Abandoning Labour-Intensive Growth: Reflections of a Labour-Market Commissioner

Why, in a country beset with unemployment, is there so little concern with the labour-intensity of economic production and growth? Over the twenty years since I served on the Presidential Labour Market Commission, I have used the case of the clothing industry as a prism through which to understand this paradox. Employment in the industry has collapsed in part because of competition from China. But South Africa's labour- and industrial policies also played a role. Rapidly rising minimum wages in the non-metro areas have driven many low-wage, more labour-intensive producers out of business; whilst subsidies from the Department of Trade and Industry helped the higher-end fashion producers upgrade their machinery and consolidate around a core of relatively well-paid, skilled workers. "Decent work" for the few was achieved through rising capital-intensity and job destruction.

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This is tragic for the millions of unskilled, unemployed South Africans whose only hope of regular employment is a more labour-intensive growth path. Yet policy-makers today regard this as undesirable, uncivilized even, hoping instead that industrial policy can somehow catapult us onto a high-wage, high-productivity growth path that will be sufficiently rapid as to be labour-demanding, despite its capital-intensive nature. Proponents point to Japan, South Korea and (more recently) China where industrial policies facilitated industrial upgrading prior to the exhaustion of cheap labour supplies out of agriculture. Yet, these countries were also highly successful at absorbing significant numbers of workers in labour-intensive sectors and they never had to confront massive unemployment. Furthermore, South Africa does not have the domestic savings to finance a capital-intensive Great Leap Forward. Half of our investment goods are imported, which in the context of lackluster export performance and skittish capital inflows, means that economic growth inevitably crashes against balance of payments constraints. It makes much more sense to use our limited capital resources to create as many jobs as possible – i.e. to promote labour-intensive firms and sectors, not instead of but alongside the existing capital-intensive firms and sectors. Yet labour-intensive firms are stigmatized as 'sweat-shops' and actively destroyed.

This was not always the case. When South Africa made the transition to democracy, it was respectable to worry about the impact of minimum wages on employment, especially in the clothing industry, our most labour-intensive manufacturing sector. At that point, minimum wages in some areas were set through collective bargaining in regionally-based industrial councils, whilst firms elsewhere – except in the bantustans – had to comply with Wage Determination 471 (WD471) set by the Wage Board. One of the first tasks, for the new Minister of Labour (Tito Mboweni) in 1994, was to instruct the Wage Board to amend and apply WD471 across the whole of South Africa. Dudley Horner, a colleague at the University of Cape Town who was also chairman of the Wage Board, was very worried about the potential of WD471 to destroy the only significant source of employment in South Africa's most poverty-stricken areas. When WD471 was eventually amended in 1997, it set lower real minimum wages for rural areas and gave the poorest regions additional time to comply.

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I was appointed to the Labour-Market Commission in 1995. At the time Horner and his team were hearing evidence from affected firms and workers in the old bantustan areas. This inspired me to visit Phuthaditjhaba, the old capital of the QwaQwa bantustan, to see for myself what workers and firms thought about minimum wage setting. The clothing industry, initially attracted there by apartheid-era's industrial decentralization incentives, continued to operate even after these incentives were scrapped in the early 1990s because wages remained sufficiently low to maintain profitability. This dusty, sprawling home, to thousands of people evicted off farms, was heavily reliant on migrant remittances and on earnings from the clothing industry. Despite the pitifully low wages, clusters of women waited hopefully outside the factory gates for jobs.

My first stop was the office of the South African clothing and Textile Workers Union (Sactwu). To my surprise, the local organizer helped me set up interviews with the major firms and then insisted on accompanying me on my visits. I found this puzzling, but quickly came to understand that he was worried that I might inadvertently frighten the firms with talk about WD471. His standard introduction went something like this:

> 'This lady from Cape Town wants to talk about the new minimum wages that are coming. But you must not worry. We can talk more later. We are happy to negotiate, to introduce the wage increase slowly, slowly….'

