

## Understanding more of (un)employment

In the midst of all the turmoil and volatility on the financial markets, September was quite a seminal month for the SA labour market. A ground-breaking wage agreement was struck in the Clothing & Textile Industry, and two important reports were published that enhance our understanding of the labour market.

## Theory at last meeting practice

Lower entry-level wages for new workers have been agreed between employers and unions in the clothing industry. In urban areas new workers can be paid 30% less than the agreed minimum wage, and in the rural areas 20% less. A “new worker” is somebody who has not worked in the industry before or has not worked in it for 3 years. The idea is to help new people into the industry, not to replace current workers with new ones at lower wages.

In exchange employers must create 5000 new job opportunities by 2014. Should those jobs not materialise, the 30% and 20% “discount” falls away and wages will revert to minimum levels.

If the deal works and the extra jobs are created it will be a powerful argument in favour of lower wages for first-time workers. (Of course, if the Rand retains its recent depreciation, foreign competition may very well be less severe and it will be easier to create the 5 000 jobs – and the reverse is that a headwind will be created if the dollar goes and the Rand gets stronger again!) The agreement will fall apart if employers (ab)use it to retrench older, more experienced workers earning higher wages to employ younger, cheaper ones.

This agreement does not affect the position of well-publicised factories in Newcastle in KZN and Botshabelo in the Free State who have not been paying minimum wages and have threatened to close down if they do not get a reprieve from current minimum wages. They still have to pay the prescribed minimum wages by February 2012.

## So What?

- This agreement has political significance. The SA Clothing and Textile Workers Union is a Cosatu union. As such, their acceptance of this deal undercuts Cosatu's virulent opposition to Government's proposed youth-wage subsidy, now winding its way through the Parliamentary and Nedlac processes. That wage subsidy is now another step closer to reality.
- The agreement will bolster the confidence of other employers to negotiate similar deals in other industries. As we pointed out in earlier missives, employers form 50% of negotiated agreements, and they can thus influence what they get out of agreements. Bargaining is **not** a one-way (union) street. This agreement proves that.
- It also proves a point we made in August: the industrial relations system in SA is deeply embedded in our political DNA; it is part of our political psyche. It is not going to change quickly or radically. Tweaking it, yes; making changes as problems arise, yes; a *holus bolus* change, no.

## Jobs and Growth

The regular *Quarterly Employment Statistics* was published in September. It reveals that the number of people employed in the **formal, non-agricultural** labour market of SA increased by 2% between June 2010 and June 2011. That equates to an increase of 164 000 in formal jobs.

However, this is the formal labour market only. The informal labour market forms about 30% of the whole labour market. Thus, we ignore a big chunk of the labour market when we look at the formal labour market only. Changes in the total labour market are picked up through the Labour Force Survey (LFS), which is a household survey.

The June LFS indicates that jobs were lost in the **informal** sector (mainly in agricultural and private households). It confirms the *Quarterly Employment Statistics* finding that jobs were indeed created in the **formal** sector. The nett result was a growth in **total** jobs of 64 000. Thus, progress in the formal labour market was off-set by losses in the informal market.

The National Planning Commission (NPC) found in their diagnostic report that SA enjoyed an employment co-efficient of between 0,6 and 0,7 from during the decade 1997 to 2008. (This simply means that for every 1% economic growth, jobs grow at 0,6% to 0,7%.) The NPC also found that this co-efficient is much higher than the 0,3 to 0,5 found in other emerging economies.

Currently (June 2011) the number of jobs in the country comes to 13,1 million, down from 13,8 million at the peak (Dec 2008), but up from the 12,9 million at the bottom (Dec 2009).

## So What?

- 150 000 jobs have been created in the 18 months since the trough in Dec 2009.
- Over the past 12 months the economy did not produce as many jobs as it did during 1997 to 2008.
- Is this a temporary phenomenon because the labour market has not yet recovered from ongoing business uncertainty or is it a permanent decline to a lower employment co-efficient as in other emerging economies? Time will tell.
- Currently the labour market is clearly “sticky” and that underlines the importance of the clothing sector’s wage deal for new entrants and the proposed youth wage subsidy.

## Labour Market Dynamics 2010

During September 2011 Stats SA released a report titled *Labour Market Dynamics in SA, 2010*. It contains a very useful 6 year comparison of labour data. The trends are quite clear: as the economy grew over the four years from 2005 to 2008, employment also increased by about 1,1 million jobs. Then the recession of 2009/10 struck, and employment fell by about 1 million jobs. Much of the progress made over 4 years was wiped out in two years of recession and its immediate aftermath.

The *Labour Market Dynamics* report indicates that in 2010 70% of the labour market consisted of people employed in the formal, non-agricultural sector. The balance is employed in the informal sector (16.5%), in private households (8.6%) and in agriculture (4.9%).

A particularly shocking finding is that the median income of all those employed (i.e. 50% earn more and 50% less) came to R2 900 per month or less than R36 000 p.a.

The report also reveals that 30% of employees were members of trade unions and 32,7% had salary increases negotiated through some form of collective bargaining. About 35% of employees were not entitled to paid leave; 54.2% did not contribute to a pension fund; 68.2% were not entitled to medical aid benefits. Perhaps most telling of all is that 43% of women were working in jobs that had no provision for maternity leave.

### **So What?**

Clearly, not nearly all employees enjoy high wages and even standard benefits. No wonder the bigger SA politic is vehemently opposed to across-the-board wage reduction as a way to create jobs. It is not just the recalcitrance of unions. In arguing for lower wages, one is asking people earning less than R36 000 p.a. to reduce their income further so that jobs can be created. Not a very saleable proposition.

I have always found the standard analysis that it is only COSATU who is blocking a change to labour laws an insufficient explanation. These numbers explain that the recalcitrance sits in the bigger body politic.