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Reflections on current issues

Skills

Wage bargaining

Privatisation and Social services

South African Reserve Bank

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Why the new *Labour Markets and Social Frontiers* series?

South Africa's macroeconomic framework seeks to stimulate economic growth through, *inter alia*, financial stability. It is envisaged that with commensurate monetary and fiscal policy instruments, this will benefit the majority of South Africans by improving their living standards.

The South African Reserve Bank (SARB) is the unique and independent authority mandated with fostering financial stability. The Bank recognises the need to better understand how its mandate interplays with broader socio-developmental forces in the country.

Though it needs to protect its autonomy without fear, favour or prejudice, the Bank seeks to be transparent in policy formulation and to communicate the basis for its policy direction and decisions.

Through publications such as this new series, *Labour Markets and Social Frontiers,* the SARB

- reaches out by engaging with broader labour market and social development issues in order to develop a holistic, more integrated knowledge base and policy oversight,
- offers the opportunity for stakeholders to share their perspectives on monetary policy vis-à-vis labour markets and social development debates,
- encourages a wider readership to include a broader spectrum of labour, community and social partners, and
- aims to create an awareness of how monetary policy interacts with labour markets and social development dynamics.

After all, the ultimate aim of the Bank's contribution is to see all South Africans benefiting through more and higher quality jobs, economic 'mainstreaming' and better standards of living. This, in turn, minimises the threat that social and political destabilisation might pose to price stability and sound financial systems and markets, inspires greater investor confidence and promotes a thriving, globally competitive economy. It is for these reasons that this series was initiated to provide a platform for information sharing and for eliciting ideas from professionals, researchers and practitioners.

Contributions are invited for publication in this new venture, which will be published twice a year. In an effort to improve the series as a platform for dialogue, your response to the accompanying questionnaire will be appreciated.

Contents

The macroeconomic context of this pilot issue

South Africa is a country of many worlds. The majority of its population suffered the most severe legacies of Africa's past, alongside living standards that match some of the highest in the First World.[1] After Brazil, this country was the second-most unequal society in the world in the late 1990s.[2]

In spite of its turbulent history and the legacies it now has to unravel, this country has managed to formulate a most progressive and socially sensitive constitution, solid economic and social policy frameworks and well-designed systems for service delivery. What is most important is that the government, business, labour and community organisations are working together more closely than ever before, to realise the national ideals of economic prosperity and social wellbeing for all.

Despite government's achievements of sound macroeconomic fundamentals through fiscal prudence and a well-managed monetary policy framework, the majority of South Africans have not yet assumed their rightful place in the mainstream economy. From the monetary policy perspective, the direct and indirect interaction between financial stability and social and labour market spheres are of particular interest.

This pilot issue covers selected topics that have both direct and indirect ramifications for monetary policy and financial markets. The themes relate to privatisation, the recent wave of wage negotiations, productivity, transition in the labour markets and trade unionism in South Africa, as well as the current topical debates on land issues and social services.

As the economy becomes more open, market-driven and globally competitive, it has to overcome the limitations of a severely unskilled labour force. In an effort to undo the injustices of the past, the initial labour legislation, policies and institutional mechanisms, such as bargaining councils, have had an important effect on the labour market. Recent amendments have managed to ease the tension between business and labour in a bid to attract more investment. The nature of collective bargaining is likely to change profoundly as the labour force becomes better skilled, as employee shareholding broadens and, necessarily, the trade union constituency expands at higher job levels. This volume analyses these dynamics and their possible impact on wage setting, productivity and competitiveness.

South Africa is poised to play its part in Africa's move towards prudent economic management, political discipline and leadership, good governance, and recognition and respect for constitutionality and the rule of law. The land invasions in Zimbabwe, as one of the factors that could have contributed to the sharp depreciation of the rand in mid-2001, epitomise the undesirable consequences that have to be avoided at all costs to secure domestic and regional financial stability and socio-economic success. The discussion draws attention to the need for oversight and management of possible consequences for the financial sector.

Through the issues raised, this series seeks to highlight key linkages and to stimulate further research and debate between the economic and social policy spheres.

1 World Bank Group: South Africa. *http://www.worldbank.org/afr/za2.htm(2000)* (accessed November, 2001).
2 May, J. 1998. Poverty and inequality in South Africa. *Report prepared for the office of the executive deputy president and the inter-ministerial committee for poverty and inequality,* 13 May 1998, Pretoria.

Skills, wages, inequality and unemployment – no short-term solution

One of the greatest challenges facing the South African economy is its present inability to create adequate, well-paid and sustainable employment. The estimated official unemployment rate[1] decreased slightly from 26,7 per cent in February 2000 to 26,4 per cent in February 2001. Studies show that close to 90 per cent of the unemployed are African and 56 per cent female. Furthermore, data suggest that about 70 per cent of the unemployed have never held a job before.[2] These are some of the indications of a structural unemployment problem.

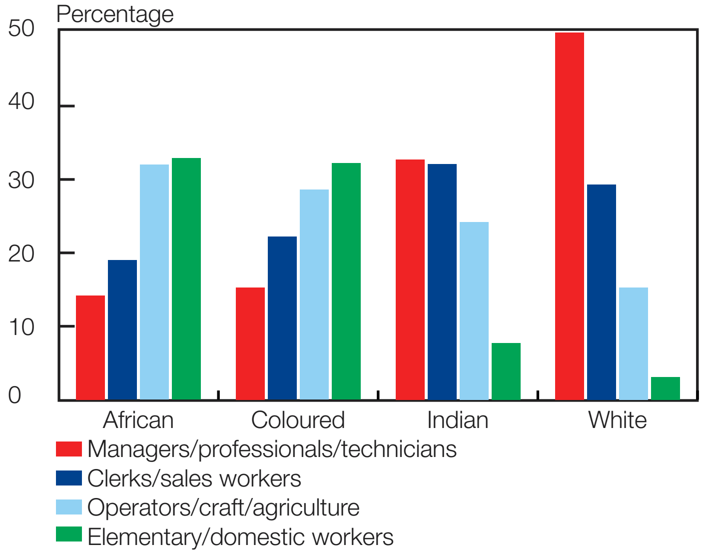
There is emerging evidence[3] that between 1995 and 1999 the adoption of new technologies, especially the information technology revolution, has partially contributed to the economy's employment changes. Changes in production methods, such as greater outsourcing and higher acquisitions of capital stock, have also contributed to the growing demand for highly skilled and semi-skilled workers.

