How to add five million new jobs to the South African economy over the next five years

WORKING PAPER NO 2

South Africa's employment crisis: prognosis and possibilities

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SOUTH AFRICA'S post-apartheid democracy was born in 1994, at a time of great hope and expectations. The ruling African National Congress (ANC), and its alliance partners, the South African Communist Party (SACP) and the Congress of South African Trade Unions (COSATU), highlighted employment creation as a central priority. Yet the fledgling government was unable to make significant progress in this regard. Even after the longest upswing in South African history (1999–2008), the unemployment rate remained stubbornly high, with over a quarter of the labour force without work.[1] This paper discusses the roots of the problem and possibilities for the future.

The central challenge facing the democratic government in 1994 was to put the economy on a new and sustainable growth path. Growth had been weak and erratic (figure 1), averaging 0,8 per cent over the previous decade, investment had all but dried up, and capital was steadily draining out of the economy. The situation improved during the post-apartheid period, but growth remained relatively disappointing. In the decade after 1994, South Africa's gross domestic product (GDP) per capita growth of 1,2 per cent a year was comparable to sub-Saharan Africa (1,1 per cent a year) and Latin America (0,8 per cent a year), but substantially below that of East Asia (6,2 per cent a year) and South Asia (3,7 per cent a year) (Rodrik 2008: 770.). As can be seen in figure 2, South Africa performed poorly relative to most countries at a similar level of development, with regard to growth, investment and unemployment.

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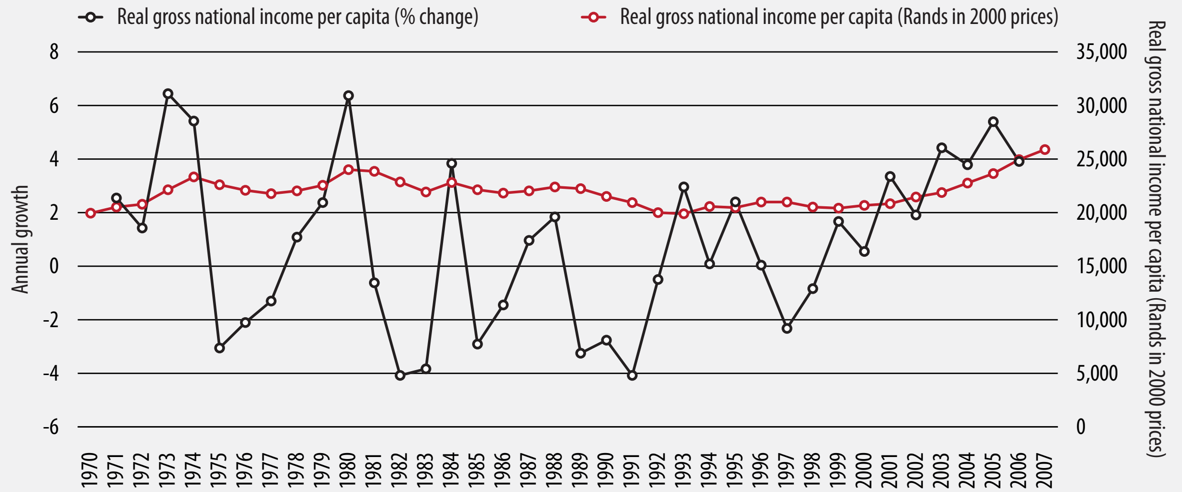
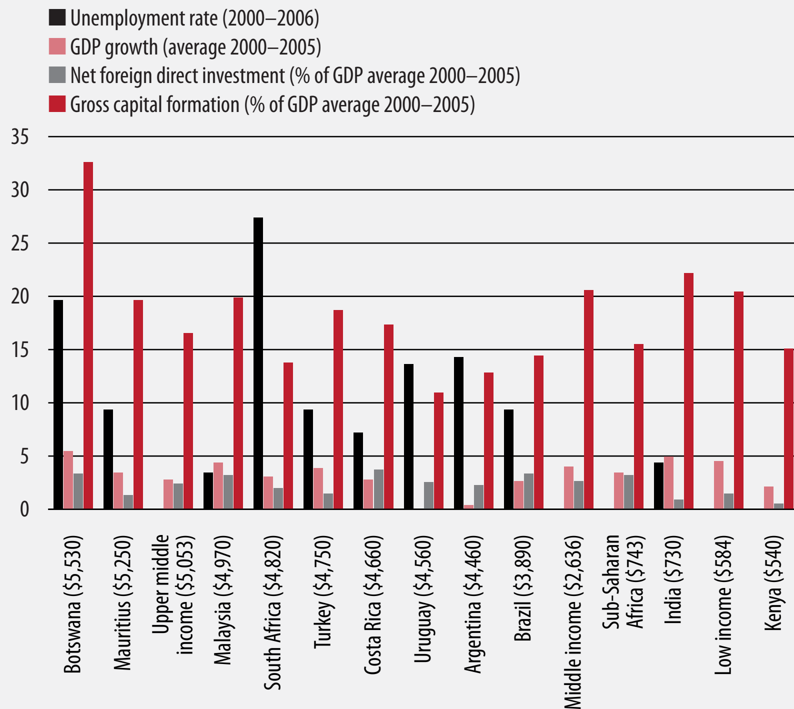
Figure 1: Real per capita growth: 1970–2007



Source: South African Reserve Bank (www.reservebank.co.za).

