Worst strike season ever

The numbers

The numbers merely confirm what we already knew – it was the worst strike season in SA history. Including Monday the 6th September, our estimate of the man days lost through strike action came to 16,3 million for the year to date.[1]

These are the highest number of strike days lost since 1979 when Black trade unions were legalised. The second highest year was 2007, when there was also a public sector strike and a total of 12,9 million strike days were lost. Thus, 2010 so far exceeds the 2007 record by about 26%. Clearly the troops are restless.

But which troops? It is particularly noticeable that the public sector, including local government, contributed 14,7 million or 90% of these strike days lost. The public sector employs just over 10% of all workers in SA – yet they caused 90% of strike days lost so far this year.

The Transnet strike contributed about 500 000 of the days lost (3%) and the SA private sector 1,04 million (7%).

The motor industry contributed roughly 50% of the private sector's strike losses with 498 000 days lost. This includes auto-assembly, components manufacturing and retail fuel, the latter two still on strike at the time of writing.

The damage to public money

The government went into the strike with an offer of 6,5% plus R620 housing subsidy. During the strike it increased its offer to 7% and R800 and then another 0,5% at the behest of Mr Zuma after the latter returned from China and ordered the negotiators to find a solution.

These extra moves cost the government R7 billion according to minister Richard Baloyi, the minister responsible for the Public Service. This compares to the R294,4 billion the minister of finance budgeted for compensation of employees in the public sector this financial year.

How serious is this overspend? Will the minister have to raise taxes to pay for the salary increases? There is a contingency reserve in the budget of R6 billion and every year there is net under-spending that can run into a few billion rand. This creates some space for shifting expenditure around but still keeping overall spending under control. Ministers have also indicated that some staff recruitment will be halted and posts freezed to help cut employment costs. In terms of the Public Finance Act posts cannot be filled if they are not funded. The DG of the Treasury did state that other expenses will be cut to compensate for the R7 billion extra wages.

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[1] Estimating strike days lost is notoriously difficult. These are only our own preliminary numbers based on a daily count from media reports on strike activity. The most authoritative source on strike data is Andrew Levy and their official estimates will only appear at the end of the 3rd quarter.

Clearly, this year is not a train smash. But one must also look at the trend the last few years – public sector salaries moved considerably faster than inflation. In 2006/07 35% of tax revenue went towards salaries. In 2009/10 it rose to 47%.

One wants teachers and nurses and police officers (the bulk of the civil service) to be decently paid, but this increase has been too fast. Clearly government had to draw a line in the sand and that happened with this strike. That is most welcome.

I can only disagree with *The Economist* view of the SA government "caving in" to Cosatu demands. Not what a three week strike and the numbers tell me.

Political damage

The bigger damage has been to the unions' political capital. The strikers have lost a lot of public sympathy and they have seen a deterioration of the political relationship between the government and Cosatu.

After this strike the notion that Cosatu is the tail wagging the dog, and that the Zuma government is beholden to Cosatu, can clearly no longer enjoy any credence. To go out on strike for three weeks and all you can show is 1% and R200 housing allowance is tantamount to being given a bloody nose. No wonder some unions were struggling to get their members to accept the government offer and call the strike off.

Certainly, Cosatu is disappointed in terms of what they *expected* the Zuma government to deliver to them. Frustrated expectations and rising tensions help to drive alienation. But the ties that bind Cosatu and the ANC are still strong and one should not expect a separation too soon.

Bigger picture

Going back all the way to 1946 the compensation of employees as a percentage of GDP ranged between 55% and 60%. This trend held for more than 50 years. In 1999 the trend started to change decisively. Compensation as a percentage of GDP declined to an all time low of 49,4% in 2008 and recovered slightly to 50,6% in 2009. This is a huge shift. Simply put, employees got a smaller share of the economic pie.

The balance of national income went to company profits (and thus to shareholders), income from rents (thus to the owners of rent producing assets) and income from self employment. Clearly, shareholders and owners of rent producing assets did well – their share of income from GDP rose.

One can also safely assume that employees who had share options and participated in bonuses did well too. Although they are employees, they had their snouts in the trough of rising company profits and rents.

But not all employees had their snouts there. Thus the pain of a relative decline in compensation as proportion of GDP fell on those employees who did not share profits or rents. Could that explain the hardened attitude behind the strikes, particularly in the public sector? Most South Africans would agree that teachers and nurses are not paid well enough.

The decline in compensation is all the more puzzling since it coincided with a net 3,3 million jobs that were created between 1995 and 2009. A higher proportion of people were working in 2009 than in 1995. Yet, they got less of the pie. The distribution of national income is clearly an issue. This issue will have a bearing on our political-economy for a long time to come.

Real damage

The point where money and productivity meet and competitiveness is determined is unit labour costs. Nominal unit labour costs in the 2000s have moved at modest numbers – mostly below 6%. This was in line with the long upsurge in productivity SA saw from 1995 onwards. Productivity is now running at a more sedate 2,5% to 3%.

In 2008 unit labour cost jumped by more than 10% and in 2009 by a further 8,4%. This is normal, during a downturn unit labour costs tend to rise as production (or the growth therein) is cut back. But it obviously cannot continue. Employers must defend their competitiveness.

If inflation is running at 5% and growth at 3,0% nominal GDP will move at 8,0%. If wages then increase by 10% productivity must increase by 2% to keep unit labour cost contained. If productivity increases by more than 2% unit labour costs start falling.

One way the auto industry in SA can justify their recent 10% settlement is by increasing productivity by more than 2% over the next year. If not, they will be pricing themselves out of the international market.

It should just be noted that both retrenchments and a strong currency help to improve productivity albeit in a very painful way. We currently have lots of both, it will be interesting to see how the numbers pan out over the next year.

So What?

- The 2010 strike season is mainly driven by public sector strikes which contributed 90% of man days lost.
- From a fiscal point of view the strike is “good news” as it indicates an unwillingness to cave in to unions demands. Govt has clearly drawn a line in the sand and the overspending on the wage bill is fairly modest at 2,3%.
- The unions suffered a loss of face and political capital.
- For the private sector the critical issue remain improved productivity to offset higher wage costs.
- For the country at large the issue is the share of national income going to compensation and that issue will keep on cropping up in various ways.