Social Equity and Job Creation

The key to a stable future

Proposals by the South African labour movement

Introduction

Two years after the 1994 elections, South Africa remains a society characterised by vast inequalities, in wealth, economic power and incomes. Much progress has been made to build a common nationhood, to normalise political processes and to create a culture of freedom. We now face the challenge of addressing the glaring inequities in our country.

In the process, some hard choices need to be made. As the white population had to give up its monopoly of political power in order to usher in the new democracy, so the economic elite should now be challenged to share the wealth and resources of our country to the benefit of all.

This critical requirement for the new democracy - the active promotion of social equity - is the key objective organised labour sets for itself during 1996. We do this because too many South Africans are poor, underpaid or unemployed, homeless and with their basic needs and requirements not satisfied by the economy.

Social equity in South Africa, and particularly the reduction of the vast inequalities in the society, must entail

- substantial redistribution of wealth,
- the eradication of poverty,
- the promotion of worker rights,
- increased employment
- the development of the full human potential of our people, and
- the provision of basic infrastructure and services to all citizens.

The Reconstruction and Development Programme (RDP) calls for a programme to satisfy the basic needs of all South Africans. It calls for the development of our people. It calls for workers rights, and the building of the economy. These central pillars of reconstruction in the RDP should now be given concrete expression.

Labour puts forward this framework as a first contribution to the current debate, and in order to clarify to the society what our analysis of the current situation is, and what our vision for the future entails.

A very unequal society

According to the HSRC, the poorest 40% of households in South Africa earn less than 6% of total income, while the richest 10% earn more than half the total income. While africans make up 76% of the population, the african share of income amounts to only 29% of total income.Whites, who make up less than 13% of the population, takes away 58.5% of total income. (Source: HSRC. A Profile of Poverty, Inequality and Human Development in South Africa. 1995).

Income inequality is sometimes measured by the Gini co-efficient, which allows for comparisons across countries. By this measure, South Africa has, in the words of the recent study on Key Indicators of Poverty in South Africa, 'among the highest income inequality in the world'. The study cites comparative figures - 0 signifies absolute equality and 1 absolute inequality:

Poland	0.27
Tunisia	0.40
Thailand	0.43
Zambia	0.44
Malaysia	0.51
Chile	0.58
South Africa	0.61

(*Only Brazil had comparable figures*)

The poorest 53% of the population account for less than 10% of total consumption in our country, while the richest 6% of the population account for over 40% of consumption.

Of the poorest part of the population, a third live in shacks or 'traditional dwellings'. Of the poorest 53% of the population, about 80% have no access to electricity, about 70% have no access to piped water to their premises, and more than 80% no access to modern sanitation.

Inequalities in education and health care are as striking. Every indicator, from attendance at university, to the incidence of TB or stunting rates among children, tell the same story : the wealthy have a great quality of life, and our community pays the price for their lifestyle.

(*Source: Study on Key Indicators of Poverty in South Africa, Saldru/World Bank 1996*).

Even commentators not particularly sympathetic to organised labour, are struck by this contrast. The World Bank study in mid 1994 admits:

> 'While only one in a hundred white children dies in infancy, ten of every hundred African children do - five of them from easily preventable conditions. Of African children who reach the age of five, more than half suffer stunted growth because of inadequate nutrition. Among those who manage to enter school, only one in seven reaches standard 10, after many years of repetition. Of adults, fewer than half work in the formal economy. For those who become parents, the maternal mortality rate is 70 times higher among Africans than among whites. The cumulative effect of such inequity carries through life. Per capita, whites earn 9.5 times the income of blacks and live, on average, 11.5 years longer. In sum, South Africa exhibits that most bitter of social outcomes: destitution amid plenty.'

(*Source: Reducing Poverty in South Africa, The World Bank, June 1994.*)

These inequalities are not accidental: they are the natural outcome of the low wage policies, followed by the private sector, and the deliberate policies of the old state to under-spend on social services for black people.

A newly developing country such as Malaysia outperformed South Africa in social spending. Even Cuba, a smaller economy than ours, has an impressive record of investment in health care.

Take for example a comparison between Malaysia and South Africa, between 1998-1993, for spending on Education, Health and Housing as a percentage of total central government expenditure. (*See table 1*)

Table 1

	1988	**1989**	**1990**	**1991**	**1992**	**1993**
Malaysia	31.2	31.6	31.7	31.3	31.5	31.5
South Africa	19.0	16.7	16.1	20.1	18.6	26.1

Powerful conglomerates

Our country has a very high concentration of ownership and control by a few large corporations. Indeed, the level of control, based on market capitalisation of the Johannesburg Stock Exchange (as at January 1995), shows the following:

The concentration of economic power has been helped by the weak competition policies followed in the past, and the use of pyramid companies to grant control to holding companies far in excess of the actual equity invested.