A strong feature of domestic labour force participation is that it is segmented by occupation. As figure 1 indicates, a substantially larger proportion of unskilled workers are found among African and Coloured population groups. The government's skills development strategy recognises the structural changes that are required, for instance, to ensure that the skills requirements in the market are met. It is envisaged that the present set of labour legislation, especially the Skills Development Act and the Employment Equity Act, will assist in rectifying these structural imbalances in the long term.

High levels of unemployment persist in fuelling the continued debate about whether wages are high and unrelated to productivity. Real remuneration per worker continued to increase between 1995 and 2000 at an average annual percentage change of 2,7 per cent. Average labour productivity increased even more rapidly at an average rate of 4,9 per cent so that unit labour costs did not increase in real terms. Seemingly the improvement in productivity continues while employment declines.[4]

In South Africa, the wage-bargaining process is characterised by a trend of wage settlements based on a sliding scale, whereby the lowest paid workers receive higher percentage increases. Narrowing the wage gap has been a key concern of the trade union movement. It is likely to receive greater focus as wage differentials come under scrutiny within the present set of institutional frameworks, especially the Employment Equity Act. In line with international trade union trends, sliding-scale wage bargaining is expected to have a positive effect by reducing wage inequality.

Figure 1: Occupational composition of population groups (1999)



Source: Statistics South Africa (SSA). 2000. *October Household Survey, 1999*. Pretoria.

However, the most notable change in labour market conditions across differently-skilled groups in recent years has been a substantial increase in the demand for skilled labour. Wages for low-skilled workers have not increased concurrently, and have actually fallen in real terms in some countries, particularly in the United States (US).[5] It can be construed, therefore, that the introduction of sliding-scale wage increases, although positive in reducing wage inequalities, is not necessarily a solution to the problems of skills shortages and structural unemployment.

1 Statistics South Africa. *Labour Force Survey*, February 2001. Pretoria. (p. xi). Statistics South Africa uses the following as its official definition of unemployment: 'The unemployed are those people within the economically active population who: a) did not work during the seven days prior to the interview, (b) want to work and are available to start work within a week of the interview, and (c) have taken active steps to look for work or to start some form of self-employment in the four weeks prior to the interview.' The expanded unemployment rate excludes criterion (c).

2 Bhorat, H. 2001. *Labour market challenges in the post-apartheid South Africa: a country profile.* Development Policy Research Unit (DPRU), University of Cape Town.

3 Ibid.
Abdi, T. and Edwards, L. 2001. Trade, technology and wage inequality in South Africa. *Paper presented at the DPRU/FES 'Labour Markets and Poverty in South Africa' Conference*, Johannesburg.

4 See the article entitled 'Labour productivity and wages – do we have the full picture?' in this volume.

5 Vickery, J. 1999. *Unemployment and skills in Australia*. Reserve Bank of Australia.

Wage inequality is not only a South African phenomenon. International experience shows that there has been a sharp rise in wage inequality in the US and the United Kingdom (UK) during the 1980s and 1990s. This contrasts with other major continental European countries (e.g. Germany, France and Italy) where wage inequality remained relatively stable during the same period, while wage inequality increased at a more moderate pace in Canada and in Japan.[6] At the same time the wage inequality increases were accompanied by a decrease in the earnings gap between men and women. The most popular demand-side explanation for rising wage inequality is that, over the last few decades, technological change has been biased in favour of skilled workers.

There is also evidence[7] that trade unions tended to reduce wage inequality among US and UK males, albeit at different strengths. Studies have also established that de-unionisation contributed to the increase in wage inequality in both the US and the UK in the 1980s. There are two offsetting effects on wage inequality in these countries: the first is that the wage compression policies of trade unions result in lower inequality in the union sector than in the non-union sector. Secondly, since unions raise the average wage in the union sector relative to the non-union sector, they may well increase the inequality between these sectors. It is important to note that gender differences in trade union membership are pronounced in these countries. Where unionisation for women is concentrated in highly skilled public-sector job categories such as teachers and nurses, unions tend to increase wages for women who would otherwise have earned relatively high wages even in the absence of unions. This cannot be generalised to unionised men who are not particularly skilled compared to non-union men.

The relationship between wage inequality and trade union membership trends should remain high on South Africa's research agenda. Trade union membership in South Africa increased by 127 per cent between 1985 and 1995. During the same period, trade union membership worldwide dropped by almost half.[8] Trade union membership is now estimated to comprise 75 per cent of the 4,7 million people in registered (non-agricultural) employment or 26 per cent of the estimated 13,5 million economically active population.[9] Statistics South Africa's estimate of union membership is 31,4 per cent of the 8,8 million workers (excluding the self-employed).[10] There is a need for improved reporting and monitoring of trade union membership in terms of skills, race and gender composition, so as to have informed findings on the causal effects of unionisation on wage inequality in the South African labour market.

Policy enablers and strategies to redress the wage, skills and unemployment nexus - ranging from skills development to immigration policies - are mostly designed to improve the quantity and quality of the supply of labour. Given the free-market approach, further challenges lie in creating incentives to influence the path of labour demand in the economy, for instance, increased research on the relationship between output and employment, and other interrelationships between demand-side factors. These could go a long way towards informing strategies that stimulate the creation of employment opportunities.

In a bid to support inflation targeting, employers, unions and employees have been encouraged to negotiate wage settlements that are not excessively higher than the 6 per cent, upper limit of the set CPIX[11] target. However, the inherited legacy of massive inequalities in the South African labour market could require sliding scales for wage increases to bridge some of these inequalities. As a result, it has become relatively common practice to negotiate wage increases of above 6 per cent for employees at the lower end of the salary scales. However, recent wage negotiations have focused on productivity-linked incentives and this could mitigate the inflationary impact of higher labour costs by larger increases in productivity. The outcomes of the Skills Development Act could further enhance the desired balance in the labour market. An added spin-off of upgrading the skills levels of employees is the enhancement of South Africa's competitiveness in the global arena.

In the long term it is important to realise that the contribution and co-operation of all stakeholders in the labour market are crucial for the reduction of unemployment, and for finding solutions to the rising demand for skilled labour and competitive wage-setting regimes.

