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Less sacrifice: from collective to competitive price coordination in the South African economy

Christopher Loewald,[*] Nic Spearman[†] and Andreas Wörgötter[‡]

Abstract

Aligning productivity and real wages is critical to sustainable economic growth. Their poor coordination gives rise to inflation and creates a trade-off between price stability and growth. Social partnership mechanisms, such as collective bargaining and social pacts, can help improve coordination, but constructing these agreements is difficult. Complexity arises due to their targets, scope, representativity, required trade-offs, and difficult relationship histories. In South Africa, social pacts are often touted as a solution to poor coordination; however, their utility is unclear, given the poor functioning of other social partnership mechanisms already in place. We review local and global experiences with collective bargaining and social pacts to identify lessons for improving coordination in South Africa. We find that coordination would benefit most from inflation-target-aligned price commitments at national macro-level bargaining forums, complemented by micro-level wage bargaining flexibility that reflects productivity and capital-intensity variance at the firm level.

JEL classification

J2, J31, J5, O11

Key words

Growth, coordination, collective bargaining, social pacts.

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1. Introduction

South Africa suffers from high unemployment, high inequality and weak economic growth.[1] These can be traced back in part to inefficiencies and disequilibria in labour markets and associated institutional mechanisms meant to efficiently match the supply and demand for labour.[2] While collective bargaining can help resolve these inefficiencies and their consequences, it can also exacerbate them.[3] In the case of South Africa, poor bargaining outcomes have led to interest in other forms of social partnership, in particular social pacts, as a means of finding solutions to the country's complex economic challenges.[4]

Social pacts are collective agreements meant to improve aggregate economic outcomes for agents throughout the economy. In most cases, these are targeted at wage and price setting, and induce economic agents to internalise pricing decisions that would otherwise lead to negative macroeconomic externalities, especially inflation.[5] These agreements occur at a national level, with concertation encompassing associations that allow for joint decisions that cover some combination of micro-level wage setting, productivity growth, investment risk-taking, and macro-level policy setting. States play a strong role in convening, setting objectives, and providing impetus to agreement by establishing forums, legal or policy frameworks, or institutions

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1 See Hausmann (2008) and National Treasury (2019) for further details.

2 The International Monetary Fund (IMF) finds that poor labour market coordination is a key structural impediment to employment creation in South Africa (IMF 2021).

3 A report by the International Labour Organization (ILO) shows that weak and ineffective collective bargaining institutions can lead to a rise in labour disputes, with both economic and social costs (ILO 2015).

4 Social partnerships are systems that coordinate economic interests between social partners, namely government (the state), labour (trade unions) and/or business (employers). Common types of social partnership include collective bargaining, wage accords and social pacts. In general, collective bargaining occurs between labour and business; wage accords are negotiated between labour and government; and social pacts are struck between labour, business and government. Advocacy for a social pact in South Africa can be found, for example, in Hirsch (2018), DIRCO (2020) and The Presidency (2022).

5 Social pacts and wage accords can be thought of as the state-sponsored coordination of wages (Traxler 2000). Government's role is to provide political exchanges in support of wage coordination. Political exchange can include, for example, targeted demand-side spending to boost output and employment, or supply-side policies such as tax incentives to improve productivity. For example, the social pacts of Nordic countries combined commitment on wage moderation from unions with active labour market policy that improved labour rights and expanded social security commitments from government. The resulting wage moderation lowered inflationary pressure and promoted international competitiveness, which spurred growth and employment (Dølvik and Martin 2000; Kauppinen 2000; Lind 2000).

to improve bargaining processes (Ball and Romer 1991; Avdagic, Rhodes and Visser 2005; Acocella, Di Bartolomeo and Tirelli 2009; Traxler and Brandl 2010).

In this paper we review experiences with collective bargaining and social pacts to identify lessons for addressing poor economic outcomes in South Africa. In Section 2 we begin by providing an overview of the microeconomics of coordination in labour markets and illustrate how coordination of wage-setting dynamics can impact macroeconomic outcomes. We show that poorly coordinated wage setting leads to costs in terms of higher unemployment or weaker growth in areas of the economy that are more sensitive to inflation. This raises the economy-wide sacrifice ratio, meaning that sustainable wage determination has implications for monetary, fiscal and other policies.[6]

In Section 3 we look at how macroeconomic conditions in South Africa are affected by the labour market in ways that limit inclusive growth, increase an already high skills premium, and drive job-shedding rather than real wage rebalancing. We highlight that a key factor determining these outcomes is insider-outsider dynamics that reflect monopsony market power, and a widening wage premium for higher-skilled workers in closed-shop workplaces and sectors.

In Section 4 we compare South Africa's collective bargaining system to systems across the Organisation for Economic Co-operation and Development (OECD). We find that the characteristic features of the South African system (namely partially centralised coordination with constraints on firm-level productivity bargaining) contribute to deleterious economic outcomes. These features do not align with features found by the OECD to be most effective at promoting inclusive growth (namely bargaining frameworks where sector-level agreements set broad conditions but leave detailed provisions to firm-level negotiations). In a broad sense, the South African system generates wage and price outcomes inconsistent with inclusive growth. Instead, economic agents choose, directly and indirectly, to deepen the capital intensity of production at the expense of labour.

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[6] The sacrifice ratio is a measure of the increase in unemployment that results from contractionary monetary policy actions taken to reduce inflationary pressure.

In Section 5 we discuss the political economy of concertation in South Africa and why agreement between associations of economic actors is limited. Our perspective is that the biggest impediment to successful concertation in South Africa lies in the vastly different ideas that social partners have of the role that macroeconomic policy should play in delivering more desirable growth outcomes. The impact of microeconomic features of the economy, such as specific regulations governing labour markets, is also strongly contested.

In Section 6 we conclude with the view that growth can be promoted by improving the characteristics of wage and price setting in South Africa as the current collective bargaining system produces deleterious economic outcomes. However, there are significant political economy constraints to negotiating a social pact, and a common understanding of sustainable macroeconomic objectives and policy is needed for meaningful concertation among social partners. We therefore find that price-setting coordination and growth would benefit most from regulatory reforms to the bargaining system that (i) establish wage- and price-setting guidance across sectors based on national inflation targets, and (ii) make provision for firm-level wage flexibility to reflect differences in firm-level productivity and other factors that influence international competitiveness. Improved price coordination through national targets coupled with productivity-linked wage flexibility would create much wider scope for a range of capital (technologies) and labour (skills) combinations to increase job creation at all skill levels. This would provide a more enabling environment for promoting inclusive growth and reducing inequality over time.

2. The economics of coordination

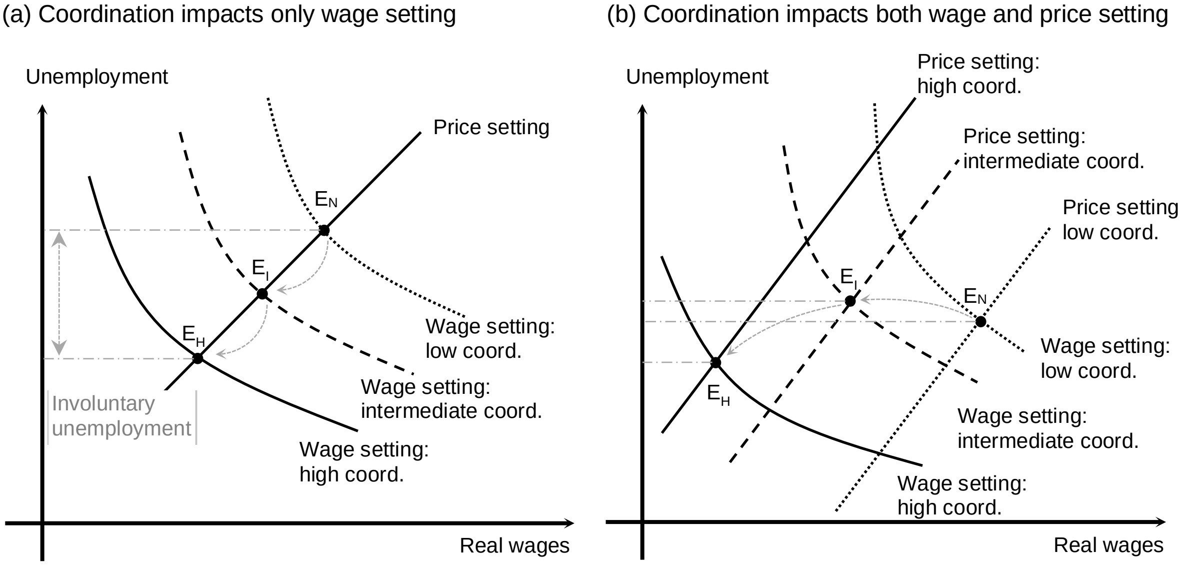
Competitive pricing of factor inputs is critical to sustain economic activity. In larger, less regulated economies, determining prices and wages is guided by the inflation target of the country but left to firm-level negotiations, with little, if any, national or sectoral discussion. In more regulated and often smaller economies such as Sweden, Ireland and South Korea, setting prices and wages can entail high-level discussions between nationally organised businesses and large unions. These discussions are often guided by government and (again) an inflation target. In these economies, economic accords reduce disequilibrium behaviour by moderating strong price claims on the economy made by economic agents that have market power. The firms and unions involved are price-makers in some way – either as closed-shop sellers of inputs or as dominant producers. Usually, those claims create macroeconomic imbalances, such as high inflation, fiscal deficits or unsustainable balance of payments positions. Coordination agreements, therefore, moderate the negative dynamics of claim and counterclaim in the absence of limitations that obtain in more competitive markets.

