opposition for many years. N&S blithely quote amounts credited to Sear-del under this system as proof of the futility of the efforts made by the state to prop up an uncompetitive industry. They juxtapose this with a press comment by a Cosatu spokesperson which suggests that the state assistance was abused for management cars and bonuses. Somehow this unbearably low level of enquiry is then left to suggest that Sactwu policies and the union's total indifference to the long-term interests of its industry are the root cause of the demise of Sear-del in particular and the industry in general. Such argument is not insightful and obfuscates understanding the wastefulness of a poor choice of state policy.

The Duty Credit Certificate (DCC) scheme was riddled with corruption. Middlemen purportedly exported millions of items of clothing under the scheme. In reality a small quantity of goods were 'round tripped' several times, with the same goods simply smuggled back into the country and 're-exported' for further credit. Other scams involved goods manufactured in China being imported by Malawi where a small assembly line attached 'Made in Malawi' labels and exported them to SA as items of clothing locally manufactured there.

Still other scams centred themselves on the simple solution of creating counterfeit DCC. The genuine certificates were issued by the Department of Trade and Industry, but for years there was no way in which Customs and Excise could check the authenticity of DCCs

claimed as the two departments had no IT system linking them.

Sactwu and Sear-del (post the HCI take over of the business) were at the heart of a great many initiatives jointly with investigative units at SARS to expose the extensive corruption but no matter the level of proof thereof, no charges were ever pursued by the National Prosecuting Authority (NPA). In truth the NPA seems more likely to charge the minister of finance and anyone attached to the former SARS investigating units than any importer not paying duties.

N&S fails to deal with the effect of the DCCs on the clothing industry in any significant way. It does not seem to care whether any sustainable export industry was ever created by the system. All that seems important to them is the 'principle' that the union should not be able to influence state policies affecting the industry in which their members work.

Nevertheless, Sactwu finally succeeded in persuading the state to move away from the utterly wasteful system of the DCCs to the great benefit of the part of the industry interested in operating lawfully. Currently the DCC scheme has been replaced by a production incentive which offers local producers a credit for proven local production in compliance with tax and labour laws of the country. These credits can be claimed as financial assistance in meeting the costs of capital projects of the factories concerned to modernise production which are approved by the IDC. They are not tradable and the only way to claim them, is to prove the qualifying investment has been effected by the manufacturer concerned.

Is this a better and more far sighted form of support to industry? Unquestionably.

What possible gripe can the authors have with the union using its knowledge and skill to guide and pressure the state into the improvement of its policies in relation to supporting the industry? 