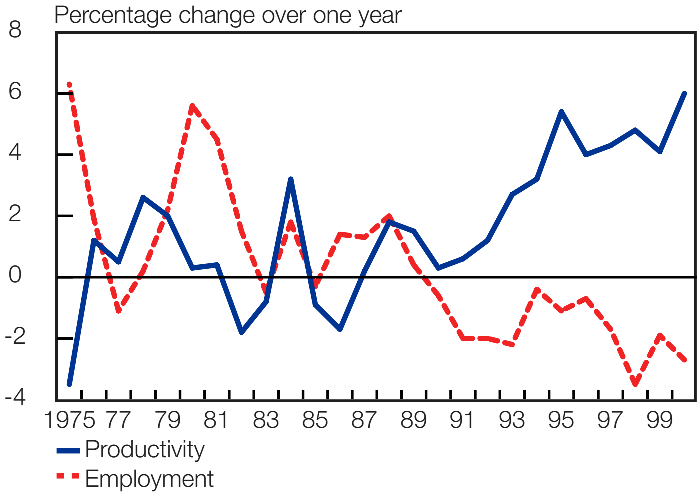
6 Gosling, A. and Lemieux, T. 2001. *Labour market reforms and changes in wage inequality in the United Kingdom and United States.* National Bureau of Economic Research.
7 *Ibid.*
8 P.e.o.p.l.e. 2001. 19*th Annual Report on employee benefits and labour relations in South Africa, 2000-2001.* Johannesburg.
9 NMG Levy. 2001. *The wage settlement survey quarterly report – December 2001.* Johannesburg.
10 Statistics South Africa. 2001. *Labour Force Survey – September 2001.* Pretoria.
11 Overall consumer price index for metropolitan and other urban areas, excluding interest rates on mortgage bonds.

Trends in labour productivity – do we have the full picture?

Improvements in South Africa's productivity are evoking mixed reactions because these increments are not being matched by employment creation in the short run, although they effectively reduce the unit labour cost of production. Instead, productivity increases have occurred alongside reductions in employment (see Figure 2). In the long run, the benefits of this trend could accrue through higher real wages, greater profitability and general growth in real income. In the short term, however, the challenge lies in the progressively lower employment levels. In this context, the pattern should be viewed with caution.[1] Part of the complexity of these trends emanates from measurement limitations.

Productivity increases could be attributed to *inter alia* an increase in the skills capacity of employees, thereby dampening further job creation opportunities within the formal sector in the short term. However, advances in productivity growth could ultimately lead to higher employment growth as a competitive advantage becomes established.

Figure 2: Employment and labour productivity (1975-2000)



Regularly surveyed, formal-sector non-agricultural employment

It is generally agreed that a low and more stable inflation environment, which the Reserve Bank is mandated to foster, is conducive to productivity expansion. It could benefit not only investors and business people, workers and their dependants but also consumers in general. A low-inflation regime minimises uncertainty about future price changes and therefore facilitates sound investment decisions; it enables lower interest rates that facilitate affordable, long-term financing; and it diverts investments away from inflation protection to productive economic activities. Furthermore, subdued inflation levels encourage the containment of production costs as well as prices for consumers.

Productivity growth is a window of opportunity to increase the global market share of countries and to improve the performance competitiveness of firms. In the case of South Africa, the apparent growth in productivity is a desirable trend that could render the country more globally competitive. For the people of South Africa, productivity gains are the basis for higher incomes and rising standards of living.

Productivity trends are a crucial element in an inflation-targeting regime such as that of South Africa. In South Africa, the shift towards productivity-based wage income movements is a commendable and essential pillar in achieving and sustaining low inflation. Wage demands and subsequent settlements over recent years in, for example, Telkom[2] and the automotive industry, were weighed against productivity.

The measurement of productivity itself has become a contentious issue. Labour productivity can be measured as output either per unit of labour or per number of hours worked. The former is the conventionally used method in South Africa. In a situation where a significant number of jobs are shed, this approach does not necessarily provide the full picture of the various aspects of the relative labour input factor. It is simply based on the number of people employed. On the upside, it is superi-

1 The International Labour Organisation (ILO) also cautions generally about labour productivity indicators. See *Key indicators of the labour market* in http://www.ilo.org/public/english/employment/strat/kilm/ind_20.htm (accessed November, 2001).

2 P.e.o.p.l.e. 2001. *19th Annual Report on employee benefits and labour relations in South Africa, 2000-2001.* Johannesburg.

or in that it helps to better capture changes in the size and composition of the work force. By contrast, estimates based on the numbers of hours worked, reflect the intensity of labour usage.[3] It is understandable that the former is more commonly utilised, given the paucity of data. Both methods are complementary and in combination they can yield a fuller picture of the factors behind growth trends in labour productivity.

The measurement of output itself is prone to errors. It is more difficult, for instance, to measure the market value of output in the services sector than in the manufacturing sector – a common phenomenon in all countries.[4] This shortcoming is further compounded by the typical informal/formal segmentation associated with the labour markets of developing economies such as South Africa. Especially until 1999, coverage of the output and labour input of the informal segment was not as reliable as that of the formal segment. Even within the formal sector, contract employment was not adequately enumerated. The launch of the *Labour Force Survey* by Statistics South Africa in 2000 is set to improve this situation drastically.

Although productivity increases in the past several years have come from a very low base, the overall trend in productivity growth augurs well for global and domestic competitiveness, as well as for the productive use of the country's resources, including its work force. It could also provide a firm foundation for better quality of life for workers and their households. The continued improvement in data collection and the measurement of output and productivity will provide a strong basis for making informed decisions on business and policy.

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3 Australian Bureau of Statistics. 2001. *Industry overview – changes in labour productivity.* Commonwealth of Australia.
4 Monnikhof, E. and Van Ark, B. 2000. *Productivity and unit labour cost comparisons: a data base.* International Labour Organisation. http://www.ilo.org/public/english/employment/strat/publ/ep00-5.htm (accessed October, 2001).

Wage settlements and their implications for inflation targeting: 2001 highlights

Recent research[1] and policy analysis on inflation in South Africa have focused largely on demand management. The underlying argument that inflation results from excessive monetary expansion has all but shifted in the South African context.[2] A second approach is that inflation results from cost increases as social groups engage in conflict over the relative shares of output reflected in their incomes – this may result, for example, from real wages and profit margins. These scenarios manifest primarily in wage negotiation institutions and the resultant industrial actions. A reflection on the recent wave of wage bargaining is therefore fitting from an inflation targeting perspective.

It is evident that the duration and frequency of industrial action have followed a declining path recently. This trend can be attributed to the observation that, among other factors, many of the larger trade union movements in sectors such as manufacturing, mining and clothing, which represent the majority of workers, are covered by longer-term wage agreements.[3] This drastically reduces the potential for the conflict usually accompanying the annual wage round, and supports the notion that industrial relations are indeed moving towards a more cordial and co-ordinated environment.