2.1 The coordinating role of labour markets

Labour is one of the larger inputs to economic activity, so equating the cost of labour with its productivity is critical to attaining sustainable economic growth and minimising imbalances. Where competition in the labour market is low, market power results in the cost of labour diverging from its productivity, with the gap eventually closing through the layoff of low-productivity workers. Social pacts can be used as second-best solutions for improving wage-setting coordination in labour markets where competition is imperfect. They are substitutes for more decentralised, market-driven processes.[7] Figure 1 illustrates two models of how varying degrees of coordination impact labour market outcomes.

[7] Market power is a common reason for welfare-reducing outcomes from decentralised systems. Economic theory shows that removing market power enables decentralised systems to reach optimal outcomes. Another common reason for bad outcomes is that the economic cost of wage-setting outcomes falls on other economic agents, so their welfare is not considered in the wage-setting decision process.

Figure 1: The labour market impact of varying degrees of coordination



Sources: Layard, Nickell and Jackman 1991; Bjørnstad and Kalstad 2010[8]

In Figure 1.a, wage setting is influenced by the degree of coordination. The diagram illustrates that a higher degree of coordination leads to lower rigidities, resulting in equilibria at lower wage levels and a lower level of unemployment. The wage-setting curves are decreasing in real wages and unemployment because unions choose higher real wages at the expense of employment. The price curve is increasing in real wages and unemployment because price setting by firms is determined by the markup on unit labour cost: higher real wages increase production costs, and this lowers the derived demand for labour. The solid wage-setting curve illustrates wage demands when wage setting is highly coordinated; the dashed curves illustrate lower levels of coordination. Failure to coordinate wage demands leads to nominal rigidities in wage setting.[9] These rigidities lead to higher real wage demands shifting the wage-setting curve towards the right. This creates a *linear* relationship between coordination and employment, because lower wage demands generate higher derived demand for labour through lower prices and increased economic output.[10]

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8 The diagram is an alternative representation of the traditional labour market illustrated in a real wage-employment plane with employment on the x-axis. The corresponding interpretation of the price curve in the traditional labour market diagram is the labour demand curve, and the corresponding interpretation of the wage-setting curve is the labour supply curve.

9 Rigidities arise due to, for example, uncertainty about the wage-setting behaviour of other employers within the economy.

10 In practice, imperfectly competitive labour markets, higher bargaining power and higher wage floors can increase employment where monopsony power enables firms to offer low wages because, for example, workers have limited opportunities to change their employer or would incur

In Figure 1.b, both wage setting and price setting depend on the degree of coordination. Increased coordination in price setting increases prices and profits but reduces quantities produced, lowering derived demand and shifting the price-setting curve towards the left. Similarly, increased coordination in wage setting shifts the wage-setting curve to the left. In this environment, fully centralised and decentralised systems *both* yield better outcomes than systems with intermediate levels of coordination. This generates a so-called 'hump-shaped' unemployment effect in the degree of coordination.

While both these models provide theoretical foundations for the impact of coordination, recent empirical studies show that labour market outcomes also depend on structural features and broader macroeconomic policy frameworks, or the lack thereof. These include a credible commitment to a non-accommodating monetary policy rule and the extent to which wage bargaining is dominated by sheltered sectors. For example, if wage and price moderation cannot be achieved in collective bargaining, restraint can be achieved using credible inflation-targeting monetary policy regimes that guide price determination (Traxler 2000). Economic costs like higher unemployment or weaker growth emerge when some parts of the economy violate the price guidance, particularly in areas of the economy that are more sensitive to inflation or have little pricing power. The economic costs of divergence between costs and productivity net out in parts of the economy with the least market power. Examples of this in the South African context are the very high unemployment rate of less skilled and younger workers, and high inequality (see Section 3). Higher divergence raises the economy-wide sacrifice ratio. Sustainable price determination, therefore, has implications for monetary, fiscal and other policies, and brings into focus the potential utility of economic accords or social pacts that go beyond collective bargaining.

high costs if they did (OECD 2018b).

2.2 Theory in practice

Broadly defined, social partnerships date back to the early 20th century.[11] Centralised tripartite concertation was initially aimed at managing the impact of political contestation on economic outcomes in the interwar period, but this gradually shifted to a focus on moderating wage growth to maintain broader macroeconomic stability.[12] Various forms of the model spread across Western Europe, especially in the first three post-war decades, and the model was often used to implement income policies.[13]

In the mid-1970s, concertation was used primarily to fight inflation triggered by the 1973 oil shock and to ensure high employment, with varying degrees of success. In the 1980s, the relative failure of economic accords to prevent a sustained rise in inflation and weaker real gross domestic product (GDP) growth, however, contributed to the shift to macroeconomic efforts to reduce inflation. Other policy shifts, such as to promote financial integration and reduce protectionism, also put pressure on concertation as they implied more competitive pressure generally on factor costs and productivity. These adjustments required less centralised economic accords and greater autonomy for firms to better manage the cost-productivity equation. Calmfors and Driffill (1988), reviewing the experiences of the 1970s and 1980s, found that both highly centralised and highly decentralised systems generated better macroeconomic performance than wage determination systems that fell in between these extremes, suggesting a hump-shaped relationship between centralisation and economic performance (Figure 1.b).

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11 The origins of these institutionalised negotiations lie in the shifts in power balances that occurred during and after the First and Second World Wars, which saw workers gain political strength (Hassel 2009; Godfrey 2018).

12 The period from the 1930s to the 1970s saw the emergence of 'corporatism' in Scandinavian countries as private interest organisations were 'incorporated' into political decision-making processes (Streeck and Hassel 2003; Rommetvedt 2017). Corporatism remains inexactly defined, but the general characteristics include a highly centralised, hierarchical, monopolistic (non-competitive) system of organised interest representation and tripartite concertation between labour, business and the state aimed at managing public policy, especially income policy, labour market outcomes, and growth (Rommetvedt 2017). The model was based on the principle that cooperation in the labour market would be coupled with expansion of a welfare state and the maintenance of full employment in the post-war period (Dølvik and Martin 2000). This initially took place in Denmark, Sweden, Norway and Finland, and later Iceland.

13 Countries included Austria, Germany, Ireland, Italy, the Netherlands, Portugal, Slovenia and Switzerland.

As international financial and economic integration proceeded in the 1990s and early 2000s, impetus to reforms persisted (Molina and Rhodes 2002).[14] In Europe, monetary union and globalisation placed increased emphasis on interregional and international competitiveness and labour skills, while age dynamics raised questions about the budgetary implication of social protection systems (especially pensions and healthcare) and the trade-offs between different social priorities (Goetschy 2000). Inflation-targeting monetary policy regimes, informed by New Keynesian models, more explicitly linked low inflation outcomes to microeconomic price and wage determination. The combination of clearer macroeconomic objectives, both fiscal and monetary, and more focused price and wage determination systems, improved inflation and employment outcomes.

Traxler and Kittel (2000) reviewed the evidence and rejected both a linear relationship between centralised coordination and economic performance, and a hump-shaped relationship. They argued instead for the importance of *institutional* factors, emphasising how commitments to high-level policy frameworks, and concentration of wage bargaining in sheltered sectors, affect decentralised wage setting. A credible commitment to a non-accommodating monetary policy rule can provide an effective coordination mechanism in a semi-decentralised system, as wage growth in line with the nominal anchor for policy (the inflation target) increases the employment and growth gain to the economy, with the opposite effects when real unit labour costs rise (Iversen 1999; Traxler 2003; Coricelli, Cukierman and Dalmazzo 2006). As policy credibility rises, the sacrifice ratio for lower inflation falls or disappears. In addition, much of the success of high-level concertation in decentralised wage setting can depend on the extent to which bargaining is dominated by sectors exposed to international market competition – so-called 'exposed' sectors, such as manufacturing – or by sectors sheltered from competitive pressure – so-called 'non-trading' or 'sheltered' sectors, especially the public sector (Traxler and Brandl 2010; 2012). When local inflation rises faster than foreign inflation, the price competitiveness of exposed sectors is weakened, undermining growth and employment in these sectors. Sheltered sectors are not directly subjected to the negative impacts of inflation on market

14 Germany, Belgium, Spain, Ireland, Italy, Greece, Finland and Portugal witnessed the emergence or re-emergence of social pacts during this period.

competitiveness. When wage bargaining is dominated by sheltered sectors, the macroeconomic outcomes of inflationary wage increases are inadequately internalised within the wage-setting process.

3. Labour markets and growth in South Africa

Despite much emphasis being placed on promoting inclusive growth (RDP 1994; NEDLAC 1995; GEAR 1996; NDP 2012), South Africa has failed over a number of decades to create enough jobs to reduce high levels of unemployment and inequality.[15] Inequality remains high and has worsened within groups, in part because growth has become more skills intensive and education and skills development have long timeframes, increasing the cost of adjusting to changing demand for labour. Moderately high inflation and rising debt levels have not been accompanied by robust economic growth (Figure 2.a). By contrast, macroeconomic conditions have generally been sound, with significant positive support from strong terms of trade. Despite nominal depreciation of the currency, the real exchange rate level has been broadly stable, as sheltered sectors dominate wage setting and inflation.[16] Greater real depreciation would have been more supportive of growth in exporting and import-competing firms. Much public infrastructure spending in recent years has been the target of waste and corruption (State Capacity Research Project 2017), best seen in declining energy production and its massive cost to economic growth. This has directly limited job creation by, estimates suggest, more than 1 million jobs over the past decade (Mofokeng 2021). Consequently, South Africa's real GDP per capita has fallen further behind global comparators (Figure 2.b), and lower growth rates have translated into a slow pace of employment creation. Poor growth and employment creation have led to deteriorating social cohesion and increasing political instability (Khambule and Siswana 2017; Levy et al. 2021).[17]