Such high levels of economic concentration, combined with a corporate culture which excludes workers from decision-making, produces a society of powerful and powerless, wealthy and poor.

The current holders of economic power have acquired their wealth over the last few hundred years through land dispossession, the conquest of black people and the exploitation of black workers. Our country's 'economic miracle' of the past has been based on the low wages and migrant labour system imposed with brutal force on black people.

In more recent times, business has engaged in speculative activities, which have served to foster unproductive economic activities, and instead of investment in plant, equipment and people, it has invested in shopping malls, and huge glass and concrete towers as monuments to the sterility of the corporate and financial sector. This must change now.

Economic growth and development

The debate about growth is important, for with the wrong policies, we may achieve either no growth, or growth which benefits shareholders, but offers no equity to workers and the unemployed.

The relationship between growth and equity is complex. It is certainly not true that increased growth leads automatically to increased equity. Indeed, the experience of the Reagan-Thatcher years has shown that growth in those societies came at the expense of the poor.

The U.S. has developed into a society where greater numbers of people have insecure tenure of employment, working in the casual, part time and low wage sectors, and where the success of a company is now measured by the numbers of people it is prepared to retrench. The Chief Economist of the U.S. Department of Labour reported recently that overall wage inequality in the 1980's increased in the United States to levels greater than at any time since 1940. The inner cities are wrecked by crime, and a black 'underclass' is growing by the day.

There are two distinct relationships in the growth-equity nexus which is important for public policy making. First, programmes which promote social equity can lead to economic growth. Second, particular types of growth can lead to greater equity in a society. These are explored below.

Social equity programmes may enhance growth in a number of ways. Investment in public infrastructure can significantly reduce production costs (as studies show was the case for Germany, Japan, Mexico, Sweden the UK and the United States). The World Development Report of 1994, published by the World Bank, concedes that 'many studies ... have concluded that the role of infrastructure in growth is substantial, significant, and frequently greater than that of investment in other forms of capital.'

Land reform policies have played a major role in stimulating economic growth in many countries. In China, land reform has allowed for new surpluses to be generated in agriculture. This has been complemented with a 'minimum package' of transport, telecommunications and power at village level, which led to a massive expansion in the productivity and performance of rural enterprises.

Wage policies which sought to increase earnings of workers, combined with programmes to increase contractual savings, have been used in Singapore as a key means of generating domestic savings to finance the expansion of economic activity.

Investment in health can contribute to raising the overall productivity and output of the economy. The World Bank itself reported a 9% rise in national output in Sri Lanka through the programme to eradicate malaria in that country.

In our country, the Key Indicators of Poverty in South African Study (produced by Saldru and published by the RDP office), draws attention to this relationship. Not only are the intense levels of poverty highly inequitable, they also constitute a brake to improving economic performance. The study records:

- 'The rural african poor, who make up the vast majority of the poor, face a number of specific barriers that prevent them from increasing their economic productivity. On average, these households spend more than three hours a day fetching water. In addition, rural African households in the poorest quintile who rely on firewood spend more than one hour daily collecting wood.'

The World Bank study on Reducing Poverty in South Africa argues

- 'Redirecting public expenditure on urban infrastructure and services towards the black community would have an immediate and rapid impact on poverty and inequity. Such a strategy would also contribute to economic growth. In the short run, an intensive programme of broadening access to basic services will directly create employment opportunities. Over a longer horizon, a network of urban services and infrastructure would improve the workings of the urban economy by facilitating ready communication among firms and people.'

This first relationship has explored some of the linkages between increased equity, and increased economic performance. It informs an important part of the proposals we submit in the later parts of this document.

Let us turn to the second relationship. Growth can in turn enhance social equity. It can do this in South Africa when it is labour absorbing growth, when the nature of the economic activities measured in the growth figures contribute to a rising standard of living for workers and when enough of the resources generated by growth are transferred to the fiscus for redistributive public policies.

Recent economic growth, following the trend in certain liberalised markets elsewhere in the world, has been jobless growth. During 1995 for example, while the Gdp grew by 3,5%, much of this was jobless growth. The annualised rate of employment growth, based on the first half of 1995, was only 0.3%.