The primary objective of monetary policy in South Africa continues to be the maintenance of financial stability and the reduction of inflation to rates which are more in line with those of the country's main trading partners. Inflation reduction has also been facilitated by non-monetary policy developments such as more moderate wage settlements and improved industrial relations.

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1 Bhorat, H. and Gelb, S. 1999. *Wage-price interactions and inflation dynamics in South Africa*. University of Cape Town.
2 SARB. 2000. *Annual Economic Report.* 'The introduction of inflation targeting was partly influenced by structural changes in the financial system in recent years which altered the transmission mechanism in the economy and weakened the more stable relationship that had previously existed between changes in the money supply and in bank credit extension on the one hand, and in nominal spending on goods and services and prices on the other hand.'
3 P.e.o.p.l.e. 2001. *19th Annual Report on employee benefits and labour relations in South Africa, 2000-2001.* Johannesburg.

South Africa's recent experience has been that the potential inflationary impact of wage increases continue to be offset by growing labour productivity. The challenge is to sustain the growth in labour productivity with sensitivity to changes in real wages, within a regulatory framework that provides stability and protection to workers. Table 1 summarises and highlights the inflationary implications of the more prominent wage disputes and settlements during the latter part of 2001.

Table 1: Summary of recent industrial disputes and settlements

Sector	Trade union membership as % of total employment in each sector (actual no. in brackets)*	Wage settlements	Implications for inflation targeting
Public sector	• 58,3 (1 062 000)	• Pay agreement signed. In terms of the agreement, public servants receive an increase of between 6,5 and 8 per cent on a sliding scale and an R850 one-off bonus. • Negotiations are continuing on possible retrenchments as a result of government restructuring of the public sector.	• Although the increases are above government's inflation targets, the agreement is not expected to put pressure on the public finances.[4]
Manufacturing (Motor vehicle-tyre)	• 37,5 (516 000)	• Wage settlement effectively set at 9 per cent, with an 'improvement factor'[5] of 0,75 per cent for years 2 and 3.	• Although higher than inflation target, the multi-year approach is linked to the CPIX in years 2 and 3 of the contract period.
Manufacturing (Clothing and textiles)	• 37,5 (516 000)	• Wage settlement set at 5 per cent plus a R250 *ex gratia* payment to each worker.	• Wage increases in line with inflation target.
Mining (Platinum)	• 75,6 (379 000)	• Multi-year wage settlement set at 9,5 per cent in year 1, and 9 per cent in year 2.	• Wage settlements above inflation target. • More in line with high international price of platinum.
Manufacturing (Steel and engineering)	• 37,5 (516 000)	• Multi-year wage agreement of 9 per cent for the lowest grades and 8 per cent for the higher earners. • Pioneering agreement on substantive linkages to workers' skills development.	• Wage increase above inflation. • Linked to skills development.

* Source: Statistics South Africa. *Labour Force Survey, February 2001.* Pretoria.

4 South African Reserve Bank. 2001. *Monetary Policy Review,* October. The Medium Term Expenditure Framework estimates the deficit to GDP to be -2,5% and the public-sector borrowing requirement to be 1,3% for 2001/02.
5 The improvement factor is linked to fluctuations in the inflation rate.

Potential for sectoral growth: the case of the automotive industry

The automotive industry experienced one of the most drawn out wage-bargaining processes in 2001. Its performance in exports and its contribution to the general economy merit closer scrutiny, particularly with regard to its relative potential in the manufacturing sector - both in terms of growth and, in the longer term, employment creation.

Table 2: Ranking of vehicle-producing countries (1999 – 2000)

Rank	Country	Production (Total vehicles)	% of world production (58 392 376 units)
1	US	12 799 857	21,92
2	Japan	10 144 347	17,37
3	Germany	5 526 615	9,46
4	France	3 348 351	5,73
5	South Korea	3 114 998	5,33
8	China	2 069 069	3,54
9	Mexico	1 934 927	3,31
12	Brazil	1 671 093	2,86
13	Russia	1 202 589	2,06
19	South Africa	357 364*	0,61

* (Includes 68 031 vehicles for export)

Source: National Association of Automobile Manufacturers of South Africa (NAAMSA). 2001. *Annual Report 2000/01.* Pretoria.

The Government's Motor Industry Development Programme (MIDP) introduced in 1995 has, at least in the short term, stabilised the industry in terms of employment and improved exports. The MIDP is aimed at the development of an internationally more competitive and growing automotive industry which should be able to provide high quality and affordable vehicles and components to the domestic and international markets, as well as sustainable employment through increased production. The challenge in this sector lies in the integration of government policies, such as the MIDP, with supportive measures aimed at improving the skills base and overall competitiveness. In addition, healthy labour relations at the shop-floor level could be the key to a sustainable automotive industry.

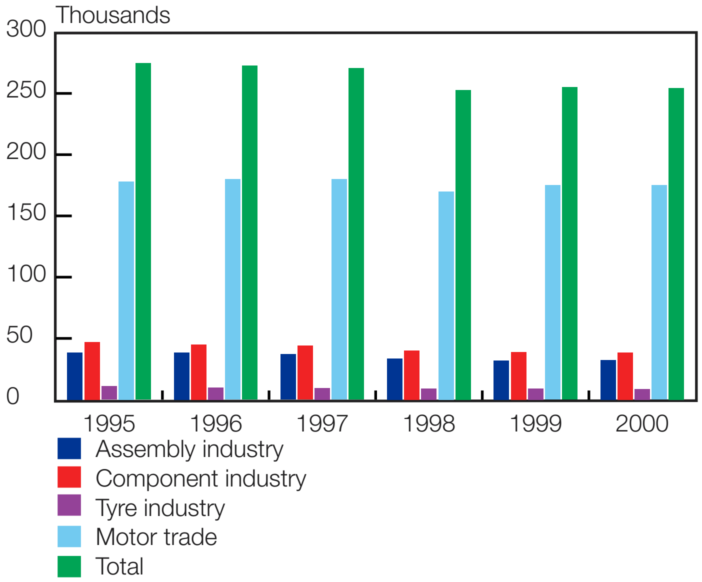
The SARB *Annual Economic Report 2001*[1] indicates that the low level of the exchange rate of the rand since the beginning of 2000 has boosted manufactured exports. Manufactured output responded to the growth in demand and expanded at an annualised rate of more than 3,5 per cent in the second half of 2000, but then slowed down to about 2 per cent in the first half of 2001. Among the subsectors that benefited most from the strong export demand were car manufacturers and the producers of chemical products and electrical equipment.

