Towards a social accord for Jobs

The new generation of policy-makers had high hopes of transforming the economy post 1994. They argued that industrial and labour-market policies could propel the economy onto a new and better 'high-wage, high value-added' growth path. ***Nicoli Nattrass*** *questions the effectiveness of the growth path and proposes some controversial measures to boost employment.*

Ten years down the line, it is clear that the development strategy adopted post 1994, whilst intellectually credible, was hopelessly over-optimistic on all fronts. Employment has fallen sharply and has been a major factor behind the increase in poverty. Most disappointingly, employment has fallen in manufacturing – the very sector which was supposed to lead the economy on a new growth path.

In a recent paper (see p37), Dave Kaplan (2003) documents the poor 'score card' for manufacturing (and by implication, for the dti). Aside from a poorly performing manufacturing sector, dti research reveals that firms that had been targeted for special support either did not know about the policies, or thought they were of limited help. The bold vision of a dti as the main arm of a developmental state providing supply-side support and direction to private industry is clearly in tatters. According to Kaplan, part of the problem was that the dti had too many objectives in relation to capacity to deliver.

To make matters worse for firms in the 1990s, they were faced with a very difficult macroeconomic environment. Instead of injecting demand into the economy, the new government was forced to deal with high levels of government debt (a legacy of the final years of the old apartheid government). Once the debt situation had been brought under control, economic policy was codified into the now infamous GEAR strategy of 1996. The gamble was that this orthodox stance would encourage investment by sending a 'signal' to investors that government policy would be 'responsible'.

The problem with this, however, is that a firm will not invest unless it expects to be able to sell its products. If the government holds back on spending, and if private sector incomes are growing slowly, then firms worry about poor market conditions. They will lack confidence to invest – no matter what signal the finance ministry tries to send them.

Under these conditions, it is not surprising that many manufacturing firms felt (and continue to feel) beleaguered by government, rather than supported by it. According to surveys by the dti, firms complain about labour regulations (particularly restrictions on firing). Labour-intensive firms and sectors have been particularly hard hit. As these relatively low-wage, low value-added activities died out, employment fell and average productivity rose. This was in line with the expectations of those who argued in favour of using higher minimum wages as an instrument of industrial restructuring. The problem with this strategy, however, was that the supply-side policies to support rapid growth in high value-added sectors did not work.

South Africa now has more of a 'high-wage, high value-added economy', but the benefits have been restricted mainly to those (predominantly skilled) workers who have retained their jobs, and those capitalists who have remained in business. By restructuring and down-sizing their workforces, firms have, on average, ensured that each remaining worker contributes more on average to output (ie becomes more productive). They have also been able to restore profitability.

One indication of profitability is the gross profit share (ie the share of gross output going to the owners of capital). If the growth in labour productivity is greater than the growth in real wages, then workers are contributing more to output growth than they are getting back in wages, and hence the share of output going to capitalists (the profit share) will rise. Figure 1 (on the next page) shows that the average rate of growth of productivity exceeded that of real wages for most of the 1990s. As a result, the aggregate profit share was about 10% higher in 2001 than it was in 1990.

In short, the South African growth path has become increasingly skilled- and capital-intensive, and has delivered benefits to both capital and labour. In this post-apartheid 'distributional regime', the unemployed have been the biggest losers. Given that almost half of the workforce is without formal employment, this is an unacceptable outcome. We clearly need to rethink our growth strategy and make it more receptive to generating employment. This means developing more appropriate and better integrated industrial and labour-market policies.

Post-1994 growth strategy

The growth strategy adopted post 1994 had several weapons:

- Firms in 'priority sectors' were to be provided with targeted support to help them adopt new technologies, to develop export links etc. This idea was backed by research showing that a 'developmental state' could support export-oriented industrialisation and help firms become competitive.
- Active labour-market policies were deemed necessary to promote skills development and training. As skilled workers are more productive, firms could afford to pay higher wages, thereby resulting in a 'high-wage, high-productivity' growth path.
- Increased minimum wages was seen as a lever to force firms to shift away from 'low-wage, low-value added' activities. The idea was simple: Faced with higher unskilled wages, firms would be forced to upgrade their technologies and train their workers or face a profit squeeze. It was hoped that supply-side measures (eg support for training) would help firms make the necessary transition without shedding labour or going out of business. Some supporters of this strategy argued that those firms which went out of business despite government support for training were undesirable anyway, and that South Africa could do without such 'sweat-shops' and 'fly-by-night' producers. They assumed that those workers who lost their jobs would be re-employed once the economy 'took off'.
- It was a commonly held assumption amongst ANC-aligned economists and policy strategists that the new government would pursue moderately expansionary macroeconomic policies and embark on a major housing project (thereby boosting the labour-intensive construction industry). They also expected an expanded national public works programme.

