Significant trend breaks in the labour market

The year 2000 was a good one for the labour market. Strikes were down considerably; wage settlements kept declining; labour productivity increased again, consolidating a ten year trend of consistent improvements; and unit labour cost registered its lowest increase in three decades.

There was some bad news: the failure to create new jobs, ongoing retrenchments and a persistently high unemployment rate.

These are two sides of the same coin. The improvements recorded were achieved through restructuring and reorganization, which almost always results in fewer people doing the same or even more work.

The restructuring and accompanying high levels of unemployment also contributed to subdue the labour movement. Levels of militancy and strike action have calmed down significantly.

Strike activity

Data compiled by Andrew Levy and Associates (ALA) indicate that man days lost through strike action declined from more than 3 million in 1999, to less than 1 million in 2000. Many of the days lost in 2000 occurred during an unprocedural strike at Volkswagen in the first quarter. This strike was condemned by Pres. Mbeki in parliament, and many of the strikers were fired and not reinstated. (Note: ALA figures exclude strike losses due to political or socio-economic strikes.)

The decline is all the more pronounced when the 2000 figure is compared to the average for the ten years from 1990 to 1999, which was 2,88 million man days lost per annum.

This remarkable pattern indicates to what extent union militancy has been subdued. According to data compiled by ALA, only 1,6% of wage disputes during 2000 actually resulted in strike action. Disputes were declared in only 17,4% of all wage negotiations. This implies that more than 80% of all such negotiations were settled by the parties themselves.

The forces driving this decline are essentially those of the SA economy opening up to globalization and international competition. This will continue over the next few years. In fact, the free trade agreements signed with the EU and SADC will no doubt put further pressure on the corporate sector in South Africa, and thus on workers. Companies will have to keep looking for ways to become more efficient.

The labour market will have to accommodate this quest for greater efficiency. Labour can respond to reorganization and restructuring by going on strike, but that is essentially a short term measure. Overall, the pressure will be towards more peace and less militancy.

Wage demands and settlements

Wage settlements for 2000 averaged around 7,5%, as opposed to the 8,3% average in 1999.

Lower inflation during 1999 made it easier to settle in 2000. Furthermore, government set the stage with increases of only 6,5% in spite of union resistance. They were consolidating their strong stance in 1999, when the unions were aghast and threatened all kinds of action, but it all came to naught. Clearly, the unions have to a large extent lost their power to intimidate employers into higher wage settlements – a trend which is part and parcel of the overall decline in union power discussed above. Unions can and do make high demands. But settlements can only be made in the context of the realities in which employers and even government have to operate.

Prospects for settlements in 2001 and 2002 will be determined by inflation expectations for 2001. Government has set its target at 3% to 6% to be achieved by the end of 2002. Currently, both business and labour expect inflation to be higher than these targets, as revealed in a survey done by the Stellenbosch Bureau for Economic Research (BER).

However, the oil price is crucial. If it declines decisively from the $30 plus level – and the rand maintains its current strength – inflation will probably also come down, resulting in lower wage increases.

It is unlikely that wage settlements in 2001 will again decline by the 0,8% achieved in 2000. If inflation declines to below 7% during the first half of 2001, settlements can come down as low as 7,25%, but that will be a decline of only about 0,25%.

Should the 3% to 6% target range be realized in 2002, settlements can fall to below 7% in that year.

In both cases, however, ongoing restructuring and reorganization with resultant productivity improvements can contribute to keeping overall wage cost increases in line with inflation. This will of course vary from enterprise to enterprise.

These comments are not applicable to scarce and highly skilled people. More than ever, increases at that end of the market will be determined by supply and demand.

Labour productivity

In 1999 labour productivity increased by 3,2%. This was lower than the increases achieved in prior years: 1998 = 4,9%; 1997 = 4,3%; 1996 = 4% and 1995 = 5,3%.

However, the nineties saw a definite trend break in labour productivity. *Cumulatively* over the ten years from 1990 to 1999, labour productivity increased by a whopping 33,6%. This compares with the 1,86% achieved cumulatively over the ten years from 1980 to 1989; and the 2,75% achieved over the ten years from 1970 to 1979. Something dramatic changed in the labour market to increase the rise in productivity from 1,86% and 2,75% to 33,5%. Part of the explanation lies in increased mechanization, the introduction of more technology, and training.

The price we paid for these improvements was massive retrenchments and layoffs. Increased productivity, per definition, means that higher output was achieved with fewer people.

This trend is likely to continue. Companies are under pressure to improve performance. Tariffs will be reduced further as a result of the EU and SADC trade accords. A tougher Competition Board will enhance competition in the economy. Outsourcing and sub-contracting will continue, and will be extended to include the local government arena. Public-private sector partnerships (PPPs) will also contribute to higher productivity. Deregulation in critical sectors like telecommunication, energy and transport will help to drive down costs and improve productivity.

Again, part of the price for all this will be higher unemployment and more layoffs. Expect more retrenchments at the Post Office, Transnet and other government institutions.

Unit labour costs

The above improvements in productivity were also reflected in unit labour cost. During 1999 this increased by 3,2% - the lowest annual increase since 1971! From 1990 to 1999 unit labour cost increased by 125%. This compares to the 268% from 1980 to 1989; and the 165% from 1971 to 1979. This is a major factor contributing to the lower inflation experienced during the nineties.

Legislative changes

Two of the four main acts governing labour relations (Labour Relations Act and Basic Conditions of Employment Act) are to be changed by amendments proposed by the Minister of Labour. Skills Development and Employment Equity will not be affected. However, the proposed amendments still need to pass through Nedlac, which could change some of them, notably around the discretion of employers to retrench employees. Cosatu is intensely unhappy, employers are mildly happy and government is portraying the changes as significant. They will bring some relief to employers, but not much will change. Cosatu reaction probably stems more from indignation at the symbolism of an ANC government rolling back some gains made by labour, than from any real shift in conditions in the workplace. The amendments will not create a very different workplace for employers.

Employment

Unemployment and the lack of jobs are well known and documented. It does not have to be repeated here. However, this analysis deviates from the conventional wisdom in its view that these problems are not so much a failure of the economy, as a byproduct of the restructuring that the economy has to go through to adapt to a globalized world with much more vigorous international competition.

As discussed earlier, productivity improvements could not have happened without significant restructuring, and that implies considerable job losses. These losses can only be overcome by economic growth. The economy is currently growing at about 3%. In 1999 it grew by less than 2% and in 1998 by less than 1% - hardly a context in which one can talk about job creation. Consistent growth of at least 4% and more will, when sustained over a period, dent unemployment.

A study by Standard Bank, however, reveals that the problem goes deeper than just economic growth. Our economy increasingly requires higher levels of skills, which means that a large proportion of the SA labour force cannot gain access to jobs because they simply do not have these skills. They will be excluded even if the economy grows at 4%.

In this context the idea of an employment subsidy, floated by Pres. Mbeki in recent interviews, could be an important tool in absorbing some of the unemployment. Whether the plan is feasible and affordable will depend on the details.