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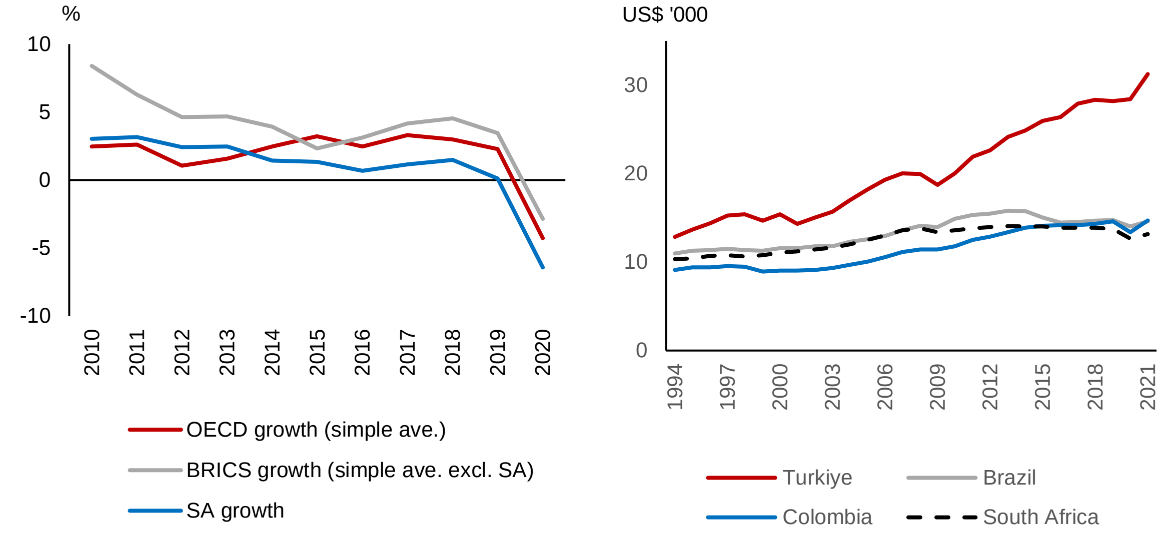
15 According to the Q2 2022 Quarterly Labour Force Survey (QLFS), South Africa's unemployment rate stood at 33.9%, with 3.5 million discouraged workers during this period. See Figure A.1 for South Africa's World Bank Gini coefficient estimates.

16 See Figure A.2 for South Africa's inflation and exchange rate performance.

17 See Figure A.3.

Figure 2: Comparative GDP growth and GDP per capita

(a) Real GDP growth (y-o-y % change) (b) GDP/capita, PPP (constant 2017 US$)



Sources: OECD, World Bank and SARB calculations[18]

While low growth reduces the number of jobs created per given price for labour, labour market dynamics determine the price of labour and hence the number of jobs created per unit of growth. On the supply side of labour markets, low education and entrepreneurship reduce the productivity of job seekers, while high commuting and other job search costs and social grants drive up reservation wages. This increases the supply price of labour (IMF 2021; Shah and Sturzenegger 2022). On the demand side, regulation and wage bargaining arrangements raise costs above levels needed to clear the labour market (IMF 2021). A particular problem for South Africa lies in labour market regulations, which have comparatively high regulatory costs (Bhorat and Stanwix 2018) and create employment rigidity (Rankin 2006; Godfrey, Theron and Visser 2007), increasing the price of labour per unit of growth. Bargaining outcomes are in large part due to insider-outsider dynamics that reflect monopsony market power, and a widening wage premium for more highly skilled workers in closed-shop workplaces and sectors (Hausmann 2008).

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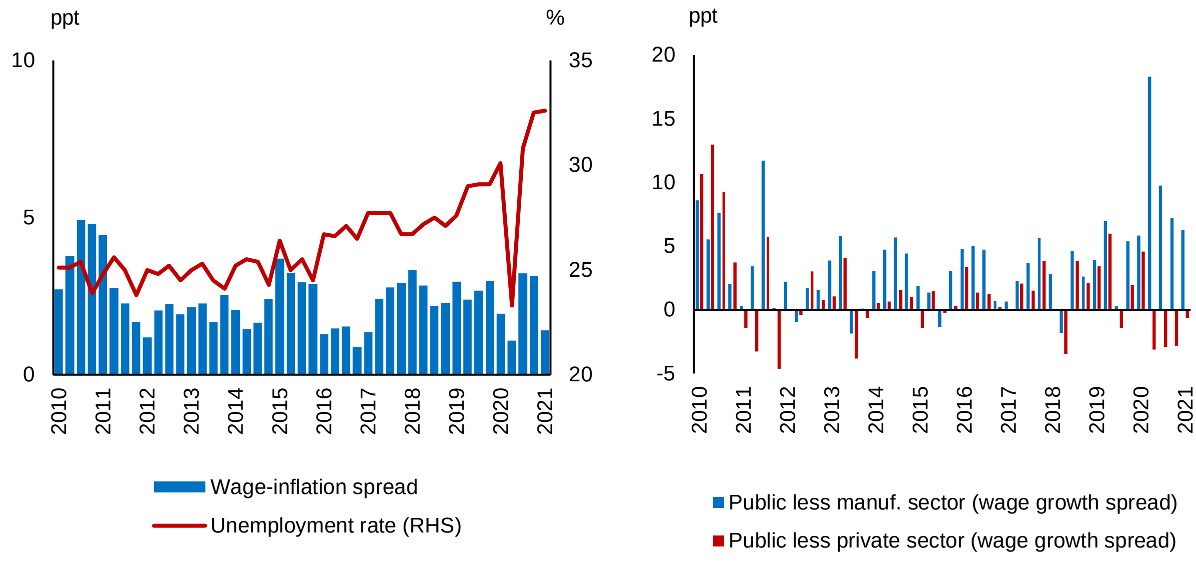
18 OECD data available at: https://stats.oecd.org/; World Bank data available at: https://databank.worldbank.org/reports.aspx?source=2&series=NY.GDP.PCAP.PP.KD&country=#

3.1 Insider-outsider bargaining dynamics

In insider-outsider models (Lindbeck and Snower 1986), organised labour negotiates nominal wage increases that increase real wages above productivity. As unit labour costs rise in real terms, labour demand falls or slows in growth, and unemployment then rises. These dynamics have been characteristic of South Africa's labour market (Bhorat, Cassim and Hirsch 2017). Figure 3.a illustrates that despite rising unemployment, average wage settlements have remained above inflation. The result is that job-shedding and rising capital intensity, rather than real wage rebalancing, have become the primary way in which South African firms maintain productivity growth (Nattrass 1999; Bhorat, Van der Westhuizen and Goga 2009). This strongly suggests that collective bargaining arrangements fail to internalise the macroeconomic externalities of wage imbalances. A driver of this dynamic is sheltered public sector wages, which command a large and significant wage premium (Kerr and Wittenberg 2021).[19] Public sector wage growth has frequently outpaced that of the private sector, adding to wage pressures economy-wide (Figure 3.b).

Figure 3: Wage distortions

(a) Wage spread (ppt) and unemployment (y-o-y % change) (b) Public sector wage premium (quarterly ppt)



Sources: Andrew Levy, QLFS and SARB calculations[20]

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19 Both aggregate unit labour costs (ULC) and ULC in the manufacturing sector in South Africa have exceeded the OECD average for over a decade, while South Africa's rank in the World Economic Forum's (WEF's) Global Competitiveness Index (GCI) has decreased. See Figure A.4.

20 The quarterly wage settlement percentage point (ppt) spread is calculated as Andrew Levy wage settlement estimate less headline inflation. QLFS unemployment data available at:

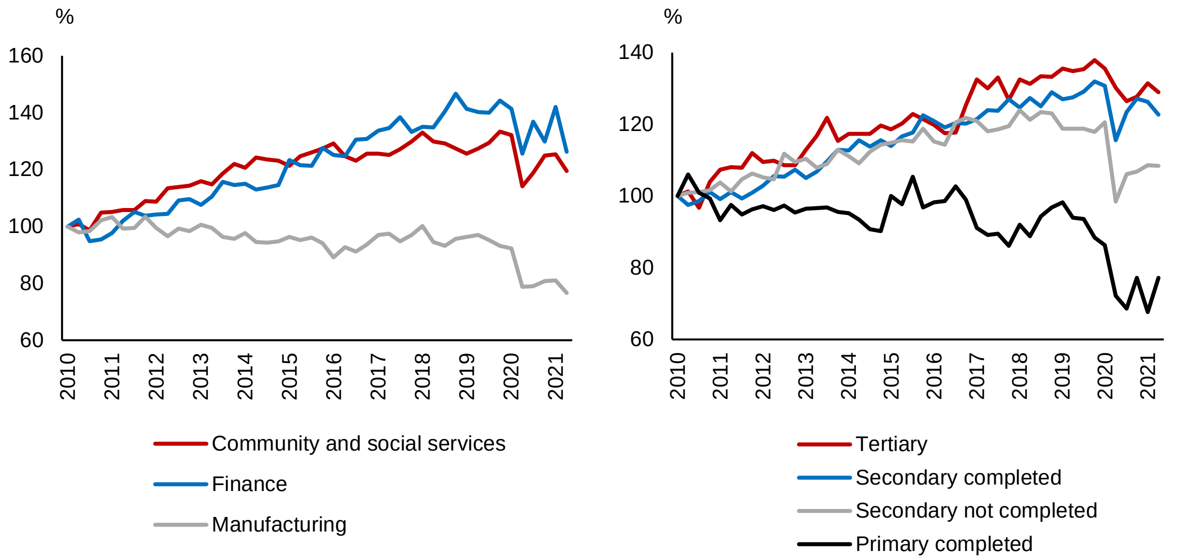
3.2 Skills premiums

When unit labour costs rise, existing skills deficits become more binding on the economy and the wage premium for skilled workers rises further relative to less skilled occupations. Figure 4 shows that job creation over the last decade has primarily been in the services sectors, which tend to be more skills intensive. Figure 5 shows the significant increase in returns on higher education over the past decade, with wages advancing faster for higher skills in the economy. Poor educational outcomes, low levels of skilled worker immigration and employment equity policies further increase the skills premium (Hausmann 2008; Loewald, Makrelov and Wörgötter 2021). From an employment perspective, reducing the skills premium to create more jobs overall conflicts with approaches to eliminate wage gaps.