Figure 2: Investment in South Africa in comparative perspective

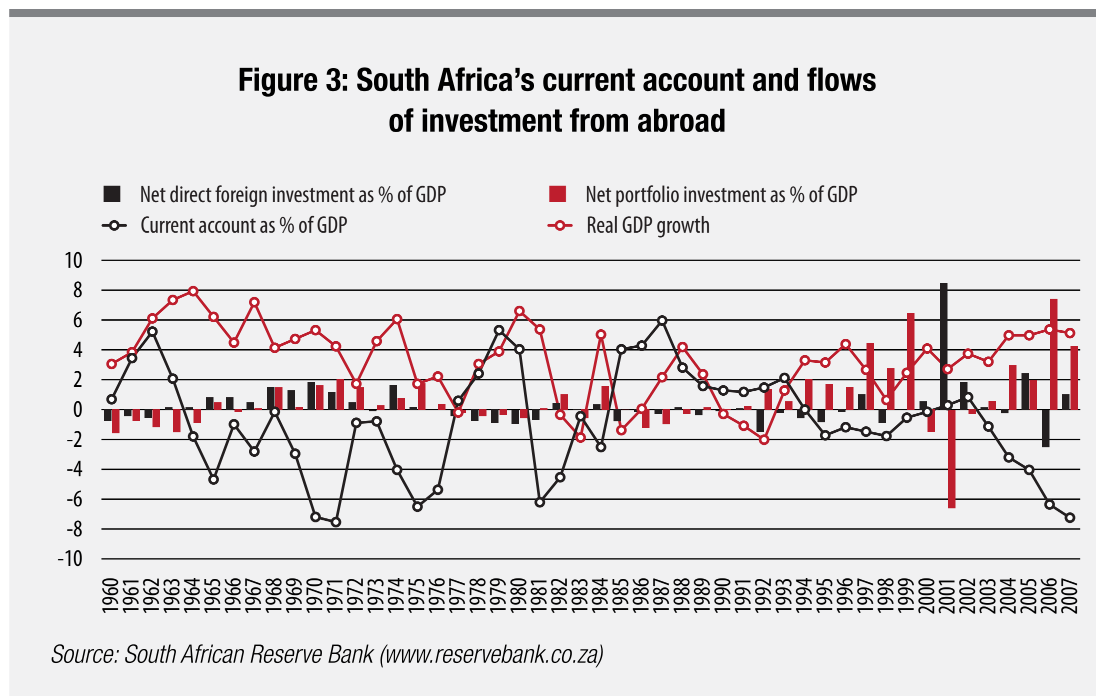


Source: International financial statistics from the International Monetary Fund (IMF) (http://ifs.apdi.net/imf), World Bank Development Indicators (http://devdata.worldbank.org), and the International Labour Organization's Laborsta (http://laborsta.ilo.org).

Post-apartheid economic planners had hoped to develop a strong export sector. However, exchange-rate instability, skilled-labour shortages, high unit labour costs and structural rigidities (notably specialisation in sectors with highly specific factors of production that cannot easily be redeployed elsewhere) contributed to a shrinkage of non-mineral exports rather than the hoped-for expansion (Rodrik 2008; Hausmann 2008; Hausmann & Klinger 2008; Edwards & Alves, 2006). Overall employment growth lagged behind real output in all sectors – which meant that ever larger increases in output were necessary to facilitate new job creation.

The failure to grow exports meant that during economic upswings (June 1993 to November 1996 and September 1999 to October 2008) South Africa experienced persistent and growing balance-of-payments deficits as import demand outstripped exports. While this replicated an old pattern in the South African growth path (figure 3), what differentiated the post-apartheid period was the reliance on increasingly erratic flows of foreign savings, notably portfolio investment, to finance the current-account deficit. This left the country vulnerable to destabilising reversals in capital flows.

Figure 3: South Africa's current account and flows of investment from abroad



Source: South African Reserve Bank (www.reservebank.co.za)

Part of the problem was structural (Banerjee et al 2008: 724), notably the continuation of the long-term decline of the mining industry as mineral reserves grew scarcer and more difficult to mine. However, poorly co-ordinated economic policies were also an important part of the story. These, in turn, were

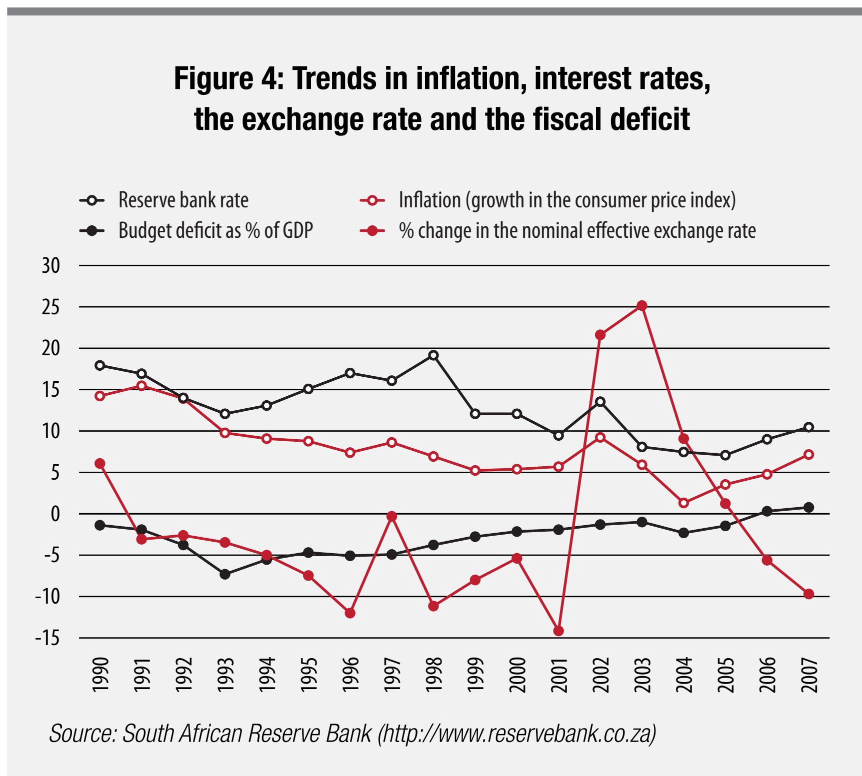
the consequence of a political compromise which saw organised labour's agenda implemented with regard to labour-market regulation, capital mollified by orthodox macroeconomic policies, and the ANC government adopting a top-down approach to economic policy-making.