Statistics on world vehicle manufacturers show that the economy is at this stage far from competing effectively with other emerging-market players such as South Korea, Brazil and Russia (see Table 2). However, component exports have continued their significant contribution to the globalisation of the industry. Total component exports, including catalytic converters, stitched leather components and tyres, were worth R9,7 billion in 1999. Germany remains, by far, the largest export destination for SA components, followed by the UK, US and Belgium. The European Union (EU) as a trade bloc was the destination of nearly 74 per cent of South African component exports in 1999.[2]

1 South African Reserve Bank. 2001. *Annual Economic Report.* Pretoria. (p. 9).
2 Department of Trade and Industry, www.dti.gov.za (accessed November, 2001).

The recent wage-bargaining strikes in the motor industry have raised fears that the industry could be negatively affected. However, major indicators show that the worst may be over as job losses seem to have stabilised over the past two to three years. In addition, recent wage disputes seem to have been fuelled by increased output. Automotive production, including vehicles produced for export, expanded by 9,6 per cent in South Africa compared to a global automotive production increase of 3,8 per cent in 2000.

Figure 3: Automotive industry employment levels: monthly average by major sector (1995-2000)



Source: National Association of Automobile Manufacturers of South Africa (NAAMSA). 2001. *Annual Report 2000/01*. Pretoria.

The number of people employed by the South African new-vehicle manufacturing industry – comprising seven major manufacturers of new vehicles and eight manufacturers of specialist commercial vehicles – was 32 698 as at June, 2001. The average monthly employment level for the vehicle assembly sector for 2000 was 32 280.[3] The overall automotive industry average monthly employment level for 2000 was more than 250 000 (see Figure 3). Gains through job creation are yet to follow the rising output and production levels in the local motor vehicle industry. A sustained move towards greater competitiveness in this industry positions it well for growth in employment and skills. The establishment of a joint industry task group to promote good relations at all levels in the industry is a step in the right direction.

Relative inflation between South Africa and its trading partners is a crucial indicator of its competitiveness. South Africa's inflation rate is higher than in high volume producing countries such as the US, Japan and Germany. Ideally, a further reduction of inflation would be positive for this industry to complement currency competitiveness. Over and above the potential for the automotive industry to contribute to GDP growth and generate employment, the harmonisation of industrial relations, as well as inflation-linked wage setting, could bring it closer to the desired ends. Though acting in favour of the export sector, the depreciation of the exchange value of the rand may introduce factors that exert general inflationary pressures. Nevertheless, there is optimism about the role that the automotive industry can play in the general economy.

3 Ibid.

From rocky labour relations to a regulated and stable wage-bargaining regime – prospects?

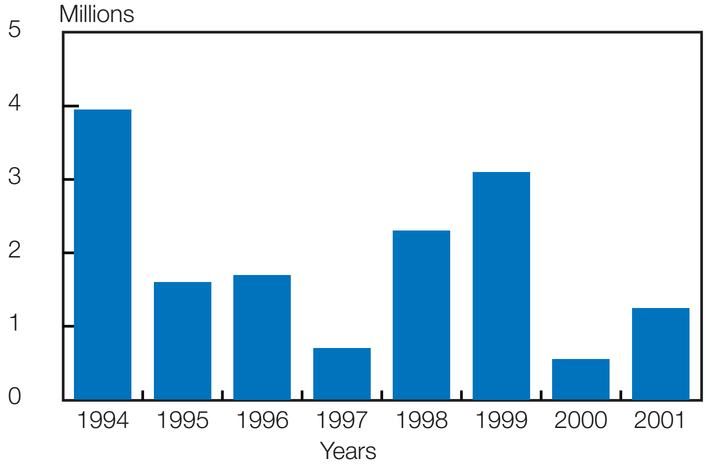
Labour relations in South Africa have shifted from an adversarial approach to a more harmonious interaction between labour and business. Institutions such as the Commission for Conciliation, Mediation and Arbitration (CCMA) continue to play an important role in ameliorating and normalising the country's industrial relations. At the same time, a number of positive regulatory measures are geared towards stabilising the situation further, in addition to enhancing the country's competitiveness.

The duration of strikes in South Africa is declining.[1] In 1999 3,1 million man-days were lost because of labour disputes, but in 2000 the number fell to 0,5 million or by almost 84 per cent - the lowest level for almost two decades. In 2000 the mining industry had the most strikes, followed by the security industry and manufacturing. Subsequently, man-days lost rose to 1,25 million in 2001. This could be due to 2001 marking the end of a multi-year wage negotiation cycle for the larger trade unions.

The setting is characterised by a number of features, for example, the terms of employment for thousands of workers are set within a collective negotiating framework by sector. The current system works through 78 bargaining councils which are joint sectoral structures consisting of the country's 260 registered employers' organisations and 499 trade unions. Decisions about wage levels and conditions of employment are taken through collective bargaining. Historically, the South African trade union movement has played an important political role, hence the wage-employment trade-off was not necessarily seen as the only priority on their bargaining agenda.

The important question is whether the labour market and industrial relations policies contribute to the sort of society South Africans envisage for the future. In very broad terms, there are different views of the best configuration of a particular system of labour market institutions and industrial relations. One view supports the shaping of labour market outcomes directly by supply and demand factors. A different perspective supports the maintenance of the existing system of collective bargaining or a modified version of this system, supplemented perhaps by changes to speed up and sharpen labour market responses to the monetary instruments applied in the economy. The former view is characteristic of the US labour market regime whereas the latter is associated more with the European style of industrial relations.