Figure 4: Skills-intensive employment growth

(a) No. of employed relative to Q1 2010 by sector

(b) No. of employed relative to Q1 2010 by education level



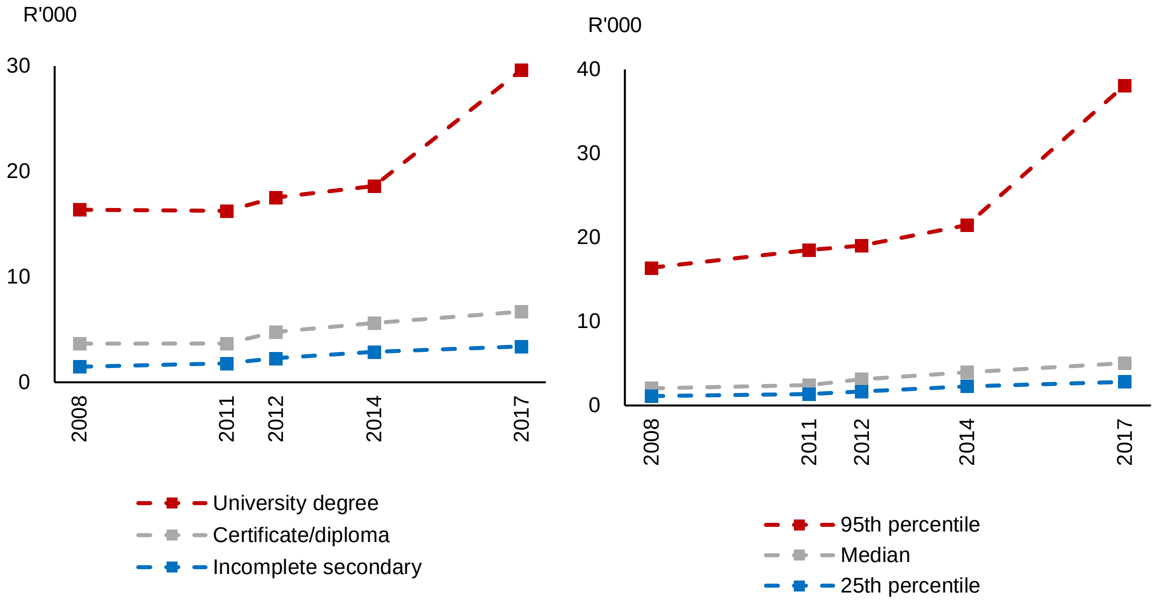
Sources: Stats SA and SARB calculations[21]

https://www.statssa.gov.za/?page_id=1854&PPN=P0211&SCH=73290

21 QLFS data available at: https://www.statssa.gov.za/?page_id=1854&PPN=P0211&SCH=73290

Figure 5: A growing skills premium

(a) Median earnings by education level (R'000/month)   (b) Earnings by earnings percentile (R'000/month)



Sources: NIDS and SARB calculations[22]

3.3 Wage rigidities and the macroeconomic adjustment problem

South Africa's labour market characteristics have important implications for macroeconomic adjustment and the impact of fiscal and monetary policy. When wage accords internalise macroeconomic externalities, wage demands are moderated, generating lower cost-push inflationary pressures. If wage settlements are responsive to employment dynamics, then monetary policy is better able to achieve its inflation target with a lower policy rate, lower unemployment and higher levels of economic activity. The result is a lower sacrifice ratio.

Fedderke and Liu (2018) find empirical evidence of a persistent and significant positive relationship between nominal wages and inflation. With wage inflation unresponsive to employment losses, inflation has more inertia and increases the size of the sacrifice ratio (Iversen 1999; Hassel 2003; Coricelli, Cukierman and Dalmazzo 2006; Viegi 2015).[23] Wage restraint has been especially problematic in South Africa's public sector, which commands a large and significant wage premium (Bhorat, Van der

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22 NIDS data available at: http://www.nids.uct.ac.za/nids-data/data-access

23 Empirical estimates of South Africa's sacrifice ratio are, however, low, suggesting that restrictive monetary policy has not been a key constraint on growth or employment in South Africa (Gereziher and Nuru 2021).

Westhuizen and Goga 2009). This fuels administered price inflation and reduces fiscal resources available for other purposes, like public investment (National Treasury 2020; 2022).[24]

Price- and wage-setting processes that better adjust to negative shocks would protect lower-earning and more marginal economic actors. In conditions of high inflation and declining competitiveness (accompanied by a large current account deficit), monetary and fiscal policy need to tighten. But the economic effects of this tightening can be lowered if unions and businesses moderate their price and wage increases as part of realigning with productivity growth.

4. South Africa's collective bargaining landscape in perspective

4.1 Collective bargaining systems and macroeconomic performance in the OECD

The OECD's *Framework for Policy Action on Inclusive Growth* focuses on the structure of collective bargaining systems in determining macroeconomic outcomes (OECD 2017; 2018a; 2018b; 2019a; 2019b).[25] It characterises bargaining system structures according to four main features:

- bargaining coverage (the share of workers covered by collective bargaining agreements either through membership or extension of agreement);
- bargaining *level* (the level at which collective agreements are negotiated; firm, sectoral, national or multi-level);
- the *degree of wage coordination* between units within bargaining levels that take into account macroeconomic or other general working conditions; and

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[24] The public sector wage bill accounts for about 30% of total government spending, fuelling administered price inflation and crowding out expenditure on areas such as infrastructure (which currently accounts for only 2.5% of total government spending) (National Treasury 2022). State-owned enterprises are another sheltered source of strain on public finances, characterised by overstaffing and an uncontrolled wage bill (OECD 2022).

[25] The shock to employment and resulting backlash against globalisation following the 2008 global financial crisis highlighted disparities in the distribution of economic benefits arising from globalisation, and placed renewed pressure on systems of coordination responsible for distributing the benefits (OECD 2017). These dynamics renewed interest in social partnership as a mechanism for providing more inclusive growth outcomes within the OECD.

- the *degree of flexibility* at the level of the firm to modify the terms set by higher-level bargaining agreements.

Based on these features, three distinct types of bargaining system are characterised:

- *highly centralised systems*, where national- or sectoral-level bargaining takes place with high levels of coverage and high coordination but low flexibility and little or no room to modify higher-level agreements;
- *organised decentralisation*, where multi-level bargaining takes place with high coordination but also high flexibility as sectoral agreements set broad framework conditions, but detailed provisions are left to firm-level negotiations; and
- *fully decentralised systems*, where collective bargaining takes place only at the firm level, meaning there is high flexibility but low coverage and low coordination.

Meta analysis of the impact of different bargaining system types within the OECD reveals that more coordinated systems ('centralised' systems and systems with 'organised decentralisation') are linked with higher employment and lower unemployment than fully decentralised systems. However, centralised systems with high sectoral bargaining coverage also tend to be associated with lower productivity growth. This is not the case in decentralised systems, where higher bargaining coverage does not have adverse productivity effects. In general, therefore, organised but decentralised bargaining systems where cross-sector coordination is strong and sector-level agreements set broad conditions but leave detailed provisions to firm-level negotiations, are found to deliver higher employment, lower unemployment, better productivity outcomes, higher wages and lower wage inequality for covered workers, than both highly centralised and highly decentralised systems.

Outcomes are better in coordinated but decentralised systems because firm-level factors are taken fully into account (decentralised), and higher-level macroeconomic parameters are taken into account at the sectoral level (coordinated), helping the economy avoid relative price shocks and internalise the links between nominal and real wage growth, inflation and unemployment. As a result, the OECD finds that systems of *organised decentralisation,* which coordinate wage setting using national inflation targets while allowing firm-level wage flexibility to reflect firm-level productivity levels, are most effective at promoting inclusive growth (OECD 2019b). We consider these findings within the South African context.

4.2 The structure and characteristics of collective bargaining in South Africa

Godfrey, Theron and Visser (2007) and Godfrey (2018) provide in-depth reviews of the collective bargaining landscape in South Africa. They show that there are pockets of centralisation, but overall, the system is largely *uncoordinated.* There is also little impetus towards greater centralisation and this may have shrunk in scope over time. There are low levels of unionisation in certain sectors and low levels of coverage generally. However, the legal framework sets a low bar for the imposition of agreements negotiated by a portion of many sectors' businesses and workers to all other firms and workers in a sector. This worsens the bargaining outcomes by providing strong incentives for larger, more productive firms to reach agreements that are uneconomic for smaller firms. In addition, the number of union members has grown over the last decade, but this has been driven primarily by the public sector, and membership is becoming more splintered (Polity 2022). Large public sector union coverage means that bargaining is dominated by a sector that is not exposed to the 'disciplining forces of the market' (Traxler and Brandl 2010).

Systems of bargaining in South Africa

There is both a statutory – covered by the Labour Relations Act 66 of 1995 – and a non-statutory system of bargaining in South Africa. The statutory system consists of voluntary bargaining councils and compulsory statutory councils. Bargaining councils are the primary vehicle of collective bargaining. Statutory councils and workplace forums have had limited appeal. Outside the statutory system, centralised bargaining takes place at centralised bargaining forums, at enterprise level, and at plant level. Decentralised bargaining is also present in certain sectors.

Statutory bargaining councils

The number of bargaining councils fell steeply in the mid-2000s due to the amalgamations of councils to form bigger councils, and the collapse and deregistration of others.[26] However, while the number of bargaining councils decreased and private sector trade union membership declined, the number of employees covered by bargaining councils more than doubled due to the inclusion of public sector employees; public sector employees account for the largest proportion of employees covered by bargaining council agreements (see Table 1).