Economic policy in the post-apartheid period

Although there had been calls by ANC-aligned economists in the early 1990s for more expansionary macroeconomic policies (see, for example, MERG 1993), this option was rendered unworkable by the sharp increase in the government deficit (from 1,5 per cent of GDP in 1990 to 7,3 per cent in 1993) that took place during the transitional period. By the time the ANC gained full control of the government in 1996, it faced the further challenge of dealing with substantial exchange-rate instability. The Growth, Employment and Redistribution (GEAR) strategy of 1996 was designed to restore macroeconomic balance. The document was intended to calm private-sector nerves by projecting a scenario in which conservative fiscal policies laid the basis for a reduction in government debt, and an increase in investment and growth (DoF 1996). It also spelled out a set of complementary trade policies (to open the economy further and boost exports), and proposed some limited 'regulated flexibility' within the labour market in an attempt to protect employment during the necessary adjustment. Although the Finance Minister Trevor Manuel was successful in reducing the deficit, GEAR's labour-market reforms were never implemented. Instead, the labour ministry pursued policies which raised the costs of employing labour[2] at the same time as fiscal policy drained demand out of the economy, and the Department of Trade and Industry (DTI) implemented trade liberalisation.[3] As was the case in other countries attempting such structural adjustment under rigid labour-market conditions (OECD 1999: 156–9), the results were costly in terms of employment, especially of unskilled labour.

The Growth, Employment and Redistribution (GEAR) strategy of 1996 was designed to restore macroeconomic balance

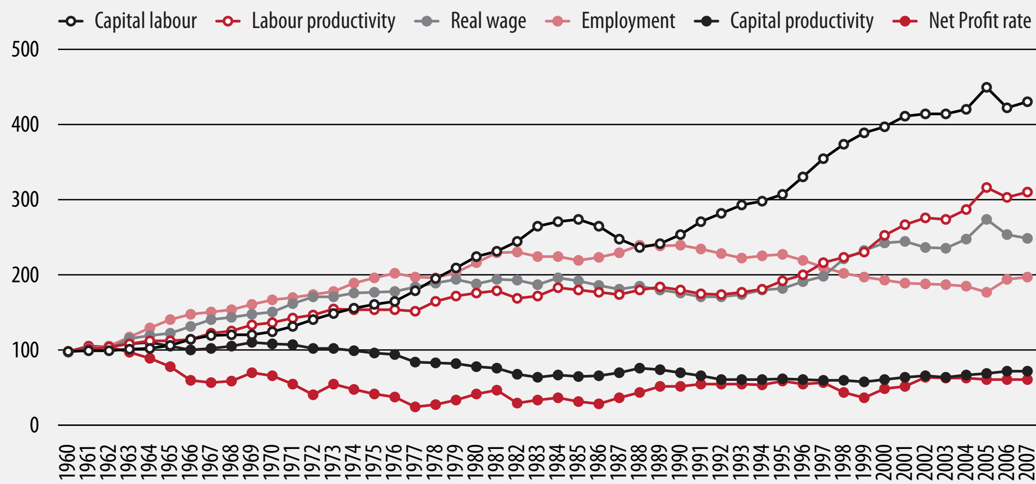
Figure 4: Trends in inflation, interest rates, the exchange rate and the fiscal deficit



Source: South African Reserve Bank (http://www.reservebank.co.za)

As can be seen in figure 5, manufacturing employment fell as average wages rose throughout the 1990s and into the early 2000s. Note that labour productivity also rose sharply, so rapidly in fact, that it exceeded the rate of growth of wages, thereby enabling the profit share to rise. The winners were thus the employers who remained in business (experiencing a rising profit share), and those workers who kept their jobs. Some of these workers, notably the most skilled, enjoyed substantial wage increases – but for the most part, average real wages rose in manufacturing because unskilled low-wage jobs were shed. The losers were those (predominantly unskilled) who lost jobs, or who might have obtained jobs if a more labour-demanding economic strategy had been pursued.

Figure 5: Key trends in South African manufacturing profitability



Sources: Published and unpublished data from the South African Reserve Bank

Many factors contributed to the shedding of unskilled labour. These included the impact of labour legislation, which raised the cost of employing labour, and the operation of the wage-bargaining system, which set wage floors by industry (binding predominantly on unskilled labour) – all of which provided strong incentives for firms to substitute machinery for workers, and to have a smaller, better-skilled, better-paid and more manageable workforce (see Moll 1996; Nattrass 2000). Even policies designed to improve the machinery of labour-dispute resolution, notably the introduction of the Commission for Conciliation, Mediation and Arbitration (CCMA), had the unintended effect of burdening employers further by operating in an unnecessarily legalistic way, thereby increasing the risks to employers of hiring labour.[4]

Labour legislation raised the cost of employing labour

Other policies, notably industrial policy, with its focus on recapitalisation (to allow for 'best practice' techniques to be introduced), contributed further to rising capital intensity (Kaplan 2003; 2007). Although the post-apartheid economic planners had hoped that recapitalisation would provide a strong basis for growth – thereby expanding employment opportunities in the future, industrial policy proved disappointing. As Kaplan (2007: 98–9) points out, industrial policy was never consolidated under one arm of the state, but remained scattered and even 'hidden' – such as support for arms production, minerals processing, subsidised infrastructure, and energy to Coega. Industrial policy was also bedevilled by having to address too many strategic concerns, including regional development, small-business development, racial

transformation in hiring, skills development, moving up the value chain, promoting labour-intensive growth, and black economic empowerment (BEE; that is, giving black entrepreneurs preferential access to government procurement contracts, subsidies, and so forth). The result was that industrial policy as a whole became less well targeted and effective. Attempts to create structured forms of engagement with business (including national investment summits and regional forums as part of the spatial development initiative) failed to build the necessary trust and information flows required for effective industrial policy.