The Department of Finance Budget Review of 13 March 1996 advises that available data suggest that only 55,000 new jobs were created in the formal non-agricultural sectors during the last year. This is substantially below the number of new entrants to the labour market, and means therefore that, notwithstanding the growth performance, unemployment increased both absolutely and proportionately. So, for organised labour, as indeed for the majority of people in our country, it is not growth per se which is the measure of the economy's success - it is growth which fosters job creation which is critical.

Social equity requires substantial economic growth. Growth is important for workers, for it can provide an important basis to finance a rising standard of living. It can provide employment for all, and it is able to finance increased tax revenues to pay for the delivery of social services to the poor.

Growth is fostered by investment, training and technological innovation. These key engines of growth both contribute to, and are encouraged by, rising productivity. An important part of stimulating sustainable growth is to improve productivity and efficiency in the workplace. This includes labour productivity but is by no means confined to it. Rising productivity can make local industry more competitive, and can provide a major contribution to growth.

It is regrettable however that the debate on growth has been used by sections of the business community to launch a systematic attack on organised workers and on social equity, as if the goal of economic growth is not precisely to foster social equity.

The role of the state in the promotion of economic growth needs to be addressed. One perspective asserts, without any evidence, that the best role for the state is no role at all (other than combatting crime and keeping macro-economic balances). The other perspective, put forward by the trade union movement, draws on the experiences elsewhere which demonstrate the economic value of particular types of state intervention in the economy.

Japan, Korea and Taiwan intervened strongly and systematically in markets with industrial, trade and financial sector policies, to advance economic expansion, productivity, growth and export performance. Even Singapore, Malaysia, Thailand and Indonesia previously used, and China today uses, active industrial policy measures by the state to influence the pattern and rate of economic activities. With such widespread evidence, it is surprising that Anglo-Saxon economic orthodoxy still seeks to limit, rather than enhance, the role of the state.

Organised labour does not argue for the wholesale copying of these countries - indeed, their record on worker rights and human rights, have generally been poor. Many of these countries have lacked democratic institutions of governance, and multi-party democracy. Yet, when they are cited with approval by local businessmen, their interventionist policies in the economic arena are not mentioned. Their labour policies however are strongly supported by such commentators.

Market deregulation, or the 'rule of the free market' is often put forward as the main engine to develop the society. In theory, the immediate freeing of markets would allow capital, labour and other resources to flow to the areas where they can most productively be used. In practice it is not so clear, nor so simple. Societies which have deregulated their markets have not necessarily grown fast.

Many market failures - particularly the failure to allocate resources to education and training, or to investment in infrastructure and big capital projects - have led to poorly performing economies. The premature and unco-ordinated removal of tariffs, without attempts to address structural weaknesses of local industry, has wiped out employment. The failure to have financial market regulation has led in some countries to the collapse of major financial institutions, and of public confidence in the financial system. The system itself has often been inadequate in allocating capital to new economic activity.

Indeed, a study by Palle Andersen, head of research at the Bank of International Settlements shows that the link between liberalised financial markets and faster economic growth is not borne out by the empirical results of the performance of a number of Asian economies.

(*Source: Economic Growth and Financial Markets, in Amex Bank Review, 1993*).

Nor does recent research show an increase in savings in poor countries after the liberalising of financial markets. The Economist magazine, a strong supporter of market liberalisation, acknowledged that, in some countries 'the freeing of the financial sector has been followed by a sharp decline in private saving ... . Financial liberalisation can thus cause saving to fall'.

(*Source: Economist, March 9th, 1996*).

Markets have been inadequate in responding to the social needs of human beings - in setting decent wages and fair standards, in protecting the poor and the marginalised, in correcting imbalances of wealth and inequality and in addressing the problems of exploitation.

Free markets, if reduced to the freedom to exploit, have led to the development of major inequalities and poverty in societies, and defeated the purpose of economic policy.

The alternative is a coherent development plan, based on market realities, and seeking to marshall resources towards the building of an efficient, dynamic economy.

All governments intervene in economic decision-making. Some do so through the blunter tools of fiscal and monetary policy only. Others have active industrial policies which create a strong support environment for companies to do business in, and thrive. Such policies address the flow of investment, the capacity of production and the availability of people and capital. It does so through a system of incentives and requirements.

South Africa needs a set of active policies, which builds a partnership for growth between the public and the private sector.

We put forward the alternative economic vision set out in this document as a challenge to an economy, which, whilst under the stewardship of big business, has failed our society.