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Back at the Labour Market Commission, I discovered how huge the gulf was between the concerns of the Sactwu regional office and national labour leaders. Ebrahim Patel, then deputy general secretary of Sactwu and Nedlac labour co-ordinator, dismissed the Chinese and Taiwanese clothing factories in Phuthaditjhaba and elsewhere as 'fly-by-night sweatshops' that had no place in the new South Africa. They were, for him, a living embodiment of the apartheid wage gap; a moral blot on South Africa's economic landscape. I remember wondering if the Phathaditjhaba shop stewards had any idea of the depth of his contempt for the very firms they were desperately trying to keep.

Not only did Patel want WD471 extended across the country as soon as possible, but as labour's chief negotiator, he was instrumental in including key provisions in the

1995 Labour Relations Act (LRA). The LRA replaced the old industrial councils with bargaining councils. It required the Minister of Labour to 'extend' collective agreements across the entire industry if requested to do so by representative (or 'sufficiently representative') bargaining councils. Unlike the Wage Board, which was explicitly tasked with considering the trade-off between minimum wages and employment, the Minister of Labour was not required by the LRA to consider potentially adverse employment effects before promulgating negotiated minimum wages. To the extent that bargaining councils could be dominated by the larger, unionized urban firms and urban-based unions, there was thus a real danger that this new wage-setting mechanism could undermine labour-intensive growth – and have devastating consequences for desperately poor areas like Phuthaditjhaba.

The Labour Market Commission included members from industry, government, organized labour, academia and some international experts. We brought a range of ideological perspectives and skills to bear on our deliberations, but were surprisingly united in support of labour laws to protect health and safety, minimum wage-setting machinery to protect against exploitation, and legislation to facilitate collective bargaining. We agreed it was important to promote skills development and productivity growth, but at the same time noted that 'future formal sector employment growth is most likely to occur in lower-wage sectors such as tourism and clothing'[1], and South Africa therefore needed to promote labour-intensive growth also. Indeed, we recommended that the LRA extension mechanism be amended specifically for this purpose:

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> 'The Minister should treat applications for extension with circumspection and exercise caution in extending agreements where there are grounds for concern that significant job destruction might ensue. The Commission believes the approach contained in the new LRA needs to be carefully monitored. The LRA virtually obliges the Minister to extend an agreement reached by over 50% of the industry, but discourages him from extending agreements where this threshold is not met. The Commission recommends that the Minister should have greater discretion in deciding whether or not to extend agreements. The Minister should take less account of the representivity of the parties to the agreement and more account of whether the agreement reached is sensitive to the problems of non-parties and the job-creating goals of the RDP. This means the Minister should also consider extending agreements reached in less representative councils if these criteria are met'.[2]

All of the Labour Market Commissioners, including from the trade unions, signed on to this.

One of the Commissioners, Halton Cheadle (the union-linked labour lawyer), played a leading role in drafting the LRA, a process that over-lapped in its final stages with his work on the Labour Market Commission. Sixteen years later, in 2012, he and I were on opposing sides of a legal battle about extensions. In the time since we had served together as Commissioners, a national bargaining council had been established for the clothing industry (in the face of strong opposition from employers in KwaZulu-Natal). Wage-setting through the National Bargaining

Council had come to be dominated by firms and unionized workers based mainly in Cape Town. None of the factories I had visited in Phuthaditjhaba in 1995 had survived, and the last remaining low-wage labour-intensive factories in Natal and the Free State were surviving only because they were non-complaint with the minimum wages extended to them by the Minister of Labour.

Flouting the law had become more difficult. In 2010/11 the bargaining council began a 'compliance drive', obtaining writs of execution against non-compliant firms and then instructing sheriffs to attach their assets and shut them down. In Newcastle, one of the last remaining sites for labour-intensive clothing production, employers and workers alike protested against attempts to shut down the factories and destroy jobs. Five firms took the Bargaining Council and the Minister of Labour to court, arguing that the Bargaining Council was not representative. They eventually won the case, but this provided limited respite because the Minister subsequently extended collective agreements to them on the basis that the bargaining council was 'sufficiently representative'.