Tight monetary policy probably also undermined the potential for employment creation during the post-apartheid period (Kantor 2004) – but this was in large part externally driven. As can be seen in figure 4, South Africa's inflation rate tracks movements in the nominal value of the rand: when the dollar price of the rand falls, domestic inflation rises. As the interest rate is the key weapon in the armoury of the Reserve Bank (whose job since 2000 has been to keep inflation within a target band of 3–6 per cent), interest rates tend to rise when the rand depreciates.

Industrial policy was never consolidated under one arm of the state, but remained scattered and even 'hidden'

The benefits of this 'inflation targeting' for growth are unclear. On the one hand it assists export competitiveness (by fighting inflation, thereby keeping the cost of domestic inputs down, and ensuring that a nominal depreciation is a real depreciation), and can potentially boost investment by making monetary policy more transparent and 'credible' in the eyes of investors (Aron & Muellbauer 2007). However, higher interest rates also raise the cost of borrowing for government and private firms alike, and, paradoxically, this can generate further uncertainty, thereby eroding rather than boosting investment. South Africa's inflation-targeting policy – at least on paper – allows for some flexibility in times of crisis in order to protect the real economy, but for the most part, Reserve Bank Governor Tito Mboweni chose to prioritise controlling inflation.

The investment environment was probably also harmed by persistent policy contestation within the ANC and its alliance partners, especially over GEAR (Gelb 2006: 4). Partly to address this, the ANC released a 'new' economic strategy in 2006: the Accelerated and Shared Growth Initiative for South Africa (ASGISA). It envisaged halving poverty and unemployment rates through increasing the economic growth rate (to 6 per cent a year) and sharing growth, primarily through absorbing more labour into the 'mainstream economy'. Key elements of the plan included increased public investment in infrastructure, accelerated skills development, and reducing the regulatory burden on small

and medium-sized businesses.[5] It proposed very little that was new, and is noteworthy primarily as an effort to foreground the government's industrial and labour-market policies, which had been over-shadowed in the public debate over GEAR. Unfortunately, it did nothing to ensure policy consistency across ministries, or articulate a credible vision for labour-demanding growth.

South Africa today: the challenge of shared growth

It is now common cause that unemployment in South Africa is unacceptably high and that job creation should be a key priority. The problem, however, is how to alter the growth trajectory to bring this about. If we project the 2001–2006 growth path unchanged into the future (that is, with real output growing at 4,3 per cent a year, and aggregate labour productivity at 1,6 per cent a year), then by 2015 more than half of the country's working-aged adults would still be without work.[6] Only if South Africa grew at the impossibly high rate of 6 per cent a year *and* kept labour productivity constant (that is, stopped requiring ever greater increases in output to generate new jobs), would full employment be possible by 2015. However, the global recession has made this challenge even more daunting. Ongoing uncertainty over economic policy has made the challenge even harder.

ASGISA did nothing to ensure policy consistency across ministries, or articulate a credible vision for labour-demanding growth

Economic policy contestation

The ANC's own left wing and its alliance partners have been complaining for some time now about fiscal and monetary policy (for being too conservative), and about the failure of the government to build a genuine 'developmental state' – that is, to put more resources and emphasis on industrial policy, and to intervene more aggressively with regard to investment. These political and economic tensions came to a head at the 2007 ANC Polokwane conference. Thabo Mbeki was ousted as ANC leader by Jacob Zuma and the following year (in September 2008) Mbeki was forced to resign as president of the country. The ANC subsequently split, but went on to win the 2009 election, and Jacob Zuma was installed as president. His new, expanded, cabinet included members of both the left and right sides of the economic policy divide – leaving the ongoing policy debate unresolved in institutional terms.

Over the past few years, several studies were undertaken to assist with economic policy formation. Two years before he left the presidency, Mbeki appointed a panel of economists (chaired by Ricardo Hausmann of Harvard University) to review the obstacles to South Africa's growth and make policy

findings. But by the time it reported in May 2008 – calling for continued fiscal restraint, more flexible labour-market conditions for young workers, a more proactive competition policy, and a more 'open architecture' (rather than sectoral targeting) for industrial policy[7] – the opportunity to influence the growth debate was long gone. The left, not altogether unfairly, simply dismissed it as a belated and ideologically driven attempt to legitimise Mbeki's unpopular economic policies (see, for example, Fine 2008).

Two other international assessments of South African growth, one by the Organisation for Economic Co-operation and Development (OECD) and the other by the Spence Commission on Growth and Development, of which Trevor Manuel was a member, also proposed various market-related reforms to South Africa's economic policies (OECD 2008; Spence Commission 2008). Both stressed the need to remove regulatory obstacles to entrepreneurship. The OECD and the Harvard Group also drew specific attention to South Africa's concentrated economic structure and problems relating to collusion and market power.[8] They both recommended a more proactive role for the Competition Commission in this regard.

After Polokwane, Manuel and his powerful Treasury became particular targets of the left for attack

After the global economic crisis unfolded in late 2008, Manuel set up a presidential joint working group of business, government, and labour representatives to discuss the three external assessments of South Africa. However, very little progress was made. COSATU made it clear that it would not compromise its 'decent work' agenda – which was interpreted by business as meaning that labour-market reforms to facilitate low-wage employment creation were off the table.[9] The parties resolved to continue talking, but there appears to be little heart in this initiative from all sides.