Participation on a bargaining council remains voluntary but the Act provides largely negative inducements for unions and employers to participate. For example, if a majority of firms and employees in a sector vote for representation through a bargaining council, then the agreement reached by the council is binding on *all* firms and workers within the sector. The role of collective bargaining in misaligning productivity and competitiveness with wages is highlighted by the trend within bargaining councils to *prohibit* dual-level bargaining at the request of employers on the councils.[27] This restriction undermines competition, and the decline in plant-level bargaining within these jurisdictions limits productivity bargaining and the economic benefits that could accrue from it (Godfrey, Theron and Visser 2007; Godfrey 2018). Improving the outcomes of bargaining councils is also hindered by various structural factors. For example, while the Labour Relations Act makes provision for bargaining councils to promote and establish training and education schemes, the Employment Equity Act 55 of 1998 and the Skills Development Act 97 of 1998 prevent grading and training issues from forming part of the bargaining agenda. This is a barrier to concertation on issues of skills development and programmes such as vocational education and training.

[26] From 87 bargaining councils in 1992 to 48 in 2004 (Godfrey 2018).

[27] Dual-level bargaining refers to the process of negotiating certain aspects of collective bargaining agreements at a national or sectoral level, while others are left to firm-level negotiations.

Statutory councils

Statutory councils provide a compromise to the voluntarism of the bargaining council system, but only four have been registered in 20 years.[28] The bar to forming such councils appears to be high (Godfrey, Theron and Visser 2007; Godfrey 2018).[29]

Non-statutory and quasi-statutory bargaining

Quasi-statutory centralised bargaining characterises two service sectors: security and cleaning; while three industries are covered in full or in part by non-statutory centralised bargaining arrangements: mining, automobile manufacturing and pelagic fishing. The structure of these arrangements differs significantly across sectors.[30] Non-statutory decentralised bargaining characterises the retail and the food manufacturing sectors. Bargaining in the retail sector takes place at the national company level, regional level or firm level, and formal coverage appears to be limited to about 5% of the sector. Coverage is limited because unionisation is difficult across employers with varying business models and high levels of competition (Godfrey, Theron and Visser 2007; Godfrey 2018).[31]

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28 These are the Statutory Council for the Printing, Newspaper and Packaging Industry of South Africa; the Amanzi Statutory Council (which covers water boards); the Statutory Council for the Squid and Related Fisheries of South Africa; and the Statutory Council for the Fast Food, Restaurant, Catering and Allied Trades (Godfrey 2018).

29 A key constraint identified is that if parties are opposed to the formation of a council, they can refuse to participate in the process to have a statutory council registered, thereby effectively halting the process.

30 For example, in the mining sector, the mining forum covers members of the Chamber of Mines in the gold and coal mining sectors. Most of the gold and coal companies that are not Chamber members are covered by firm- or mine-level collective agreements, as are companies in the diamond and platinum sectors. In the mining forum, framework agreements are often agreed to at the central level, which sets parameters for negotiations at mine or company level. Despite mining companies not wanting to bargain wages at more than one level, and while this approach has been criticised for fragmenting bargaining and making it complex, protracted and confrontational, the forum also recognises that a 'one size fits all' approach is not appropriate, and the flexibility that the system permits is seen as an advantageous feature by employers (Godfrey, Theron and Visser 2007). By comparison, participation in the National Bargaining Forum established in the automobile industry is voluntary but agreements bind the whole sector. Dual-level bargaining is effectively prohibited, but there is provision for the negotiation of incentive schemes at plant level. Agreements include provision for payment for skills acquired and a common fund provides training to re-skill employees who lose their jobs because of major retrenchments (Godfrey, Theron and Visser 2007).

31 In the food manufacturing sector, bargaining councils exist only in sugar manufacturing and for grain cooperatives. There are only two multi-employer forums left in the sector: in the fruit and vegetable canning sector and the pelagic fishing industry.

Table 1: Coverage of bargaining councils by main sectors (2013/14)

Sector	Total employees	Registered employees	Registered/ Total (%)	No. of bargaining councils
Agriculture, forestry and fishing	742 000	9 495	1.3	2
Mining and quarrying	427 000	0	0	0
Manufacturing	1 749 000	790 509	45.2	17
Electricity, gas and water supply	104 000	6 529	6.3	1
Construction	1 334 000	105 872	7.9	7
Wholesale and retail trade	3 247 000	66 616	2.1	3
Transport and storage	952 000	204 835	21.5	4
Finance, business services, etc.	2 039 000	19 313	0.9	1
Community, social and personal services (incl. public service)	3 501 000	1 415 326	40.4	9
TOTAL	**14 095 000**	**2 618 495**	**18.6**	**44**

Source: Godfrey (2018)

4.3 The comparative landscape and the implications for social pacts

Comparing South Africa's broad collective bargaining landscape to the OECD and its BRICS counterparts Brazil, Russia, India and China (Table 2) indicates that South Africa's union membership proportion is in line with the OECD average and there is large BRICS variance. The modal result across the OECD is that bargaining councils are mandated by law. This is not the case in South Africa, where coverage is a function of how businesses and workers vote to be covered and the effective extension of agreements to non-parties. As a result, while direct, formal coverage appears to be low in South Africa relative to the OECD average. The coverage is very high in some sectors like mining, certain parts of manufacturing, and the public sector. In both South Africa and across the OECD, bargaining councils operate primarily at a sectoral rather than firm level. The regional and non-party extension of agreements, as in South Africa, is not the mean or modal practice within the OECD. Because South Africa's wage bargaining coverage is primarily by industry, it can be assessed as a low level of centralisation that is equal to the OECD average. South Africa does not have a signed social pact nor is this the modal outcome across the OECD. South Africa does, however, have a tripartite council and this is the average result across the OECD, but not the modal result.

The structure of South Africa's collective bargaining landscape is, therefore, not an obvious outlier when compared to many countries that have historically entered formal social pacts; Table 2 illustrates significant variance among these countries. This supports research that finds that no single causal condition is necessary for the successful negotiation of a social pact, but rather that success is a process determined by the idiosyncrasies of political economy incentives within countries (Avdagic 2011).

Table 2: Cross-country collective bargaining characteristics (2019)

Country	Collective bargaining characteristics									
	Membership proportion[1]	Coverage[2]	Wage bargaining level[3]	Extension of agreements[4]	Degree of coordination[5]	Type of coordination[6]	Status of bargaining council[7]	Bargaining council involvement[8]	Signed social pact[9]	Tripartite council[10]
Australia	13.7†	61.2†	2	2	2	1	0	-	0	0
Austria	26.3	98.0	3	3	4	2	2	2	0	2
Belgium	49.1	96.0	4	3	5	5	2	1	1	0
Canada	26.1	30.2	1	0	1	0	0	-	0	0
Chile	16.6†	20.4†	1	0	1	0	0	-	0	0
Colombia	9.5†	15.7†	1	0	-	-	0	-	0	0
Costa Rica	20.5	10.3	1	0	1	0	0	-	0	2
Czech Republic	11.4†	34.7	2	1	1	1	2	1	0	2
Denmark	67.0	82.0†	3	0	4	2	2	1	0	0
Estonia	6.0	6.1†	1	1	2	4	2	3	1	0
Finland	58.8	88.8†	3	3	3	2	1	1	0	2
France	10.8†	98.0†	3	3	2	1	2	3	0	1
Germany	16.3	54.0†	3	1	4	2	2	2	0	0
Greece	19.0†	14.2†	2	2	1	0	1	1	0	1
Hungary	8.3†	21.8	1	1	1	0	2	3	0	1
Iceland	90.7	90.0	3	3	4	4	0	-	0	0
Ireland	25.1	34.0†	1	1	2	2	1	1	0	2
Israel	25.0†	26.1†	2	1	1	0	1	1	0	1
Italy	32.5	100.0	3	3	3	3	2	4	0	1
Japan	16.8	16.8	1	0	4	2	1	2	0	0
Korea, Republic of	11.6†	14.8†	1	0	2	1	2	2	0	1
Latvia	11.6†	27.1†	1	1	1	0	1	1	0	2
Lithuania	7.4	7.9	1	1	1	0	2	1	1	2
Luxembourg	28.2	56.9†	2	2	2	1	2	1	0	2
Mexico	12.3	10.4	1	0	1	0	-	-	0	-
Netherlands	15.4	75.6	3	2	4	3	2	1	1	2
New Zealand	17.7†	18.4	1	0	1	0	0	-	0	2

Norway	50.4	69.0[†]	3	1	4	2	2	1	0	2
Poland	13.4[†]	13.4	1	0	1	0	1	1	0	2
Portugal	15.3[†]	73.6	3	3	2	3	1	3	0	1
Slovak Republic	11.3[†]	24.4[†]	2	1	2	2	2	1	0	2
Slovenia	23.8[†]	78.6[†]	3	2	2	3	2	2	0	0
Spain	12.5	80.1[†]	3	3	3	4	2	4	0	2
Sweden	65.2	88.0[†]	3	0	4	2	0	-	0	0
Switzerland	14.4[†]	45.0[†]	3	2	3	3	1	2	0	0
Turkey	9.9	8.5	1	0	1[†]	1[†]	0	-	0	0
United Kingdom	23.5	26.9	1	0	2	2	1	-	0	0
United States	9.9	11.6	1	0	1	0	0	-	0	0
OECD mean (mode)	**30.5**	**41.3**	**2.0 (1)**	**1.2 (0)**	**2.3 (1)**	**1.6 (0)**	**1.2 (2)**	**1.8 (1)**	**0.1 (0)**	**1 (0)**
Brazil	12.7	70.5[†]	2	1	2	2	0	-	0	1
China	44.9[†]	40.6[†]	1	0	-	-	-	-	0	0
India	12.8[†]	-	2	1	2	-	-	-	-	0
Russian Federation	27.5[†]	22.8[†]	-	1	-	-	0	-	0[†]	0
South Africa	*29.0*	*30.1*	*2*	*2*	-	-	*1*	*1*	*0*	*1*
Notes:										

[†] Where no 2019 value is available, the most recent value from within the past five-year period is used.