Figure 4: Man-days lost through strikes (1994-2001)



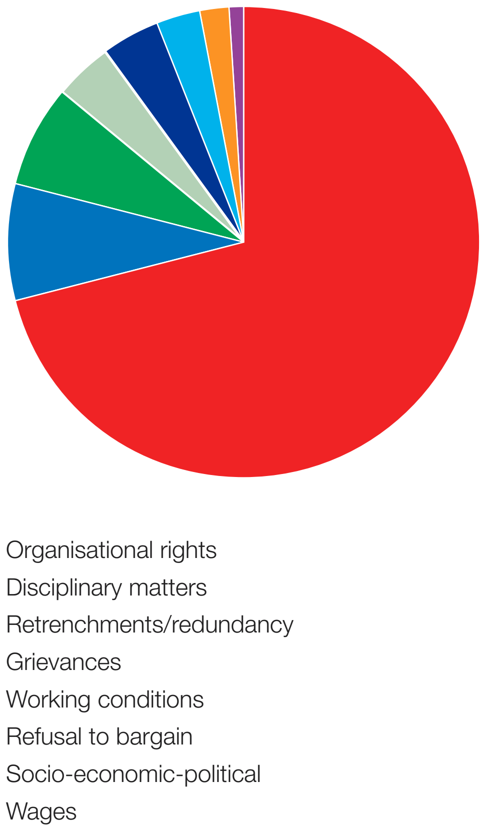
Sources: P.e.o.p.l.e. 2001. 1*9th Annual Report on employee benefits and labour relations in South Africa, 2000-2001*. Johannesburg.
NMG. Levy. 2001. *The Wage Settlements Survey Quarterly Report – December 2001.* Pretoria.

1 P.e.o.p.l.e. 2001. *19th Annual Report on employee benefits and labour relations in South Africa, 2000-2001.* Johannesburg.

The debate around trade union power and its impact on wages and indirectly on inflation and employment is indeed a complex one. In the US, market-driven wage determination covers a relatively greater number of workers than in Europe. In other words, collective bargaining plays a less important role in the US than in European countries. The UK has evolved closer to the US labour system through the 1980s and 1990s because of changes to trade union regulatory measures.[2]

The present collective-bargaining process should be seen and understood in its own historical context. It was initially geared to eliminate race and gender differences in wages and other adverse socio-economic conditions. The present partnership between labour, business and government creates a firm foundation for a market-based approach. It would also address pertinent economic and labour market issues, such as strengthening the skills base and employee welfare, employment creation, increasing productivity, reducing inflation and fostering a robust increase in the country's economic growth.

Figure 5: Reasons for labour disputes, (1998)*



Source: Department of Labour. 1999. *Industrial Action in 1998 - Annual Report.* Pretoria.
* Latest official data

2 Gosling, A. and Lemieux, T. 2001. *Labour market reforms and changes in wage inequality in the United Kingdom and United States.* National Bureau of Economic Research.

Research and longitudinal studies should underpin the privatisation debate

Panel data studies can go a long way towards informing the ongoing debate about the impact of privatisation on the South African economy and society as a whole. Given the present government's relatively short experience in broad macroeconomic management, its handling of privatisation continues to be strongly contested by the labour movement. The government insists that its overall strategy is not wholesale privatisation but a restructuring of state assets.

This consists of

- part privatisation, in the form of private/public partnerships (Telkom, South African Airways, Airports Company);
- full privatisation of some assets (Sun Air, some South African Broadcasting Corporation radio stations); and
- corporatisation of some state assets (South African Post Office, Alexkor Diamond Mine and Eskom).

The trade union movement believes that private-sector participation should be based on a commitment to build the capacity of the state. Generally, the Congress of South African Trade Unions (COSATU) argues that it is not opposed to exploring an appropriate role for the private sector to play, as long as the state does not relinquish its ultimate responsibility for the delivery of basic services. Cosatu has called for an immediate moratorium on all current and pending privatisation initiatives.

The globalisation of the South African economy should be shaped in such a way that it could take its rightful place in the global economic system. Privatisation, some argue, is partly the solution to this global integration, in that it is likely to attract the foreign investment associated with technology. In the short term, high technological investment could boost productivity, increasing the likelihood of economic growth. In the medium to long term, it is expected that privatisation would create sustainable jobs and improve the quality of service delivery. Meanwhile, the trade union movement is more concerned with short-term job losses as a result of privatisation. Since privatisation is also associated with improving the efficiencies of state-owned organisations, redundant jobs are likely to be shed in the short term. The question that persists is what happens to the employees who become retrenched. Indications are that retrenchments occur concurrently with employment shifts. These in turn are associated with growing informalisation, outsourcing and externalised labour brokerage.

The pros and the cons of this debate are unlikely to be satisfactorily resolved without adequate and appropriate research supplemented by relevant data collection. The privatisation debate is less likely to have any meaningful impact on the policy implementation process if positions are not informed by rigorous and scientific research. Longitudinal studies, for example, could inform users by tracking whether retrenched employees are re-employed within the formal sector or are absorbed into the informal sector. At the same time, such studies could show trends in the quality of and access to services and overall employment creation of privatised institutions. The *Labour Force Survey* – which examines unemployment and employment in both the formal and informal sectors – is a step in this direction. It gathers detailed information using a probability sample of households and attempts to match them in a panel analysis across the country.

Knowledge management, research and labour market intelligence have never been more crucial than at present. For instance, there is no consensus about the reduction of employment in the public sector as a direct result of the process of 'restructuring' which is aimed at raising the quality of public service delivery. Declines in employment were recorded at all levels of the public sector in 2000, ranging from 0,3 per cent in local government to 8,4 per cent in government transport, storage and communication. By contrast, private-sector employment recorded an increase of about 2 per cent in the transport, storage and communication sector. This is the second consecutive year of increase in this sector. Public-sector employment contracted further at a rate of 1,9 per cent in the year to September 2001. The case in point is that, within similar industries, employment is evidently shifting from the public to the private sector.

The challenge for research is to use longitudinal or panel studies to systematically track what happens to retrenched workers. Where permanent job losses are apparent, innovative ways of recapturing the retrenched should be studied, tested and implemented. Better still, information about current best practices on proactive or preventive skills development and other interventions, should be shared and replicated. The existing structures for social dialogue, such as the National Economic Development and Labour Council (NEDLAC), should be strengthened. The consolidation of existing data sources, their quality and accessibility, should lead to a well-structured labour market information system for South Africa at this juncture.

Privatisation and the delivery of social services

South Africa is a country of vast inequalities. For millions of South Africans, for example, an electrified brick house with running water and a good sewerage system remains elusive. The government seems set to go ahead with restructuring as a means of raising the effective delivery of social services. Labour and non-governmental organisations (NGOs) – as the government's social partners - however, insist that the parastatals responsible for providing basic needs such as water, electricity and telephones should not be privatised, lest the poor no longer have access to these services and more jobs become lost.

The main objectives of the government's privatisation initiatives are to facilitate economic growth; promote the development of historically disadvantaged communities; and extend private ownership of state-controlled assets to employees and to previously disadvantaged persons. Privatisation is also expected to lead to a reduced national deficit financing, to promote skills transfer and to finance the competitiveness requirements such as technology. It is envisaged that this will lead to a more globally competitive economy.