After Polokwane, Manuel and his powerful Treasury became particular targets of the left for attack. In September 2008, COSATU leader Zwelinzima Vavi (2008a; 2008b) wrote a two-part series for the media critiquing the existing policy for its alleged 'neoliberalism', its failure to 'discipline' capital, and for Treasury's 'resistance' to providing the necessary resources for South Africa's new industrial strategy. He called for a range of strong targeting interventions, such as an expanded welfare system, differential interest rates, the expansion of state ownership in the economy, and prescribed assets to compel pension funds and the Public Investment Corporation to invest in strategic areas.

This more assertive stance on the part of organised labour and its allies had some success. At the October 2008 ANC policy summit with its

alliance partners, the ANC agreed to introduce a 'planning commission' in the Presidency and a 'council of state', comprising the President, Deputy President and senior ministers, whose job it would be to make strategic and developmental decisions which had de facto hitherto been the preserve of the Treasury (Brown & Musgrave 2008; Davis 2008). The summit also endorsed a call for decent work to become the main objective of economic policy – which effectively prioritised the quality over the quantity of job creation.

Manuel (2008a: 3) responded to critics of his fiscal-policy stance by noting, in his medium-term policy statement of 22 October, that 'if our economic policies were designed for their populist appeal, if we tried to finance everything at once, for everybody, then short-term gains would quickly give way to long-term misery'. Vavi replied by rejecting what he called 'narrow' economic indicators, such as the budget deficit, and calling for the introduction of a basic income grant. Irvin Jim, leader of the National Union of Metalworkers of South Africa (NUMSA), added that 'the time to pursue neo-liberal macroeconomic policies is over', saying that those who disagreed should leave the ANC.[10] Both insisted on the need to focus labour policy on decent work. Manuel (2008b: 6) responded, albeit obliquely, in a speech on the global crisis, saying that 'raising the cost of economic activity and restricting our ability to trade is not the right path for South Africa'. He argued that industrial policy had been financed appropriately, and warned that the 'indiscriminate dispensing of cash to firms that lobby for help will also not raise incomes and create jobs'. The peak-level business organisation, Business Unity South Africa (BUSA), supported Manuel by lobbying opinion-makers that it was not in the interests of South Africa to depart from 'prudent' economic policies (Isa 2008).

'Raising the cost of economic activity and restricting our ability to trade is not the right path for South Africa'

At the heart of the fight was the role of government in shaping the growth path. Blade Nzimande and Jeremy Cronin (2008) summed up the prevailing left-wing view in a speech to the SACP, in which they argued that the state should not 'be confined to being an over-whelmed and under-resourced welfare dispenser on the one hand, and a macro-economic boss-boy on behalf of markets on the other'. They argued that it should rather be a developmental state, which 'mobilises our national resources to transform the current accumulation path to one based on a state-led industrial policy'.

Transforming the economy, however, is easier said than done. A key constraint on South African growth has, and continues to be, poor export performance (see, for example, Rodrik 2008). Although South Africa's export basket has

become increasingly sophisticated (thanks to increased exports of cars, motor-vehicle parts and chassis, filtering and purifying machines for liquids and natural gasses, pharmaceuticals, and ferro-alloys), this trend has lagged behind other comparable countries, and South Africa's exports remain dominated by relatively unsophisticated, primary products (Hausmann & Klinger 2008). Worse still, the manufacturing products in which South Africa has a demonstrated comparative advantage do not entail the use of capabilities which could be easily redeployed to the production of other goods – especially those in labour-intensive sectors. This makes structural transformation very difficult, as new activities and new capabilities have to be developed in tandem. Furthermore, as a recent OECD (2008) report points out, pinning an economic strategy on industrial policy 'is at odds with the recognition of failures of government planning, coordination and administrative capacity as one of the constraints to achieving faster and more widely shared growth.'

Table 1: The world economic slowdown

	2003	2004	2005	2006	2007	2008	2009 projected
World output	3,6%	4,9%	4,5%	5,1%	5,2%	3,2%	-1,3%
Advanced economies	1,9%	3,2%	2,6%	3,0%	2,7%	0,9%	-3,8%
Emerging markets and developing countries	6,3%	7,5%	7,1%	8,0%	8,3%	6,1%	1,6%
South Africa	3,1%	4,9%	5,0%	5,3%	5,1%	3,1%	1,0%
World trade	5,6%	7,2%	7,9%	7,7%	7,8%	6,4%	2,1%

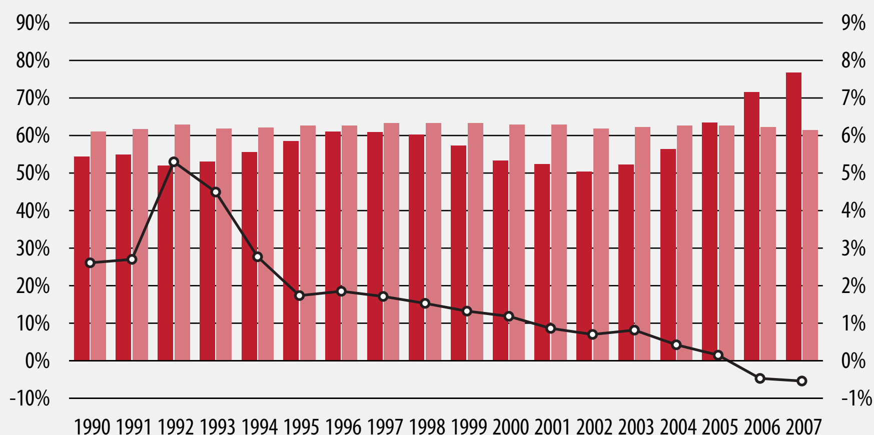
Source: World Bank & IMF (2009: 27); United Nations (2009: 2); data for South Africa (2003–2008) from South African Reserve Bank, and for 2008 and 2009 from World Bank (2009: 3)

Structural transformation is also a lot easier in boom times when opportunities abound and new ventures can tap into rising markets. Unfortunately, by late 2008, the world economy was slumping towards recession, and South African growth, and growth prospects, were eroded accordingly (table 1). By the third quarter of 2008, South African mining and manufacturing were contracting (at -8 per cent and -6,9 per cent respectively), with the economy kept in positive territory (growing sluggishly at 0,2 per cent) by agriculture, government expenditure (mainly on military aircraft and public–sector wages), and investment by public corporations in electricity generation and infrastructure for the 2010 World Cup (South African Reserve Bank 2008: 9–10). Despite the slowdown in import demand, the current-account deficit continued to burgeon, thereby increasing the risk of sharp currency depreciation.