A sterile business response

It is telling that the business community represented by the SA Foundation has launched a well-financed and well publicised campaign to cling onto their wealth. They do so by creating a range of red-herrings, such as the alleged 'inflexible' labour markets and the alleged 'labour elite'. In so doing, they seek to let poor people pay for growth and development, whilst keeping the wealth and power of the privileged intact.

Their policy prescriptions consist of a restatement (with graphs and graphics) of ideologically driven 'solutions'. Behind the gloss lies the oft-repeated programme of economic deregulation, lower tariffs, privatisation, weaker trade unions, lower corporate taxes, reduced labour standards and financial market liberalisation. This has become known as the 'neo-liberal' programme. It is a programme which has been advanced by the International Monetary Fund and the World Bank, and by international capital. South African business has merely repeated the stale and simplistic formulae underpinning this programme.

It is a programme to cut back the capacity of a democratic state to moderate the use of market power. It fails to acknowledge the real weaknesses in the economy, and the potential benefits in an active public sector fostering policies to promote growth.

It is a programme to weaken the trade unions, one of the important institutions in society which seek to advance social justice.

It is a programme which will divide society, strengthen the wealthy and reduce the prospects of negotiated agreements on the key challenges facing society.

In the process, big business seeks to repudiate key elements of agreements reached by their representatives with labour and government, on centralised bargaining (at the National Economic Forum in 1993) and on the Labour Relations Act (at Nedlac in 1995).

They talk the talk of tripartism, but they walk the walk of undermining labour standards.

The unemployed and business

The cynical attempt by business to blame workers for high levels of unemployment, needs to be challenged.

- First, it is the business community (not trade unions or workers) which retrenches thousands of workers each year. They do this simply in the chase for higher profits. Many companies continue to retrench ('downsizing' and 'rightsizing', they call it), even when making above average profits. Yet these same companies now blame workers for unemployment!
- Second, the uncompetitiveness of sections of the economy is precisely due to the low levels of investment by business in education and training of the majority of workers. The partial exception to this has been the resources put into training of white artisans and professionals, by the business community, and the public sector in the past.

  Successive editions of the World Competitiveness Report have placed South Africa at the bottom of the league of nations in human resource development. In the in-company training category, we are nearly at the bottom, ranked 40th in a list of 48 countries. In contrast, in areas such as infrastructure, finance and science and technology, the Report rates us as a mid-ranking country.

- Third, the cosy cartel of conglomerates which dominate the South African economy, have engaged in collusive and price-fixing practices which have blunted the ordinary competitive pressures in a market economy. The entry of foreign firms to the South African market has so often exposed the weaknesses, indeed the managerial incompetence of these large companies. In a telling comment, the authoritative Financial Times of London, for example, disparagingly described the senior executives of Anglo American Corporation as

  > polished Oxford-educated courtiers, for whom relations with the (Oppenheimer) family matter more than commercial ability.'
  > (*Source: Financial Times, 2 July 1992*)

  The detail may differ, but the indictment of incompetence applies equally to much of corporate South Africa. The Competition Board has been ineffective in breaking up these forms of corporate organisation which have failed to add value to economic processes, and which have brought no discernable benefits to society.

- Fourth, it is the employed workers which provide the social security net for the unemployed. The October Household Survey produced by the Central Statistical Services, reported the following breakdown of the economically active population:

Employed	8.2 million (57%)

Informal sector	1.5 million (10.5%)
Unemployed	4.7 million (32.5%)

- Given the absence of a publicly-funded welfare net in South Africa, workers provide accommodation, food and other help to unemployed family members. In addition, employed workers, not the owners of capital, buy from the informal sector in the townships, use the taxis and support spaza shops. The wages of the employed workforce therefore sustains the informal sector and the unemployed.
- In practice, Jabu Xulu who works in a metal factory, is the sole breadwinner, in a family which includes Cynthia Xulu, an ex-clothing worker recently retrenched. Cynthia's brother, Jonas Gumede, lives with them - he has been unable to find work since he left school. Their neighbour, Sipho Loro, sells meat at the taxi-rank, and Jabu buys from him once a week.
- Fifth, wages of many employed unionised workers are extremely low. Wage agreements concluded by trade unions set wages in Isithebe at R363.00 a month. Here are some further union negotiated wage rates, for the labourer or related category:

Motor Industrial Council*	R405.29 per month
Anglovaal Gold (Loraine) Surface	R508.00 per month
Randmines ERPM (Surface)	R569,00 per month
Transvaal Building Industrial Council*	R794.73 per month
Randcoal Douglas Underground	R873.40 per month