From a monetary policy perspective, the 'sale' of state-owned assets could raise liquidity to wipe out the net forward position in foreign currency and also lead to the stimulation of domestic investment.

Although organised labour disagrees with the state's approach and has staged a countrywide march to record its objections, it has reaffirmed its commitment to renegotiating around the table. The trade union movement indicates that there are alternative ways of dealing with the problem. The movement furthermore argues that there is nothing inherently inefficient about the public sector that prevents it from being cost-effective, or denies it the capacity to use new technology.

In the interest of global competitiveness of state-owned enterprises and efficient delivery of social services, the government has initiated the process of restructuring these enterprises.

Further to the government's restructuring and corporatisation strategy, it also put in place measures to help cushion the poorest households from the possible short-term adverse effects of the process. About half of South Africa's local councils are expected to provide each household with 6 000 litres of 'free' water each month. The Minister of Energy and Mineral Affairs proposed that households connected to the electricity grid should receive 50 kilowatt-hours (kWh) free per month and off-grid rural homes would get a monthly grant of R40.

Some issues arising:

- In the CPIX[1] basket of commodities, administered-price services such as health, electricity and telephone tariffs tend to exert inflationary pressures.[2] The privatisation of such services could, to some extent, introduce a more market-driven pricing mechanism.

- The 'free basic services' approach should be implemented and controlled so that only those in genuine need receive the subsidy. The administrative implications pose daunting management and capacity challenges for local government.

- Social service subsidies and safety nets are imperative to ensure that poor households are not ignored as a result of commercialised services. These have to be balanced with the requisites of fiscal prudence and financial stability.

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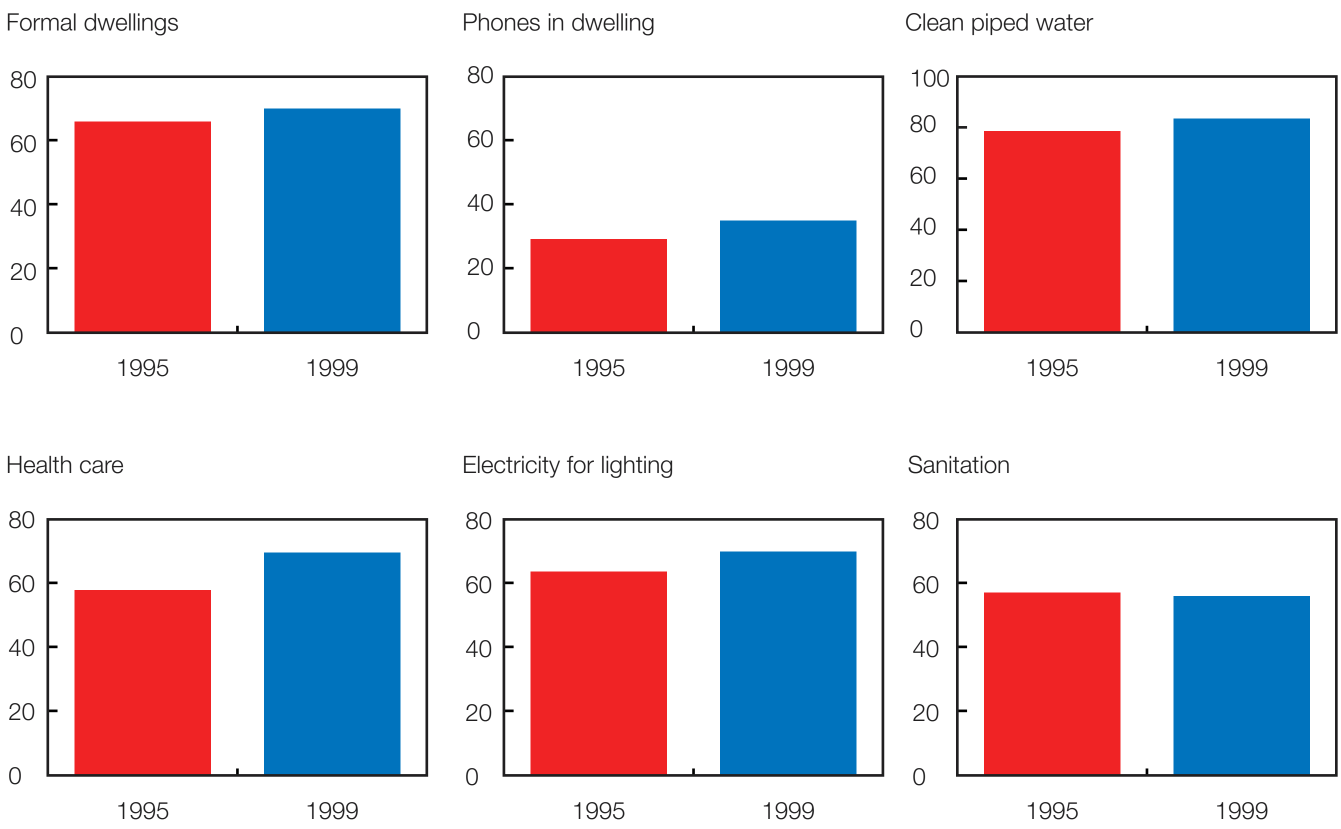
1 Overall consumer price index for metropolitan and other urban areas, excluding interest rates on mortgage bonds.
2 South African Reserve Bank. 2001. *Monetary Policy Review,* October. 'In the period since January 2000, inflation measured in terms of the administered price index has consistently been above that measured by CPIX.'

Figure 6: Per cent access to social services (1995-1999)



Source: Statistics South Africa. 2001. *South Africa in transition*. Pretoria.

Water delivery successes

Some successes in water reticulation worth noting:

- Since 1994, services have been delivered to some 6,5 million people at a cost of R4,4 billion.
- 5,6 million of these people received full RDP-standard delivery.
- 800 000 people have bulk schemes awaiting final reticulation.

It is expected that within seven years, all South Africans will have access to clean water.

Source: BusinessMap. 2001. New Policy Directions in South Africa. Water: Balancing priorities. *http://www.businessmap.co.za* (accessed in October 2001).

The land question

The extent to which inequitable access to land for productive use affects social stability remains a highly contentious issue. Efforts to redress land inequality have shown varied consequences in the history of many countries throughout the world. It is when these consequences are perceived to also impact on the financial stability and general global competitiveness of South Africa that land becomes an issue in macroeconomic discourse.