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Provincial government officials from KwaZulu-Natal and the Free State, the Minister of Finance and the secretary general of the ANC all voiced their concerns over this job destruction. This prompted Ebrahim Patel, the Minister for Economic Development from 2009, to hold a series of meetings in an attempt to broker a compromise. An agreement was reached requiring non-compliant firms to pay 70% of the minimum wage (rising to 100% over time) and the sheriffs were called off. Nonetheless, collective bargaining continued. New, higher minimum wages were extended by the Minister, causing widespread confusion in Newcastle and elsewhere, over what the minimum wage actually was. Was it 70% of the old or the new wage, or 100% of the new wage? It was totally unclear. The local Sactwu shop steward, like his old counterpart in Phuthaditjhaba, visited the firms, negotiating informal agreements of dubious legality, but which seemed, at least for the time being, to keep the sheriffs away and most of the factories open. The firms identified by the Bargaining Council to be the 'worst offenders' continued to be harassed, and others wound down their businesses in the face of continuing uncertainty.

One of the arguments made by Sactwu and the major employers was that non-compliant low-wage firms in Newcastle and elsewhere undermined the higher-wage, compliant firms. I argued in court documents (and in research papers co-authored with Jeremy Seekings) that low-wage firms were producing mostly basic items for value retailers like Mr Price and posed little if any threat to the higher wage firms supplying the more expensive fashion outlets and niche markets. Shutting down low-wage firms would not save jobs in the higher-wage firms, but it would destroy jobs in especially impoverished areas and worsen the balance of payments because less clothing would be produced locally and more would be imported from China. Some higher-wage firms even benefitted from the existence of lower-wage firms because they subcontracted their simpler work out to them, or drew on the pool of labour trained by them. Sactwu, the major employers and the Bargaining Council countered that there was sufficient regional variation in minimum wages, glossing over the fact that it had rapidly raised minimum wages in the non-metro areas and greatly reduced the real wage differential. They also argued that allowing low-wage firms to exist would destroy the higher-end firms in a 'race to the bottom'.

This claim flies in the face of history: If race-to-the-bottom dynamics applied in the clothing industry then all firms under apartheid would have migrated long ago to the bantustans. Until the early 2000s, South Africa retained a vibrant clothing industry operating at many different wage levels in different parts of the country, precisely because firms were able to compete in different product markets and at different combinations of wage and productivity. The rise of cheap Chinese production increased pressure on the industry, but I saw no reason why the industry could not continue to combine higher-wage, higher-productivity production (mostly in Cape Town) with lower-wage, lower-productivity production (in areas like Newcastle). My erstwhile fellow Labour Market Commissioner, Halton Cheadle, supported the Bargaining Council. Explicitly recanting the position adopted by the Commission, to which he was a signatory, he now argued that the extension mechanism as promulgated was foundational to our collective bargaining system and that there was no evidence that extensions were a problem for employment. He cited research that purported to show that extensions covered too few workers to make any difference to employment.

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Most workers are, indeed, not covered by extensions: most are covered directly by collective agreements or by sectoral determinations by the Employment Conditions Commission (the successor to the Wage Board). But this observation misses the point that extensions have reinforced the bias towards ever-more capital- and skill-intensive production. Extensions did this by driving low-wage, labour-intensive firms out of business and by rendering labour-intensive production so unprofitable that entrepreneurs are discouraged from ever engaging in it. In other words, the extension mechanism alters the dynamic of growth and the structure of employment, combining with other policies to push the economy down a high-wage, high-productivity, high-skill and high unemployment growth path.

This indirect impact is, of course, difficult to measure or estimate. I remember being asked by Guy Standing (then at the International Labour Organisation and also serving on the labour market commission) to 'show me the firms that have gone out of business' because of the extension mechanism. (Standing was also one of the skeptics who doubted that unemployment was high in South Africa!). It is never easy to find and interview firms that are no longer operating, and probably impossible to identify prospective firms that were deterred from starting because the extension of minimum wages precluded low-wage, labour-intensive production. The compliance drive in the clothing industry and the subsequent legal challenge by the Newcastle firms provided rare 'evidence' for how South Africa's wage-setting machinery had destroyed – and was continuing to destroy – jobs.

But by 2012, it seems that policy makers were no longer interested in labour-intensive industrial production.

Halton Cheadle's about turn was emblematic of the wider complacency about the employment consequences of minimum wage setting that emerged in policymaking circles after the Labour Market Commission reported in 1996. Also that year, the Department of Finance published its controversial 'Growth, Employment and Redistribution' (GEAR) framework which also recommended amendments to the extension mechanism in support of labour-intensive growth. This seems to have been the last time that reforms to the extension mechanism, and more generally the need to prioritise labour-intensive growth, was ever seriously proposed by government. Tito Mboweni, for reasons that remain obscure, decided not to pursue the recommendations of the Labour Market Commission about the extension mechanism or to take forward the agenda of labour-intensive growth in any meaningful way.