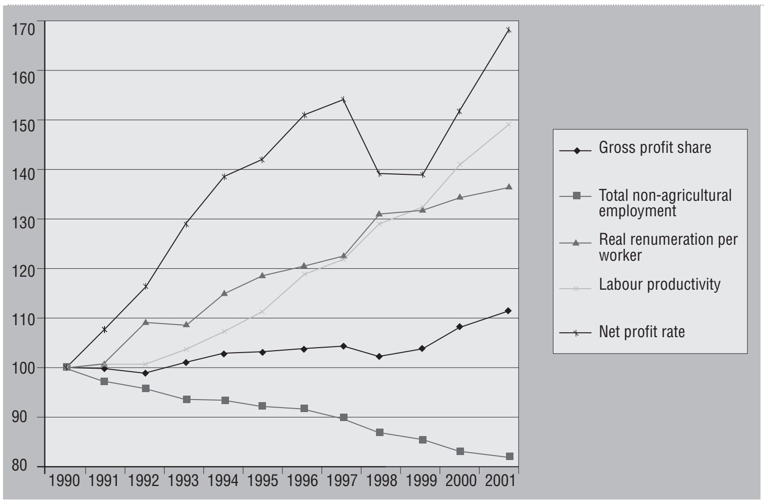

Figure 1. Index of labour productivity, employment, average wages and profitability in South Africa
Source: South African Reserve Bank

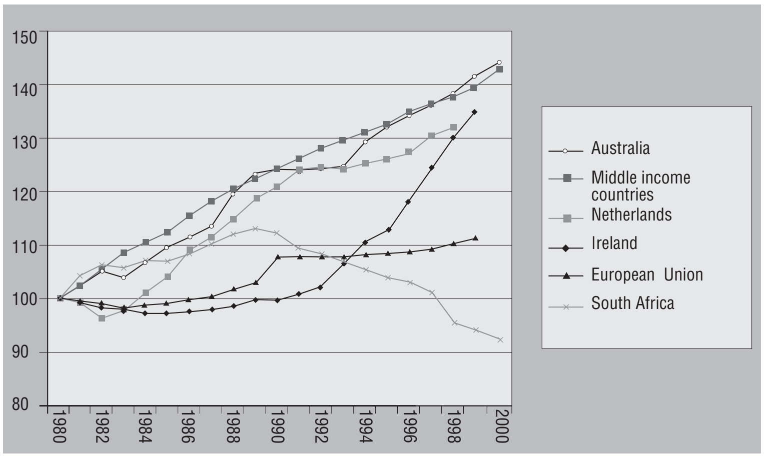

Figure 2. Index of employment growth in Ireland, Australia, the Netherlands, the European Union, Middle-Income Countries and South Africa
Source: World Development Indicators (as reported in the WEFA data set)

International experience

The experience of the Netherlands, Australia and Ireland is instructive. Like South Africa, these countries experienced an employment crisis, and like South Africa, they had strong trade unions and a tradition of collective bargaining and tripartite negotiation. In each case, the trade union movement made significant concessions in order to restore employment growth.

Broadly speaking, employment can rise if growth increases rapidly, or if the growth path becomes more labour-intensive. If employment is driven by rapid growth, then average labour productivity and employment could rise. The best recent example of this high-productivity/high-output/high-employment growth path is that of Ireland. Figure 2 illustrates rapid employment growth in Ireland. But as output growth was even more spectacular (see Figure 3), average labour productivity (ie output per worker) also rose significantly (Figure 4).

If, however, the main driver of employment growth is the expansion of part-time or low-productivity jobs, then employment could rise faster than output, thus resulting in a decline in average labour productivity. This is the growth path experienced by the Netherlands in the 1980s. The Australian experience represents something of a middle path between the two.