[1] Membership proportion: Union membership as a proportion of total number of employees.

[2] Coverage: Employees covered by collective (wage) bargaining agreements as a proportion of employees who are not excluded from collective bargaining.

[3] Wage bargaining level: 5 = bargaining predominantly takes place at central or cross-industry level; 4 = bargaining intermediates or alternates between the central and industry level; 3 = bargaining predominantly takes place at the sector or industry level; 2 = bargaining intermediates or alternates between the sector and enterprise level; 1 = bargaining predominantly takes place at the company or enterprise level.

[4] Extension of agreements: 3 = extension is virtually automatic and more or less general (including enlargement); 2 = extension is used in many industries, but there are thresholds and ministers can (and sometimes do) decide not to extend (clauses in) collective agreements; 1 = extension is rather exceptional, used in some industries only, because of the absence of sector agreements, very high thresholds (supermajorities of 60% or more, public policy criteria, etc.), and/or resistance of employers; 0 = there are no legal provisions for mandatory extension or a functional equivalent.

[5] Degree of coordination: 5 = binding norms regarding maximum or minimum wage rates or wage increases issued as a result of a) centralised bargaining by the central union and employers' associations, with or without government involvement, or b) unilateral government imposition of a wage schedule/freeze, with or without prior consultation and negotiations with unions and/or employers' associations; 4 = non-binding norms and/or guidelines (recommendations on maximum or minimum wage rates or wage increases)

issued by a) the government or government agency, and/or the central union and employers' associations (acting together or alone), or b) resulting from an extensive, regularised pattern setting coupled with a high degree of union concentration and authority; 3 = procedural negotiation guidelines (recommendations on, for instance, wage demand formula relating to productivity or inflation) issued by a) the government or government agency, and/or the central union and employers' associations (together or alone), or based on arbitration awards, or b) resulting from a not yet regularised pattern setting coupled with a medium degree of union concentration and authority; 2 = some coordination of wage setting, based on pattern setting by major companies, sectors, government wage policies in the public sector, judicial awards, or minimum wage policies; 1 = fragmented wage bargaining, confined largely to individual firms or plants, no coordination.
[6] Type of coordination: 6 = government-imposed bargaining (incl. statutory controls in lieu of bargaining); 5 = government-sponsored bargaining (this includes social pacts, provided they deal with wages); 4 = inter-associational by peak associations; 3 = intra-associational ('informal centralisation'); 2 = pattern bargaining; 1 = government sets signals (public sector wages, minimum wage); 0 = no specific mechanism identified.
[7] Status of bargaining council: 2 = existence and rights of works council or structure for (union and non-union-based) employee representation within firms or establishments confronting management are mandated by law or established through basic general agreement between unions and employers; 1 = works councils (etc.) are voluntary, that is, even where they are mandated by law, there are no legal sanctions for non-observance; 0 = works council or similar (union or non-union) based institutions of employee representation confronting management do not exist or are exceptional.
[8] Bargaining council involvement: 4 = works councils (or mandated representatives) formally negotiate (plant-level) collective agreements, alongside or instead of trade unions; 3 = works councils (or mandated representatives) formally negotiate (plant-level) collective agreements, if no union is present (and/or subject to ballot); 2 = works councils are formally (by law or agreement) barred from negotiating (plant-level) agreements, but informally negotiate over workplace-related working conditions or 'employment pacts', including pay; 1 = works councils are formally (by law or agreement) barred from negotiating (plant-level) agreements and involvement of works councils in negotiating (plant-level) agreements is rare; 0 = does not apply, works councils or similar (union or non-union) based institutions of employee representation confronting management do not exist or are exceptional.
[9] Signed social pact: 0 = no; 1 = yes.
[10] Tripartite council: 2 = tripartite council with representation from the trade unions, employers' associations, and independent experts or government (appointed) representatives; 1 = council with various societal interest representatives, including unions and employers; 0 = no permanent council.

Source: Database on Institutional Characteristics of Trade Unions, Wage Setting, State Intervention and Social Pacts (ICTWSS)

5. The political economy of concertation in South Africa

5.1 The scope for concertation

In South Africa, there are various barriers to internalising macroeconomic outcomes through collective bargaining. The bargaining system is partially centralised at a sectoral level but is broadly uncoordinated*.* The scope of centralisation has shrunk over time; unionisation is low in general but highly centralised in certain large sectors. These latter sectors include finance, basic iron and steel, automotives, mining and the whole of the public sector. Some of these sectors have high levels of labour productivity and compete with external rivals, making them more sensitive to the need to moderate inflation. Some use collective bargaining to limit domestic competition from less capital-intensive rivals (Hausmann 2008). The finance and public sectors are essentially non-competitive and do not systematically align with the inflation target or inflation forecasts. The public sector commands a large and significant wage premium that contributes to undermining competitiveness in low-skill-exposed sectors (Bhorat, Van der Westhuizen and Goga 2009). In this environment, what might we expect social pacts to achieve?

When unions and businesses are unlikely to moderate their price and wage increases in line with productivity growth through a collective bargaining process, an explicit agreement such as a social pact can help coordinate the necessary adjustments. Social pacts have been successful in countries facing macroeconomic challenges and with collective bargaining characteristics like South Africa. For example, Ireland faced increasing unemployment, high government debt and deficits, and stagnant investment during the 1970s and early 1980s. A series of social pacts from 1987 moderated wages through centralised wage bargaining agreements. What is important about this for South Africa is the critical role played by public sector unions and the broader strategy of fiscal consolidation, greater exchange rate stability, and containment of domestic price pressures aimed at growing the economy and employment by increasing competitiveness relative to trading partners. Unions agreed to wage moderation in exchange for tax cuts that would increase net income. During the first pact, this led to higher real wages due to low inflation and tax cuts (O'Donnell and O'Reardon 2000). Although the impact of the pacts is contested, there is broad consensus that they reduced workplace conflict; less so that they encouraged wage moderation. Those critical of the impact point out supply-side factors such as the return of skilled Irish workers and increasing female labour force participation that would have moderated wages regardless. Those in support highlight that wages were not moderating in the period prior to the first pact despite rising unemployment.

In South Africa, a high-level social pact could include concertation around the broad contours of active labour market policies and how they would work to maintain jobs and increase new job creation in the context of job destruction and falling international competitiveness (Figure A.4).[32] International examples include using a wage norm derived from trading partner labour costs (the so-called 'Scandinavian model') or mitigating the effect of job losses by providing government-funded active labour market programmes. Examples of such programmes include supporting the unemployed to start a business, as in the Czech Republic (Dvouletý 2022); improving the employability of migrants in their studied profession, as in Sweden (Ennerberg 2022); providing training vouchers for women re-entering the labour market, as in Germany (Doerr 2022); and successful vocational education and training programmes, as in Austria, Germany and Switzerland (Ebner and Nikolai 2010).[33]

Additional areas of policy concertation could include fast-tracking corporate tax reforms; introducing collective ownership schemes, public works programmes and social grant reform; and prioritising public infrastructure investment projects (especially

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32 For example, Levinsohn (2008) argues for a targeted wage subsidy and immigration reform.

33 Vocational education and training programmes provide employment opportunities for participating workers and higher productivity and effort for employers. However, to reap this win-win outcome several conditions must be fulfilled (Hoeckel 2008). There must be a minimum degree of structural stability that can guarantee that by the time a vocational education and training programme is operational, the jobs for which participants are educated are still there, while the curriculum is sufficiently flexible to integrate new technologies and skills needed for employability. Providing work-based training in combination with school-based education is costly not only for public finances, but also for the participating employer. Therefore, employers are usually granted some screening authority for access to such programmes, and successful graduates from such programmes receive an employment guarantee for a specific period. Finally, social partners need to be competent enough to participate in the development of certified curricula that deliver the needed skills and provide acknowledged diplomas. Challenges in this area are to guarantee high-quality placement, upskilling and requalification programmes, and to reduce deadweight costs. Alternatively, public employment can be a vehicle to help reallocate and requalify workers. A successful approach applied by the German labour market reforms of the mid-2000s (the Hartz reforms) was to start with a reform of the public employment service, which was made responsible for freely choosing among different measures to minimise unemployment within a predetermined budget envelope (Launov and Wälde 2016).

energy provision). In response to the global financial crisis, countries like Ireland, Latvia and Portugal, among others, needed to reduce fiscal deficits quickly. In these cases, salaries of public sector workers were reduced as part of a broader agreement with private sector firms and unions.

However, few of these objectives are clearly articulated in South Africa's bargaining forums at present, and past attempts at negotiating a social pact through the National Economic Development and Labour Council (NEDLAC) – as a representative body intended to reach agreement through negotiation and discussion involving organised labour, organised business, and government, including community organisations – have failed to achieve accord on these sorts of issues (Kim and Van der Westhuizen 2015). There are both institutional and ideological reasons for this.

