What workers can expect this year

Following the state of the nation address, newly elected ANC President Jacob Zuma said 2008 was going to be a wonderful year. Early indications are that workers might not have such a wonderful year after all. **Renee Grawitzky** explores some of the factors that are likely to influence wage negotiations this year.

As anticipated, last year proved to be a very tough bargaining year with key sectors of the economy going out on strike. The political and economic context in which the negotiations occurred might have influenced the dynamics which unfolded. For example, there was a general sense that the economy was growing and certain sections of the population were benefiting from this growth. Overall, there was a feeling that workers were largely being ignored – as reflected in the perception that real worker gains had been eroded by inflation. As a result, unions not only pushed for increases above inflation but sought to move away from CPIX linked increases. The Labour Research Service (LRS) said there have been moves to get unions to use inflation more intelligently. The LRS said unions are starting to disaggregate the overall inflation figure by concentrating on specific areas such as food inflation which is a critical measure for low income earners who spend a high proportion of income on food and other factors such as transport.

The public service strike and subsequent settlement of 7.5% set the bar for increases across the private sector. A study conducted by Naledi coupled with input from the LRS reveals that the settlement range was between 7.5% and 9% (with some attempting to reach double digits). However, the average settlements were around 7.5%. Whilst average settlements during 2007 were up from the previous year, so too was inflation which has been rising steadily since 2005. Whilst settlements might have averaged at 7.5%, the annualised rate of inflation for 2007 was 7.1%. This means that workers only received, on average, a 0.4% increase above inflation.

Naledi senior researcher Kimani Ndungu stated in a recent study that as a result of rising inflation, workers actually received lower real increases than they did in 2006 when increases on average ranged between 1% and 1.5% above inflation. Ndungu explains that between 2004 and 2006, inflation remained consistently at below 5% per annum. However, this changed in 2007 when inflation breached the upper 6% upper limit level set by the Reserve Bank for the first time in April 2007. The average rate of inflation for 2007 was 7.1%, a significant 2.5% points higher than the same period in 2006, and over 3% higher in comparison with 2005.

Inflation, Ndungu says, is triggered by a number of factors including the escalating price of international crude oil and the higher costs of food production. Those who are worst affected by rising inflation are the poor because they spend the bulk of their household income on basic necessities such as food, transport, education and medical care. This means that when compared with those in the middle-higher income groups, the higher rates of food inflation and other basic necessities affects low income earners much more disproportionately.

The average rise in food inflation of 7.9% and 12.0% respectively for 2006 and 2007 was much higher than the average CPIX of 5.1% and 7.4% respectively in the same period. The September 2006 to 2007 season records a phenomenal rise in the cost of basic foods such as grain products (mealie meal and bread), meat, milk, cooking oil and

vegetables which rose by a massive 17.0%, 19.4%, 19.5% and 21.5% respectively.

FACTORS INFLUENCING NEGOTIATIONS

Last year saw many of the key sectors in the economy embroiled in wage negotiations following the expiry of multi-term agreements. Whilst, the main sectors will not be negotiating this year, some important negotiations will occur in retail, construction, chemical, mining (mines not covered by central negotiations), state-owned enterprises, private security, transport and the public service. What can these workers expect?

As highlighted above, wage increases over the last two years have not kept up with inflation. Early signs are that this year, once again, workers could face a squeeze perhaps even tighter than anticipated partly because of global developments. The following include some of the factors likely to inform negotiations this year:

- Whilst there are expectations that inflation could start dipping from the second half of the year, workers are still likely to be hard hit by rising food inflation especially in light of increases in bread prices, petrol, electricity and interest rate hikes.
- The recent economic boom led to people going mad on credit and now face further pressures of debt.
- As a result of these rising pressures, there is likely to be an attempt by unions to push for double digit increases. However, the environment in which negotiations are taking place this year is decidedly different from last year when the mood of an economic boom was in the air. This year, predictions of higher levels of economic growth has been dampened, partly because of the impact of the electricity crisis, but also because of fears of a recession in the US and potential fallout to the rest of the world. Uncertainty emerged in the US market last year when the US banks and financial institutions had to write off huge debt when millions of people were unable to pay their home loans. Basically what happened – now known as the Sub-Prime scandal – is that people who under normal circumstances would not have been able to pay their monthly home loans were given loans as a result of aggressive lending. So when the economy turned, they were squeezed and could not pay their loans back.
- Because of fears of an economic decline, employers might want to temper wage increases.
- Workers are already feeling the impact of the electricity crisis with many facing short time or more flexible working arrangements. Whilst some workers now have to cope with reduced wages (a result of a cut in working hours), some might even face retrenchment. These developments could also lead to a further increase in casualisation while the use of labour brokers will continue to feature and become a bigger issue as more infrastructure projects come on stream.
- Aside from the economic variables, instability and uncertainty within the political arena could spill over into negotiations this year, as was evident last year. Depending on the level of political understanding, workers and union officials (who feel bold and want to take bigger risks), might feel empowered by the Zuma victory and take a harder line during negotiations.

CONCLUSION

All indications are that workers could face a real squeeze this year in the face of both political and economic uncertainty. In the face of a rather rocky ride, unions must firstly, ensure negotiators are properly prepared for negotiations and secondly, review existing strategies around collective bargaining (if such strategies exist).