Consumption spending, which contributes a fairly stable 60 per cent of GDP, also moved into negative territory in the third quarter of 2008. More worrying is the fact that since the early 2000s consumption has been increasingly financed by debt. This is reflected by the sharp rise in the ratio of household debt to disposable income (from about 50 per cent in 2002 to 77 per cent in 2007), and the collapse of household savings (figure 6). This bodes badly for the future, especially given the collapse in asset prices (notably the almost 50 per cent decline in the value of the JSE between May and November 2008), and the decline in house prices during 2008 (South African Reserve Bank 2008: 40, 42). Distress asset sales and repossessions are likely to rise as banks call in loans and as households try to maintain living standards. The growing black middle class, especially those whose new-found wealth was based on debt-financed BEE deals, may find itself particularly under pressure. So, too, will households whose breadwinners lose their jobs and join the already substantial army of the unemployed. This, coupled with the likely decline in foreign investment (which has, since 2004, made up the shortfall between savings and investment in both the corporate and household sectors) indicates that South African growth is likely to fall sharply in 2009.

South African growth is likely to fall sharply in 2009

Figure 6: Household consumption, savings and debt



Source: South African Reserve Bank (www.reservebank.co.za)

Soon after becoming president, Jacob Zuma introduced a planning commission in the Presidency, as promised, but confounded his left-wing supporters by placing Trevor Manuel at its head. He introduced a new Ministry of Economic Development (headed by leftist Ebrahim Patel) tasked with policy

development for the DTI – but it remains unclear what the relative power will be between Patel and Manuel's ministries. Zuma chose not to introduce the 'Council of State', thereby leaving the question of overall responsibility for policy co-ordination unresolved. It is likely that Manuel and the new Minister of Finance (Pravin Gordhan, the ex head of the South African Revenue Services) will promote mildly expansionary fiscal policies, but that Manuel will continue to have as little influence over the labour ministry and the DTI as he had in the past. The chances of a cordinated, labour-demanding growth strategy seem slim, but it is too early to draw firm conclusions.

Creating jobs in a time of crisis?

South Africa is facing an economic emergency: per capita income is falling; the current-account deficit is unsustainable; unemployment is excessive, and likely to rise sharply as the global recession deepens; and rising levels of indebtedness and falling asset prices could destabilise the financial sector and undermine consumption further. There is some fiscal space for expansionary policies, but this can only dampen, and not eliminate, the downturn. As the 2009 South African budget review notes, in economic terms, South Africa's new democracy is facing its most challenging period yet: 'the period of slower growth ahead is likely to be characterised by rising unemployment, declining business profitability and the closure of some companies' (Treasury 2009: 1–2).

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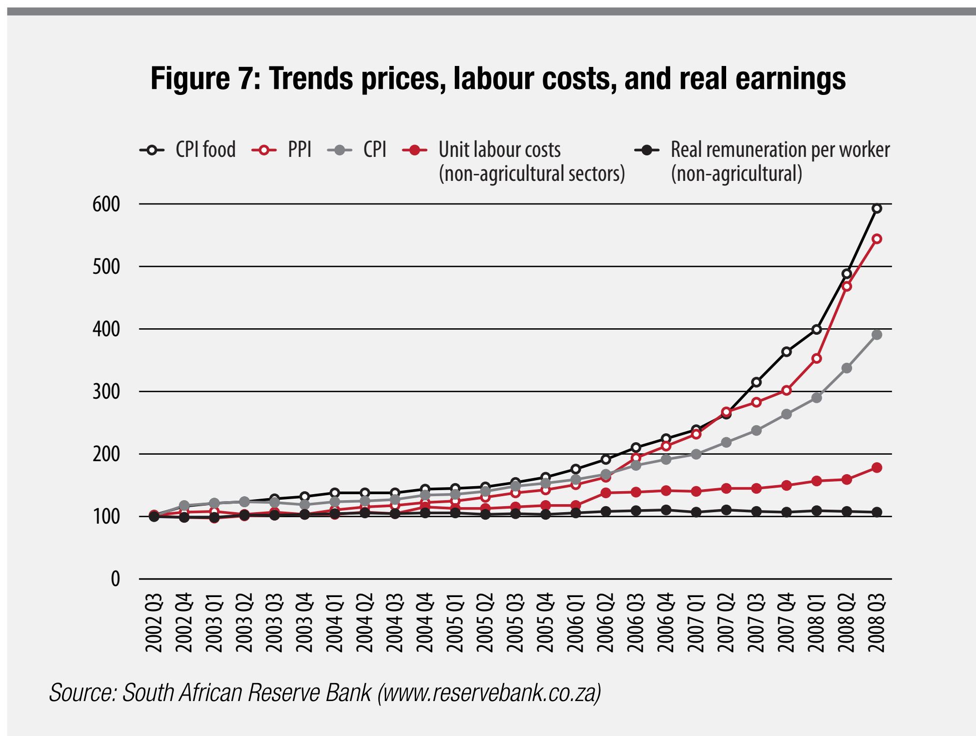
Distributional conflict between labour and capital is likely to exacerbate the situation. As shown in figure 7, in recent years both labour and capital have been adversely affected by rising prices. Unit labour costs (the ratio of total labour costs to output) rose for employers at the same time as real earnings for workers stagnated under the weight of rising food prices. While food inflation is likely to diminish in 2009 (as the global recession takes pressure off commodity prices), general inflation could well be boosted if the rand depreciates (for example, in response to persistent current-account deficits and a likely fall in capital inflows).