- (* = certain areas)
- According to the Labour Research Service, the average wage in unionised workplaces for South African labourers was R285 per week in 1995 - a wage well below what is required to maintain a reasonable standard of living. While some workers have made progress in the campaign to achieve a living wage, this is by no means the norm. Sensational press reportage of the higher than average wage of workers at particular companies does not reflect the reality of low wages in industry in general.
- A clothing sewing machinist, with 20 years experience in the industry, currently earns R276.50 per week in Johannesburg. The average wage in the mining industry, for a semi-skilled worker, is R336.85 per week. Even after years of collective bargaining struggles, average wages for a semi-skilled worker in the iron and steel industry and the metal industry is only R392.00 per week, and in the food industry, it is R396.84 per week.
- Contrast this with average earnings of executive directors of leading companies on the JSE who earn R67,000 per month (or R15,500 per week)!
- In rural areas, the picture is even grimmer. Wage determinations set the following wages for rural areas:

Clothing and knitting	R365.89 per month
Sweet manufacture	R446.00 per month
Goods transport	R506.61 per month
Commercial distributive trade	R469.81 per month

- In agriculture, wages in the Western Cape (not the lowest in the country) varied from as little as R87.00 per week for males, to R58.00 per week for females.
- These wages are even substantially below those of sections of the informal sector. A survey by Business Report earlier this year, makes the point tellingly. It sets out a few categories of informal sector earnings on the streets of Johannesburg (these are in practice tax-free income):

Haircutting	R2,600 per month
Banana sales	R1,300 per month
Mealie sales	R1,040 per month

- (*Source: Business Report, 23 January 1996. See Annexure 3*)
- Even the study by Saldru into poverty concedes that 44% of those covered by their definition of the poor (the poorest 53% of the population) are wage earners (regular and casual wages). In addition, 19% of the income of the poorest 53% of the population is derived from remittances, principally from earnings of migrant workers sent to dependents.
- (*Source: Key indicators of Poverty in South Africa, RDP Office*).
- This means therefore that up to 63% of the income of the poorest 53% of the population are from regular and casual wages, and from the earnings of migrant and commuter workers. So, on any definition of the poor, the earnings of workers form the bulk of income of our country's poorest people. Yet now business seeks to cut this income.
- Finally, it is big business that has shown unpatriotic tendencies, given its clamour for the removal of exchange controls in order to move capital overseas. Indeed, the life insurance industry alone, with an asset base of R500 billion of worker and individual policy holder incomes, seek to move more than R100 billion of business off shore in the event of a removal of exchange controls. (*Source: See Business Day, 4 March 1996*). This will have a dramatic, and damaging effect on the SA economy.

Yet the ploy to blame workers for unemployment is being pursued with ruthlessness by sections of business. Every new proposal to challenge their wealth, their power or the way they conduct business is immediately said to 'limit job creation' or to 'scare off investors'. These phrases have become the latest rationalisation for the powerful and the elite to cling onto their privileges in a society where the vast majority of people cry out for social justice. They are able

> to wheel out any number of ageing captains of industry' and well-paid economists to provide these standard sound bites. But it does not ring true, and it resolves no problems in our society.

It is time to break with the past

The RDP Base Document has a very clear analysis of the fundamental problems in South Africa. It says:

> 'Our history has been a bitter one dominated by colonialism, racism, apartheid, sexism and repressive labour policies. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. Our income distribution is racially distorted and ranks as one of the most unequal in the world - lavish wealth and abject poverty characterise our society'.

In the vision and objectives set by the RDP for Rebuilding the Economy, it says we need an economy which will

> 'Eliminate the poverty, low wages and extreme inequalities in wages and wealth generated by the apartheid system, meet basic needs, and thus ensure that every South African has a decent living standard and economic security...[and] ... create productive employment opportunities at a living wage for all South Africans.' (*clause 4.2.2, RDP Base Document.*)

South Africa has been on the other road: trade unions banned for african workers, wages shockingly low in general and lower still in the second part of the two tiered labour market which was the old decentralised areas, a powerful business community able to determine public policy in its own interest, and a criminal neglect of the basic needs of our people by government and business. That road has brought our country to ruin. It has divided the nation. And it failed to advance the interest of the people. Take for example the per capita GDP of so-called emerging market nations, many of whose wealth was well below that of South Africa, prior to the introduction of apartheid.

We must now break with these policies, and start on a fresh road as a country. Our call is for policies which are built on South African realities, and put our country, its workers and its citizens first.