Nowadays we are told by our policy makers that it is impossible for South Africa to compete with low-wage countries (despite the fact that Newcastle firms compete vigorously with China until the Bargaining Council shuts them down) and that the only sustainable growth path is one based on rapid productivity growth (read capital-intensification) and "decent work" (read high wages). Ebrahim Patel's visceral distaste for the low-wage labour-intensive manufacturing has become hegemonic. Even the National Development Plan (NDP), for all its breast-beating about unemployment being the number one challenge, has given up on it, noting forlornly that:

> 'South Africa's manufacturing strength lies in capital-intensive industries. In the context of high unemployment, growth would ideally be sourced through expanded contribution of labour. However, to compete, the country's cost structure requires an emphasis on productivity, products and logistics[3].

In other words, rather than confront the factors affecting the 'cost structure' – including the extension of collective agreements to non-parties – the NDP pins its hopes on small business development, tourism, land reform and other vague policy commitments to job creation. Indeed, the NDP accepts, passively, that low-wage manufacturing jobs will continue to migrate to Lesotho. I can only wish that the National Planning Commission had retraced my footsteps to Puthaditjhaba and Newcastle. Perhaps the sight of the many factories that now stand empty amongst a sea of impoverished households might have changed their minds. Maybe they would have made a braver statement about the need to base economic growth through an 'expanded contribution of labour', perhaps even going so far as to say the dreaded words 'through labour-intensive growth'. They might also have done more to expand the welfare net to the millions of unemployed mostly low-skilled people as they wait patiently (and, I fear, hopelessly) for South Africa's capital intensive growth path to grow sufficiently rapidly that even less skilled workers find employment.

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South African society comprises islands of high-wage formal employment and privilege in a vast sea of low-wage informal employment and unemployment. Our policies focus on improving the lives of those on dry land through protective labour-market legislation, affirmative action, productivity-enhancing industrial policy and the like. The islands are pretty good places to live. But we do very little to help people reach the beaches and we turn a blind eye to the ways in which our policies generate strong off-shore winds. It is time to start land-reclamation, to change our policies at the margin to create new spaces where unemployed people can start productive, dignified lives. These do not have to threaten those in the established suburbs. There is no reason why labour-intensive firms and sectors cannot exist alongside existing capital- and skill-intensive firms. As illustrated by the diversity of processes and products in the clothing industry, there is no necessary 'race to the bottom'. Even where low-wage, labour-intensive firms do provide competition for the higher-wage firms, this should act as a spur to them to boost productivity, and our industrial policies can continue to assist the latter in this regard. We can also experiment with special industrial zones, support co-operatives, and provide additional support to small and medium firms. But whatever we do, we should stop destroying those few labour-intensive shores we still have.

NOTES
1 Labour Market Commission Report, Chapter 4, par 152
2 Labour Market Commission Report Chapter 4, par 177
3 NPC 2012: 147–148

FOR FURTHER READING SEE:
Nicoli Nattrass, 'Meeting the Challenge of Unemployment?' in The Annals of the American Academy of Political and Social Science, 2014, 652 (1): 87-105; Nicoli Nattrass and Jeremy Seekings, 'Job Destruction in Newcastle: Minimum Wage-setting and Low-Wage Employment in the South African Clothing Industry', Transformation 84 (2014); Nicoli Nattrass and Jeremy Seekings, 'Differentiation within the South African Clothing Industry: Implications for Wage-Setting and Employment', CSSR Working Paper No.307, (2012) (http://www.cssr.uct.ac.za/pub/wp/307); Nicoli Nattrass and Jeremy Seekings, 'Institutions, Wage Differentiation and the Structure of Employment in South Africa', CSSR Working Paper no. 309 CSSR Working Paper no. 309 (2012) (http://www.cssr.uct.ac.za/pub/wp/309). Sactwu's criticisms and our responses are available online on the CSSR website: http://www.cssr.uct.ac.za/2013/03/controversy-over-clothing-industry.