5.2 Concertation in a historical context

Collective bargaining in South Africa remains fraught and violently contested. This is despite a legal framework and institutions developed to mitigate violent and disruptive industrial disputes by improving workers' rights and protections.[34] NEDLAC was established in 1995 in response to the political-economic crisis and had a broad aim of achieving social stability and economic growth through sustainable inclusive development (NEDLAC 1995).[35] However, NEDLAC has been unable to arrive at

[34] The mineworkers' strike of 1922 (the Rand Rebellion) ended with military intervention and 153 people killed, 687 injured and 4 executed for treason. The political and labour relations ramifications included the fall of the Smuts government and the institutionalisation of collective bargaining for white workers. Nearly 25 years later, a violent strike by black mineworkers in 1946 resulted in 9 deaths and more than 1,200 injured. The aftermath resulted in a victory for Afrikaner nationalists in the general elections of 1948, followed by the formation of the Congress Alliance between the African National Congress (ANC) and the South African Congress of Trade Unions (SACTU) in 1955. A wave of strikes in 1973 led to reform of the industrial relations system in 1979, allowing for the formal recognition of trade unions for black workers and their right to join the established collective bargaining system. During the 'struggle years' in the 1980s, several major strikes turned violent as workers became frustrated with the lack of attention to their grievances and lost faith in negotiation processes. As a result, the right to strike was constitutionalised, and the right to picket was included in the Labour Relations Act (Anstey 2013; Webster 2017).

[35] In 1992, during the transition to democracy, the apartheid government formed the tripartite National Economic Forum (NEF), bringing labour, business and government together in a forum for negotiation. The apartheid social contract was predicated on racial exclusion, oppression and inequality (Cloutier et al. 2022), but increasing domestic politic unrest, combined with international economic sanctions, pressured the viability of the apartheid model (Hirsch and Levy 2018). A weak and increasingly illegitimate state was forced into joint policy-making structures (Schreiner 1994). The parties agreed that elections should take place and the democratic elections of 1994

agreement on economic policy positions for various reasons. Some of them are related to who was represented on the body (insiders) and who was not (outsiders: the less skilled, the unemployed and the youth).[36]

The post-apartheid economic policy debate has centred on efforts to re-integrate with the world economy and on shifting to sustainable macroeconomic policies. However, critical policy frameworks (such as labour market regulation and trade policy) have worked directly against the increase in competitiveness that would make re-integration or the dissolution of the domestic economy's dualistic structure successful. Increased competitiveness and job creation require economic growth and policies targeting inclusion, rather than the zero-sum views that have persisted in the democratic era. If not necessarily an overt effort, the modernisation of the economy was frustrated by efforts to achieve relatively simple objectives, such as negotiating for wage compression, high unit labour costs for entry-level workers, and even temporary tariff barriers. As a result, South Africa's policies could neither comprehensively set a course for modernisation and growth, nor return to the zero-sum super-Keynesianism and financial repression of the pre-democratic era. The gap was filled, on the one hand, by favourable commodity prices and an expansion of financial and services industries, and on the other, by productivity losses through corruption and political rent-seeking.

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replaced the apartheid system with a social contract organised around three policy platforms: the expansion of the social protection system; a focus on deracialising control of the economy through affirmative action policies; and transformation of ownership of the economy through black economic empowerment policies (Cloutier et al. 2022). Post-apartheid, the NEF merged with the National Manpower Commission to form NEDLAC in 1995 (Labour Market Commission 1996). However, attempts at negotiating a social pact through NEDLAC failed to achieve accord (Kim and Van der Westhuizen 2015).

36 Basset (2004) finds that NEDLAC was marginalised from the outset because all parties were reluctant to commit to policy compromises. Nattrass (1999) and Harcourt and Wood (2003) argue that labour's early and continued rejection of wage restraint during the NEDLAC negotiating process was a key factor that undermined attempts at social accord. Kim and Van der Westhuizen (2015) find labour's failure to represent a broader constituency beyond the formally employed (an insider-outsider problem), a lack of technical capacity within the labour movement, and NEDLAC's organisational inefficiency to be critical factors that undermined NEDLAC's success. Webster, Joynt and Metcalfe (2013) find that a critical factor preventing a successful social pact is a breakdown in trust in government's commitment to social dialogue. Hirsch and Levy (2018) find that the manner of the introduction of the Growth, Employment and Redistribution (GEAR) programme weakened trust between the ANC and unions. Bhorat, Cassim and Hirsch (2017) and Hirsch and Levy (2018) argue that a lack of effective policy coordination and implementation, and corruption have also undermined trust.

5.3 Contested economic fundamentals and lack of voice

Perhaps the biggest impediment to successful concertation in South Africa lies in the vastly different roles seen for macroeconomic policy in delivering more desirable growth outcomes (Padayachee and Van Niekerk 2019). It is also clear that the impact of microeconomic features of the economy such as specific regulations governing labour markets is contested. In other words, critical economic relationships in the economy are the ongoing subject of political conflict rather than being verified by analytical assessment. This lack of evidence-based or best practice analysis is unlikely to lead to good public policy outcomes and clearly has not done so. Without some basic common understanding of what specific policies do and how they achieve larger economic goals, it is difficult to see how greater focus on the process of compromise, reciprocity and commitment can on its own further narrow the gap in perspective.

A key lesson from the social partnership literature is that one way to narrow this gap is to ensure that actors in accords, or collective bargaining agreements, represent the interests of *all* economic actors affected by the relevant agreement. This question of composition of 'voice' is critical to the institutional mechanism and process in general, and specifically in South Africa's clear insider-outsider dynamics. Representation is, however, likely to remain a serious constraint on shifting to better policies, as weak growth undermines the creation and growth of smaller businesses, and real wage disequilibrium favours capital intensity over labour intensity. These factors keep those most negatively impacted by current policy choices on the 'outside' of the concertation process.

Another lesson from international experience involves the appropriate remit of social pacts – some market failures or unintended consequences of policy are less amenable to negotiated solutions. A good illustration of this is that coordination mechanisms were actively used when inflation, lack of competitiveness and large fiscal deficits were the main problems in the 1970s. However, when unemployment became a serious problem in many advanced economies in the 1980s,[37] many countries reformed their

[37] Unemployment is a volume problem indicating that the unit labour cost (wage for productivity) is too high for all workers that want to work (or when aggregate demand is too low from some shock).

laws to make labour markets more flexible. In mixed economies, legal and regulatory frameworks set the context for market behaviour – what is allowed as legal market conduct and how that is regulated. When bad economic outcomes are caused by the capacity of specific actors to use the regulatory framework to make demands that they would not be able to in a better-designed framework, high-level coordination will likely not achieve much without reform of the regulatory framework.

6. Conclusions

The benefits of distributing problem-solving to processes and agents best able to solve them should be understood as a key step in attaining sustainable economic growth. Getting the right approach – good regulation plus effective coordination between productivity and real wages – has been critical to sustainable economic growth models, particularly for smaller, open economies that need to have large export sectors (relative to GDP). In terms of the stylised 'Nordic model', for example, parties to centralised bargaining understood that if wages increased above productivity, inflation would rise, competitiveness would fall, and investment would decline, against the interests of both workers and employers. Social pacts enabled unions in traded goods sectors to set wages at levels consistent with ensuring international competitiveness and contributed to raising average productivity by putting pressure on low-productivity firms and sectors.

It is often claimed that South Africa's poor coordination, high inequality and deteriorating social cohesion can best be addressed by such a social pact. But to the extent that the economic fundamentals driving these problems are contested, it is unclear whether the kind of social pacts often touted will be of much use. We trace high inequality and its political dimensions to clear dysfunctions in critical factor markets and a lack of common understanding of sustainable macroeconomic objectives and policy. The result is a breakdown in the sequence of links between microeconomic exchanges and macroeconomic outcomes. These are not barriers easily addressed by a process of concertation towards a social pact. To best address these interacting dynamics, collective bargaining systems need to achieve healthy price-wage determinations and be guided by macroeconomic policy objectives. For smaller open economies, the conditions to achieve such outcomes can be found within a policy regime of flexible exchange rates and inflation-targeting monetary policy that align prices to international markets. This is because failure to have an internationally competitive price level results in macroeconomic disequilibrium and job losses over time. These disequilibrium dynamics are not a key focal point within bargaining forums at present, highlighting failure within the bargaining process.

In South Africa, price setting remains above the inflation target in key sectors, reflecting microeconomic inefficiencies that constrain employment and growth and exacerbate inequality. Where the bargaining system is organised, it features an intermediate (and broadly less efficient) level of coordination, allowing neither productivity bargaining at the firm level, nor the internalisation of externalities at a national level such as inflation. Bargaining in some sectors is highly concentrated and encompassing, like much of mining. Other sectors are only marginally representative and determine sector-wide outcomes by virtue of legal and quasi-legal restrictions that limit opt-outs. Sectoral minimum wages are determined by a national committee that covers workers and firms not covered by collective bargaining. While there is a national body that convenes to discuss economic matters and is implicitly meant to be a vehicle for social pacts, it appears to have no focus on wage and price determination and makes no link between microeconomic systems and macroeconomic outcomes. In a broad sense, the system generates wage and price outcomes inconsistent with inclusive growth, choosing to deepen the capital intensity of production at the expense of labour.

To promote more inclusive growth, South Africa's bargaining system requires a more internationally competitive, market-based price determination process that improves coordination between productivity and real wages. Where regulations or laws generate incentives for bargaining structures to negotiate wages or prices as entry barriers for new suppliers or smaller enterprises, public policy should, therefore, first focus on competition-enhancing policies that remove monopolistic behaviour in the relevant markets. In South Africa this would include removing regulation that prevents dual-level bargaining. Thereafter, representative and inclusive coordination mechanisms should have a better chance of successfully defining outcomes that lead to general economic gains for all.

A credible inflation-targeting monetary regime is another important tool for improving coordination. In this context, given credible macroeconomic frameworks, wage and price determination systems eventually adjust to more consistent pricing (where real wages and productivity are sustainably aligned with competitive market conditions). The long-term decline in average inflation rates in the South African economy reflects success in achieving a credible inflation-targeting framework,[38] but price setting remains above the inflation target in key sheltered sectors in South Africa. This costs the economy in terms of growth and jobs, and price setting in these sectors needs to be aligned with the inflation target to arrest these distortions.