Whether rural residents should continue to be subjects, while their counterparts in urban areas enjoyed their full citizenship rights, was one of the concerns vigorously debated at the recent Land Tenure Summit held in Durban. One of the government's biggest challenges is how to give the one-third of all South Africans who live on communal land, the security of tenure demanded by the Constitution.

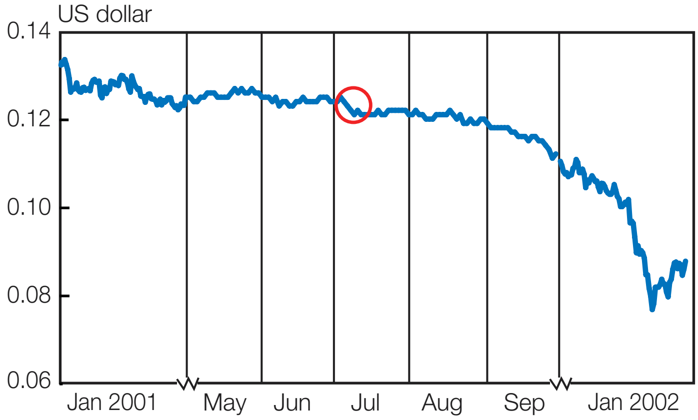
Not too long ago, land 'invasions' at Bredell near Kempton Park led to fears that South Africa might be following Zimbabwe's example of lawless land grabs. Subsequently, other instances of 'alleged' land invasions sporadically mushroomed in the Western Cape and other parts of the country. There has also been speculation that the land invasions, coupled with inappropriate comments from some politicians, may have been some of the factors behind the fall in the value of the rand.

The Governor of the South African Reserve Bank commented:

> *The land question in Zimbabwe needs to be resolved in accordance with the law and in an orderly fashion that is beneficial ... Here in South Africa ... leadership has consistently stated that land reform will take place according to the law, as guided by the Constitution.*[1]

The rand continues to be haunted by problems of contagion due to investors' tendencies to perceive the South African and Zimbabwean experience from the same viewpoint. There are, however, fundamental differences:

Figure 7: Rand versus the US dollar (2001-2002)



- The government in Zimbabwe has overtly backed the land invasions.[2] The South African Government, by comparison, has strenuously opposed them. Through court action and decisive physical removals of land invaders, government sent a message about its unwavering intolerance of lawlessness.

- Although both countries are burdened with the legacy of an acute land shortage for the majority, the current demand for land is evidently underpinned by different needs. Compared to South Africa, Zimbabwe is more rural (65 per cent) and has higher arable land densities of 240 people per square kilometre of land. Most land invasions in Zimbabwe tend to occur in rural areas, whereas those in South Africa largely mushroom in cities or on the urban fringes. The pressure for land locally is more for housing purposes than for farming. The dynamics that drive these divergent needs will necessarily differ between the two countries.

According to the President of South Africa, Zimbabwe and South Africa emerged from colonial systems that advocated forced removals from the land. As such, both countries inherited the legacy of highly unequal land ownership. The difference lies in the fact that South Africa is committed to land reform within the rule of law.

1 *Business Day.* 27 August 2001. 'An injury to one is an injury to all.'
2 Although Zimbabwe committed itself to ending further farm invasions, at the Commonwealth Summit held in Nigeria in September 2001, attacks on farms continued unabated.

Some issues arising:

- South Africa's serious socio-economic problems, including poverty, homelessness, landlessness and joblessness, have taken centre stage. These social ills could, for example, be reversed by equipping individuals to become productive citizens.

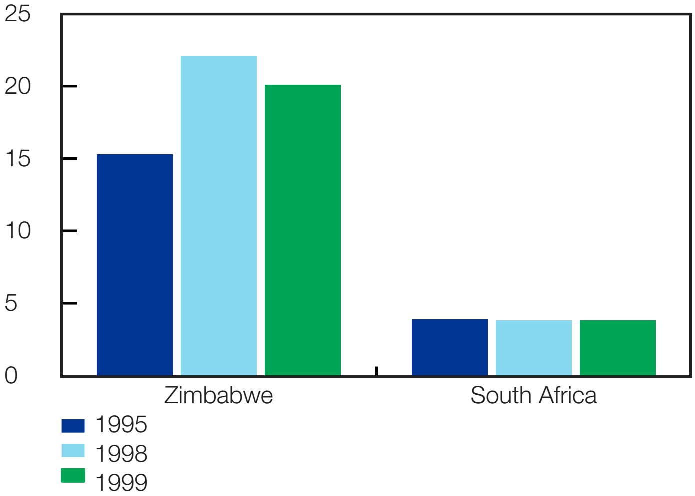
- Land reform alone does not necessarily guarantee the full participation of the majority in the mainstream of the economy. Agricultural land ownership is intricately linked to entrepreneurial skills, access to capital and well-developed business management capacity. Existing government initiatives in this direction are being strengthened. Land can be a viable means of production and livelihood provided that supporting skills and resources are included in an enabling environment.

- Access to land for housing should be distinguished from agriculatural land ownership and interventions to address access to land should take cognisance of this difference.

- South Africa is facing the problem of regional contagion in Southern Africa and its undesirable impact on investor confidence. The Southern African Development Community (SADC), including the Committee of Central Bank Governors, is a suitable vehicle for instilling good governance in the interest of region-wide financial stability and economic expansion.

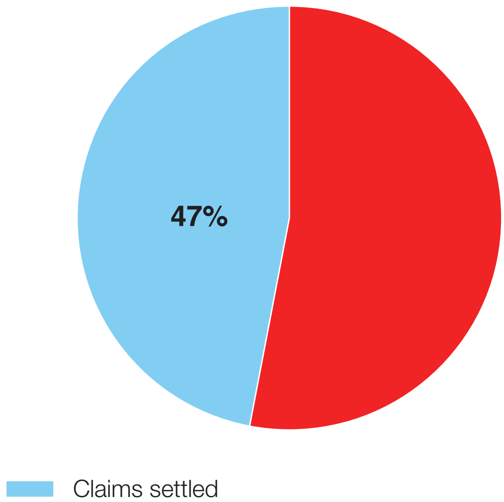
- The land reform process is being expedited. To date, a total of 68 878 claims have been lodged with the Commission on Restitution of Land Rights. Of these, 32 389 have been settled.

Figure 8: Agriculture, value added as percentage of GDP (1995-1999)



Source: World Bank. 2000. *Country Profile.* Washington.

Figure 9: Claims settled versus claims lodged (2001)



Source: Commission on Restitution of Land Rights. 2002.

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