The roots of the Australian 'Accord' can be traced to 1982, when a mini resources boom (sparked off by the increase in the gold price) lead to excessive wage increases, inflation, balance of payments problems and a decline in output and employment. The initial phase of the Accord entailed wage restraint in return for lower taxation and improved welfare programmes. But as growth remained sluggish, all parties agreed to real wage cuts and declining government expenditure. This was accompanied by a steady decentralisation of wage bargaining to firm level, and greater concentration on improving productivity through workplace and industry-level initiatives (Nattrass, 1999). Trade union support for this dramatic shift in strategy was key. As can be seen from the figures, Australian output and employment recovered to grow strongly (along with labour productivity) in the 1990s.

The Netherlands and Ireland are quintessential examples of 'new social pacts' (Rhodes 2001:167). Both have, to varying degrees, entailed the fashioning of innovative links between labour-market policy (pertaining to training, employment conditions and wage-bargaining), industrial policy, welfare policy and taxation. In each case, the unions made real concessions with regard to wage restraint and labour regulation in return for benefits such as lower taxation, enhanced representation, skills development and other productivity-enhancing policies and measures.

Figure 2 shows that recent employment growth in the Netherlands and Ireland compares favourably with that of the European Union (EU) as a whole. As was the case in Australia, an employment crisis preceded each social accord process.

As noted earlier, there is a striking difference between the Irish and Dutch experiences with regard to productivity growth. Rapid rates of growth underpinned rising productivity in Ireland, whereas the expansion of jobs (most notably through the provision of part-time work for women) in the Netherlands resulted in falling, and then slow, productivity growth. Lower average labour productivity is to be expected when employment growth is promoted in this way through the expansion of part-time employment (which amounts to a form of job-sharing) and through government-sponsored job creation schemes.

Productivity-enhancement at firm level is crucial for maintaining growth in profits and wages. But if raising productivity becomes the sole policy objective, then there is a danger that the growth path will exclude the many unemployed who wish to work. The Dutch solution to this problem was to ensure that productivity-enhancing measures (such as training) were accompanied by measures to boost employment even though this implied lower average labour productivity.

The Irish social accord process is the most wide-ranging of the new social accords. The first accord was struck in the mid-1980s, when Ireland was mired in slow growth, rising public sector deficits and high unemployment. Subsequent pacts negotiated in 1990, 1993, 1996-7 and 2000, linked incomes policies to wage restraint and reforms in taxation, education, health and social welfare. As the pacts developed over time, more emphasis was placed on supply-side measures to promote training and productivity growth. Over time, the accord process was expanded to include more representatives of civil society.

Rapid growth of investment is at the heart of the Irish success story. Investors are interested in profitability and stability/predictability in the business environment. The Irish accords delivered both. Wage restraint in the late 1980s and early 1990s helped ensure that profitability doubled between 1987 and 1996. As O'Donnell puts it, 'the resulting environment of wage moderation and high profitability is almost certainly a key factor in Ireland's employment creation' (2001:11).

A social accord in South Africa?

Social accords arise out of a common sense of crisis. As shown in Figure 3, both the rate and share of profit in South Africa rose for most of the 1990s – so it appears that profitability is being restored in the absence of a social accord. Rather than bargaining with labour over their strategy, South African firms are simply responding to the economic and policy environment by shedding unskilled labour and by ensuring that wage growth is matched by improvements in productivity. They have, in short, succeeded in recreating the conditions for renewed accumulation without an explicit commitment on the part of organised labour to wage restraint.

If the only objective of a social accord is to restore profitability, then South Africa does not, on the face of it, appear to need one. If, however, the objective is to facilitate a stronger, more labour-demanding and less conflictual growth path, then a social accord process could potentially be of value. An explicit agreement on the part of organised labour to restrain wage demands in line with productivity growth, could help improve the investment climate. There is thus certainly still room for a more cooperative growth path that could benefit both labour and capital.