Figure 7: Trends prices, labour costs, and real earnings



Source: South African Reserve Bank (www.reservebank.co.za)

Exchange-rate depreciation is, of course, potentially very useful in terms of facilitating greater export production. This is because exporters will be able to offer lower prices in foreign-currency terms, while maintaining the value of their rand earnings. However, if the cost of producing the exports becomes more expensive (because of rising domestic input prices and rising labour costs), then this competitive advantage could be eroded away. This suggests that there may be room for a more 'co-ordinated' approach to maintaining competitiveness and jobs, whereby organised labour agrees to protect profitability by restraining wage increases in line with productivity, business commits to continued investment and to retaining workers as long as possible, and government introduces a set of supportive economic and welfare policies. These latter policies could include: food subsidies; labour-market reforms; a Tobin tax on short-term capital movements (to reduce volatility on the balance of payments); and extending the welfare net by introducing an employment-guarantee scheme, or a basic income grant financed by an increase in value-added tax.

There may be room for a more 'co-ordinated' approach to maintaining competitiveness and jobs

Co-ordinated approaches, in which labour, government and business work together to promote growth and more egalitarian outcomes, are typically found in Europe in general and Scandinavia in particular. In this 'variety of capitalism,' labour markets are more regulated, relations between firms and employees are

longer term and more co-operative, training is more industry- and firm-specific, and wage bargaining more co-ordinated across firms than is the case in the liberal market economies of the United States and the United Kingdom (see, for example, Hall & Soskice 2001; Martin & Thelen 2007). Co-ordinated varieties of capitalism have proven capable of delivering investment and growth despite additional demands on firms (for example, taxes, training, and time spent negotiating) – but only as long as profitability could be guaranteed. The system thus rests on an explicit recognition that labour and capital are in a partnership, and that ensuring competitiveness is the only sustainable way to deliver a steady increase in real wages. Where firms think that labour does not share this vision, then a co-ordinated growth path becomes impossible as they will substitute capital for labour wherever possible, and may even leave the country in search of more profitable opportunities elsewhere.

This suggests that achieving a co-ordinated outcome for South Africa will be very difficult. Most of our labour-market institutions, industrial policies, and associated approaches to training are modelled on European systems (see Seekings & Nattrass 2005). Yet COSATU's rhetoric stresses class conflict rather than partnership, and its discourse of 'decent jobs' appears to be hostile to the very notion of restraining wages. Indeed, there is a widely held view in government and organised business that any talk of moderating wage increases to boost employment and profitability will meet with such implacable resistance from organised labour that the subject is best not even broached. The Harvard Group accordingly pulled its punches with regard to labour-market reforms, and instead recommended that government help firms address the relatively high cost of unskilled labour by providing wage subsidies for new young workers.[11] This, however, was an unfortunate cop-out, because although a wage subsidy may benefit young workers, it avoids addressing the broader incentives facing firms not to hire unskilled labour.

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But is organised labour really so uncompromising? A brief incursion into history suggests otherwise. The wage agreements in 1992 and 1993 in the gold industry demonstrate that organised labour in South Africa is more than capable of concluding agreements which restrain wage increases in order to protect jobs and profits. As this profit-sharing moment in South Africa is of potential relevance for today, it is worth a brief historical digression.

The late 1980s and early 1990s were very difficult times for the gold-mining industry. Due to falling grades, rising costs, and a falling gold price, profit per ton of ore milled dropped by 80 per cent between 1985 and 1992. Workers were hurt too, as employment fell by 23 per cent, and real wages stagnated and fell (see Nattrass 1995). In June 1991, a mining summit (including representatives from labour, mine management, and government) was convened to address the crisis. According to Tom Main (1991: 4), the chief executive of the Chamber of Mines, this resulted in the annual wage talks being 'characterised by a new sense of economic realism, reflected in the lower basic wage increases agreed on, with certain mines agreeing to pay bonuses depending on movements in the gold price and in productivity at mine level.'

Commenting on the 1991 gold performance agreements (whereby workers agreed to a real wage decline, plus productivity- and price-related bonuses), Marcel Golding, the then acting general secretary of the National Union of Mineworkers (NUM), noted: 'The choice we had to make was whether to drive a higher wage increase with less employment in the industry as a real prospect – or whether we tried to achieve maximum employment, and at the same time augment wages and win social rights.'[12]

The challenge today is for all parties to look beyond their own narrow interests and help chart a way forward that creates more jobs

These agreements, however, proved complex to administer (as the productivity indicators varied from mine to mine), so in 1992 and 1993 the NUM opted for profit-sharing agreements with key mining companies (notably Anglo American) instead (Nattrass 1995: 864). By tying wage increases to profitability, workers were able to ensure that their wages rose as fast as possible – and with a minimal impact on employment. Unfortunately, this innovative moment in South African history only lasted for three years. It fell apart because there were concerns about the process of profit sharing, about its apparent contradiction with socialist ideals, and because union officials were concerned about the potentially divisive effect of having the more profitable mines pay workers relatively higher wages.[13] Even so, it demonstrates that even South Africa's most militant trade unions are capable of concluding agreements which recognise the trade-offs among wages, employment, and profitability. The challenge today is to recreate that sense of partnership in a time of crisis, and for all parties to look beyond their own narrow interests and help chart a way forward that creates more jobs (rather than just protecting the jobs that already exist).

