Workers face rising debt spiral

Reneé Grawitzky talks to former trade unionist Gavin Hartford about how government has moved to reduce debt amongst public servants – which has the potential to destabilise shopfloor relations.

The post-1994 period saw rapid growth in the supply of financial products to markets previously ignored by the major financial institutions and insurance companies. Organised workers, one of the recipients of this initiative, were bombarded with a myriad of insurance policies and micro-loan facilities.

Coincidently, there was a resurgence of violence on the mines, especially, on the platinum mines where new unions began to spring up in opposition to the National Union of Mineworkers. Some of these so-called unions were formed by individuals who had been operating as insurance brokers and had links to certain microlending institutions. In one case the union initially operated out of the offices of the insurance broker. In view of recent developments in other workplaces, it is highly probable that the violence was sparked by shopstewards being aligned to or promoting financial products of competing financial institutions.

Glorified insurance brokers

This trend has grown and is evident in a number of sectors where shopstewards are becoming glorified insurance brokers on behalf of insurance companies and microlenders. This has potentially negative consequences for stability both within unions and on the shopfloor. There are indications that the high turnover of shopstewards in some sectors is directly linked to the new unofficial role they are playing as informal stock brokers (earning extra money). This trend was mentioned in Cosatu's organisational review report discussed in 2001.

Over the years, organised workers have become the cash-cows of major insurance companies and microlenders. In turn, workers are facing an increasing debt spiral as they attempt to meet their monthly payments for insurance policies and loans. Often workers are forced to take out loans to pay for the monthly instalments to cover their insurance policies. Research in both mining and the public sector found that workers often have no take-home pay after all deductions are made for insurance policies and loans. Rising debt amongst organised workers has the potential of undermining collective bargaining as workers do not see the benefit of wage increases which are utilised to service the debt.

Public service

The debt crisis amongst public servants forced government to take a decision in 2000 to regulate the type of deductions which could be made from its payroll. This move was in response to the extraordinary high levels of debt that was being accumulated amongst government employees. A survey found that half a million public servants carried 1,6 loans per head and 900 000 public servants had 4,6 insurance policies. This figure includes the duplication of products.

Government's payroll, which covers more than one million workers, is worth in the region of R76bn a year. By 2000 the value of loans taken out by public servants was about R5,6bn and insurance and other policies in the region of R26bn. (It is understood that Old Mutual accounted for 78% of the value of insurance policies sold to public servants.)

Government realised that to remove people out of a spiral of debt they had to regulate the type and amount of deductions made from their payroll. Government had allowed a situation to continue where employees could access loans and insurance policies by signing a stop-order facility which allowed various payments to be deducted from their pay.

In terms of the regulation of the payroll, government has treated the insurance industry differently from microlenders. Insurance providers could continue to have their premiums deducted while microlenders were effectively kicked off the system. The question remains who is driving who – there are clear examples where workers have taken out loans to pay for insurance premiums.

Hartford was contracted by government to run their education and information campaign – Mongi Mali – to inform employees of the changes and educate them about debt consolidation and rationalising. He says in terms of the changes to government's payroll there will now be a cap on the amount of deductions made for non-statutory provisions. He adds government has also set specific interest rates which microlenders can charge for loans. The rates ranging between 21% and 27% still appear high as there is no risk for the microlenders as they are assured their payments because it comes directly off the payroll.

Weaken union structures

Based on his involvement in the campaign in the public sector, Hartford believes that the rising debt crisis amongst organised workers has the potential to affect both employers and unions. He says the debt crisis can weaken union structures, affect productivity on the shopfloor and heighten industrial relations instability.

An increasing number of shopstewards are becoming informal brokers selling financial products. This, he says, has implications for unions especially as members are driven into higher costs for financial products. A further problem is the impact on shopsteward structures in companies where competition to become a shopsteward is intensified as there is now an incentive to be a shopsteward. This, he says, can cause divisions within unions. The ability of workers to take independent action could be limited if they are deeply in debt.

Hartford says the experience in the public sector showed that workers did not see the benefit of their real wage increases because a large portion of increases went simply to service and pay off loans and insurance policies. In effect, increases only affected the pace of debt. Rising debt amongst workers can also lead to increased absenteeism which ultimately impacts on productivity, Hartford says.

In the next edition we will explore what options unions and employers have in trying to manage debt more effectively