Such an accord could include:

- A framework agreement (probably negotiated in Nedlac) detailing agreed parameters for a wage increase. These could be blanket wage increases for all sectors (as in the Irish social accord), or it could be stratified by sector.
- Industry-level wage bargains would be constrained by the framework

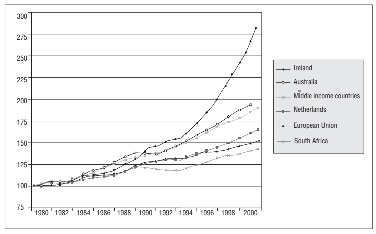

Figure 3. Index of output growth in Ireland, Australia, the Netherlands, the European Union, Middle-Income Countries and South Africa.
Source: World Development Indicators (as reported in the WEFA data set)

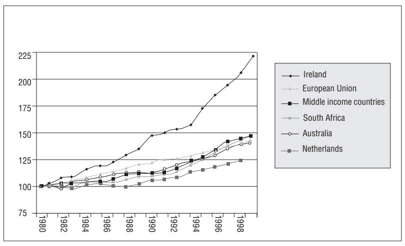

Figure 4. Index of labour productivity in Ireland, Australia, the Netherlands, the European Union, Middle-Income Countries and South Africa.
Source: World Development Indicators (as reported in the WEFA data set)

agreement and procedures put in place (as in the Irish case) to accommodate those firms who cannot afford the wage increases.
- Government continues to provide support for training and skills development through its various dedicated industrial and labour policies.

But while this kind of 'insider' accord could help improve growth at the margin, it is unlikely to have much impact in the short- or medium-term on employment. As shown by the Irish (and to a lesser extent the Australian) social accord processes, the only way for a productivity-based accord to generate significant benefits to employment is if growth is tremendously fast (and fuelled by domestic and foreign investment). Such a scenario is unlikely in SA given the skills bottlenecks.

If South Africa is going to address the employment problem by means of a social accord, then it has to be inclusive of labour-market 'outsiders'. Whether this means broadening the parties to the agreement to include the unemployed and civil society organisations, (as in the Irish case), or simply mandating government to look after the interests of the unemployed (as in the Netherlands), is an open issue. An inclusive social accord would need to support high productivity activities – but not at the cost of slower employment growth. Training and skills development should continue as this will improve the competitiveness of high productivity sectors. But at the same time, employment needs to expand, perhaps in the form of job-sharing, or in lower-wage, labour-intensive activities and even in government sponsored public works programmes. This will serve to reduce average labour productivity – but as the Dutch growth path shows, this can be an appropriate outcome.

An 'outsider-friendly', more inclusive, social accord in SA could include the following as additional aspects to the accord outlined above:
- Organised labour and business agree to labour-market reforms in order to encourage the growth of labour-intensive firms and sectors (eg setting lower, or no, minimum wages for smaller, more labour-intensive firms).
- Where other labour legislation can be shown to be harmful to employment creation (eg rules about retrenchment), then additional labour-reforms should be considered.
- Government agrees to increase the number of public works programmes and to remove all taxes on employment (eg payroll taxes).

The Netherlands, Ireland and Australia provided tax concessions to workers in return for wage restraint but this is not a significant or sustainable option in South Africa where the pressure to redistribute income through the fiscus is substantial.

One of the obstacles facing an inclusive social accord in SA is whether organised labour is prepared to accept the associated labour-market reforms and tax implications of a strategy designed to boost employment. If South Africa is unable to make progress on encouraging the growth of labour intensive firms and concentrates instead on 'high-wage, high-productivity' jobs only, then all that will remain is an 'insider' accord that supports a growth path that has little, if any, chance of reducing unemployment in the foreseeable future.

Conclusion

As highlighted in the above discussion, the social accords in Australia, Ireland and the Netherlands saw organised labour making concessions (in terms of wage-restraint and labour-market reforms) in return for tax cuts and policies designed to promote skills development and training. In South Africa's case, organised labour has already achieved many of these policy gains or direct benefits typically associated with the new social accords – without having to make any concessions.

It is an ironic possibility that the South African government may have just missed the opportunity to forge a social accord by handing out many of its bargaining chips for free. However, given that employed workers support many unemployed people through remittances and private transfers, it is possible that the trade union movement will recognise that significant job creation will bring some relief to their pockets because fewer people will be reliant on them for support. There is thus still potential for a social accord process to deliver meaningful changes to South Africa's policy environment and growth path.

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