If we cannot forge a more solidaristic approach to growth, South Africa will continue along its current path where firms have little incentive to hire

unskilled workers, where jobs for the skilled and semi-skilled will increasingly be threatened by the global recession, and unemployment will remain high. This means that more and more pressure will be placed on the government to expand the social-welfare net as the number of taxpayers stagnates. Currently there are 5,4 million individual taxpayers and 13,4 million people on social grants in South Africa, with this expected to rise to 15 million by 2011/2012 (Treasury 2009: 15, 57). South Africa already has the most generous and redistributive welfare system in the global South, yet even so, it fails to provide sufficient cover for the unemployed. Of the 5,2 million unemployed in 2008,[14] less than 10 per cent received any short-term assistance from the Unemployment Insurance Fund (UIF) during 2008.[15] In other words, we will continue to live in a society where for every one taxpayer there are three social-grant beneficiaries, and one able-bodied unemployed adult wanting to work. Not only is this economically sub-optimal, but it is extremely socially undesirable to have so many people wanting to work, but being marginalised and excluded by an economy that benefits some, while excluding so many.

The 2009/2010 government budget will help cushion the problem by boosting demand, expanding the public-works programme, assisting small business and farmers, and expanding the welfare net. But this is likely to have only a marginal impact in the short to medium term. The 5 million or so unemployed South Africans without any income will thus continue to rely on friends and family for food and hand-outs. They will probably exacerbate South Africa's crime problem, and they will slowly swell the ranks of the 'informal sector'.

We will continue to live in a society where for every one taxpayer there are three social-grant beneficiaries, and one able-bodied unemployed adult wanting to work. Not only is this economically sub-optimal, but it is extremely socially undesirable

Of South Africa's 13,7 million employed, 4,7 million are informal. This is likely to grow as small businesses find their profits under pressure and attempt to avoid the labour regulations. Opportunities will therefore open up for some of the unemployed over the medium term (although employers may prefer illegal immigrants, as these workers are unlikely to report employers to the authorities). South Africa will start to look more and more like a Latin American economy (where a large informal sector exists alongside the formal sector) as the informal sector grows to provide some income floor for unemployed people and struggling businesses.

This 'Latin Americanisation' of the South African economy is likely to be slow, as South Africa already has a highly competitive and concentrated retail sector, which restrains income-earning opportunities for small informal retailers,

and which puts pressure on producers to restrain their prices. Also, if the Department of Labour responds by increasing its inspectorate, prosecutions (and threat of prosecutions) could act as a further dampener to the growth of the informal sector. But the pressure for less regulated forms of employment will probably be inexorable, and government officials will find it harder to police infringements of labour laws. There is thus a good chance that South Africa will become more like Latin America, where officials tolerate a large sector of business activity in which the usual labour and other standards are effectively ignored.

Avoiding this scenario would require an end to the current stalemate in which organised labour prioritises job quality over quantity, business has little incentive to invest in job creation, and government economic policy fails to encourage labour-intensive growth.

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Endnotes

1 According to the official definition of unemployment (which counts people as unemployed only if they are actively looking for work), the unemployment rate in the third quarter of 2008 was 23,2 per cent. If you include the discouraged work-seekers (those who want work but have given up looking), then the unemployment rate rises to 29,2 per cent (Quarterly Labour Force Survey, http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2008.pdf).

2 The Basic Conditions of Employment Act provided for longer annual and family leave (thus increasing the indirect cost of employing labour) and reduced hours of work (thus increasing hourly fixed costs). The overtime premium was also increased, with the result that overtime labour costs rose to two and a half times that in comparable middle-income countries (Barker 1999: 19).

3 Tariffs in manufacturing were reduced sharply, from 23 per cent in 1994 to 8,6 per cent in 2004, and import penetration (the percentage of exports in GDP) rose from 16 per cent to 26 per cent between 1990 and 2006 (Edwards 2005; Edwards & Alves 2006).

4 See Bhorat and Van der Westhuizen (2009) for a discussion of the problems caused by the CCMA. They argue that the CCMA has been a bigger problem for employers than other labour legislation. However, they underestimate the negative impact of the bargaining-council system by relying on empirical analyses of existing wages and jobs, without considering the forces (including the incentives arising from the industrial conciliation machinery) which shaped the structure of employment in the first place. Those who argue that the labour legislation has not had a negative impact on employment growth have yet to explain convincingly why there are so few low-wage unskilled jobs for South Africa's millions of unemployed people.

5 See http://www.info.gov.za/asgisa/ for more details.

6 Note that this is an unrealistic projection – it is provided for illustrative purposes only. As Frankel et al (2008) have shown, it would be impossible to achieve this growth path, because it would require either unsustainable and unrealistically high export growth, or domestic consumption contraction, to finance it.

7 The findings and background papers are available on the SA Treasury website at: http://www.treasury.gov.za/publications/other/growth/default.aspx.

8 A recent report by the Competition Commission (2008) highlights problems of collusion in the food sector, telecommunications, steel, and liquid fuels.

9 Interview with a business representative at the meeting (21 January 2009).

10 http://www.pretorianews.co.za/?fSectionId=672&fArticleId=vn20081113111453382C523951; http://www.fin24.com/articles/default/display_article.aspx?ArticleId=2421815.

11 I have it on good authority from people inside the Treasury and in the Harvard Group that these political concerns about resistance to labour-market reforms and wage restraint from labour had an impact on the final report.

12 Interviewed in *The South African Labour Bulletin* (1991: 19).

13 Personal communication with NUM officials.

14 This figure comes from the Quarterly Labour Force Survey, which estimates that in mid-2008 there were 4,1 million unemployed people actively searching for work, and a further 1,1 million discouraged work-seekers – that is, those who wanted work but had given up looking for it. See http://www.statssa.gov.za/publications/P0211/P02113rdQuarter2008.pdf.

15 According to the 2009 Budget Review, there were 442 000 beneficiaries of the UIF in 2008/2009 (Treasury 2009: 93).

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