With a credible inflation target and sustainable fiscal policy in place, more flexibility to support economic growth and job creation should come from a collective bargaining framework that does two things. First, at a national level encompassing both sheltered and exposed sectors, it should provide nominal guidance aligned to the inflation target and cognisant of international competitiveness. Second, the framework should allow for firm-level productivity-based adjustments for parties subject to sector-wide agreements and opt-outs for firms and workforces that choose not to participate. Some studies have found that high wage flexibility can act as an implicit subsidy to low-productivity firms, and that this can hamper structural adjustments where re-allocation of capital and labour is required.[39] However, this concern appears more relevant for mature economies close to the efficiency frontier where the primary challenge is to move along the efficiency frontier following relative price changes.

The South African context is different. High levels of capital intensity and low labour utilisation mean market entry is likely to be dominated, at least in the short to medium run, by labour-intensive firms behind the efficiency frontier and needing time to catch up to the frontier. Greater coordination guided by the nominal inflation target, along with firm-level productivity-linked wage flexibility, increases the scope for a wider range of capital and labour combinations across the economy. This has been found to

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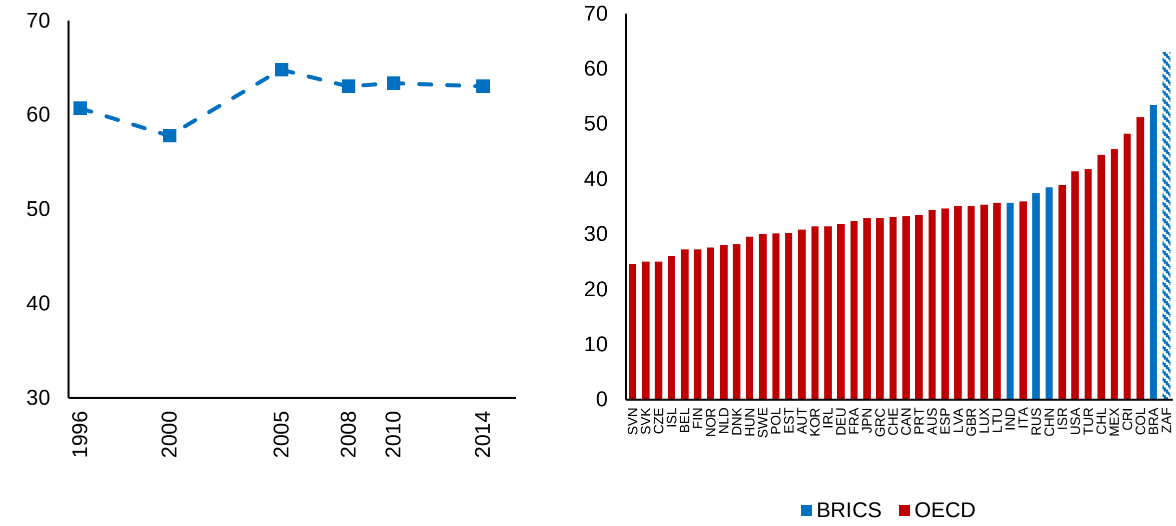
[38] The South African Reserve Bank (SARB) has demonstrated commitment to its inflation mandate and has reduced both the aggregate level and volatility of inflation.

[39] See Guger (1992).

facilitate growth and job creation, providing resources for reducing poverty and inequality over time.

Appendix

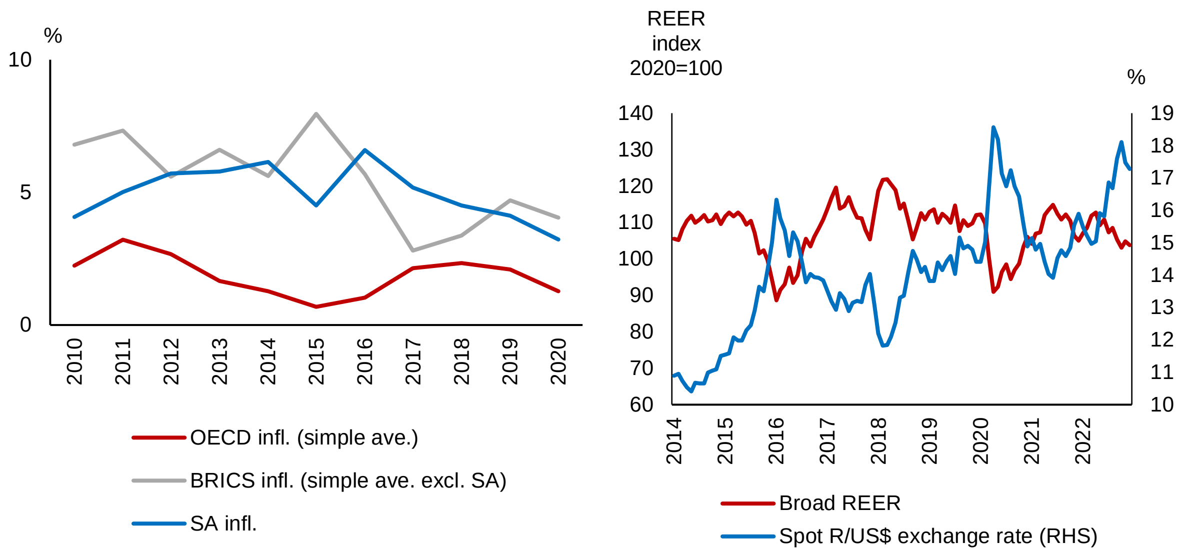
Figure A.1: South Africa's World Bank Gini coefficient estimates



Sources: World Bank and SARB calculations[40]

Figure A.2: South Africa's inflation and the exchange rate

(a) Comparative inflation (quarterly y-o-y % change) (b) SA exchange rate



Sources: OECD, FRED and SARB calculations[41]

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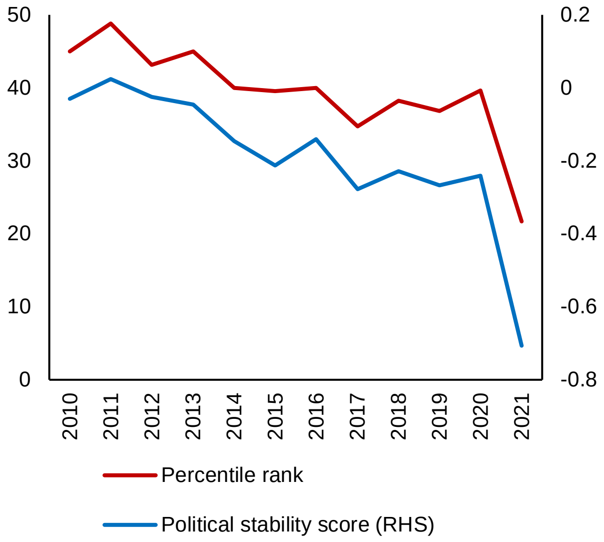
40 The bar chart plots the most recent Gini coefficient data available for each country (South Africa = 2014). World Bank data available at: https://data.worldbank.org/indicator/SI.POV.GINI?locations=ZA

41 OECD data available at: https://stats.oecd.org/; FRED data available at: https://fred.stlouisfed.org/tags/series?t=exchange+rate%3Bsouth+africa

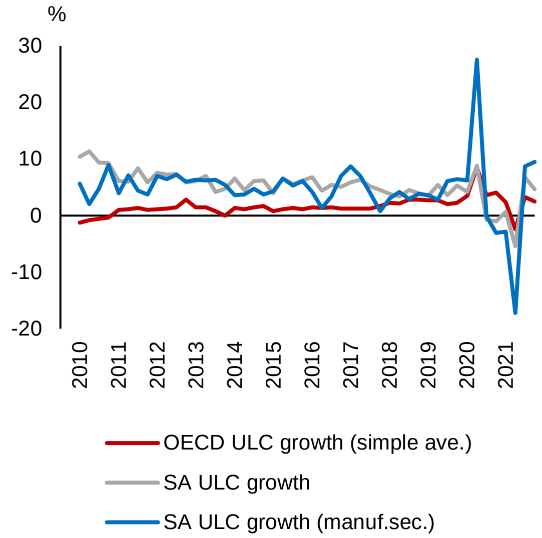
Figure A.3: South African World Bank 'political stability and absence of violence' measure



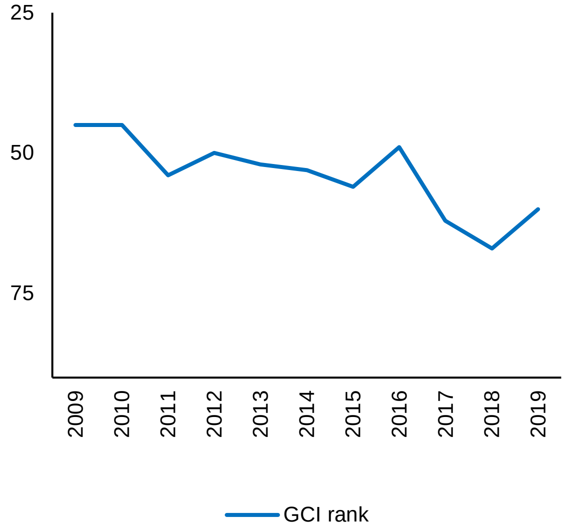
Sources: World Bank and SARB calculations[42]

Figure A.4: South Africa's global competitiveness

(a) ULC growth (quarterly y-o-y % change)



(b) SA global competitiveness index rank



Sources: OECD, WEF and SARB calculations[43]

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42 The World Bank's cross-country political stability and absence of violence indicator (-2.5 weak; 2.5 strong) measures perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism. Data available at: https://databank.worldbank.org/source/worldwide-governance-indicators#

43 OECD data available at: https://stats.oecd.org/; WEF GCI data available at: https://databank.worldbank.org/metadataglossary/africa-development-indicators/series/GCI.INDEX.XQ

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