T.U.R.P.
TRADE UNION RESEARCH PROJECT
NEWS

August 1997

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Centre for Industrial, Organisational and Labour Studies • University of Natal • Durban • 4041
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IN THIS EDITION:

The government's decision to relax exchange controls on 1 July 1997 has changed the way investment happens in South Africa. COSATU has warned that the relaxing of exchange controls will have negative implications for the economy. In this edition, we look at what exchange controls and the economic debate surrounding them.

Also, in this edition our Masikhulume column discusses skills. *Turp News* welcomes any responses to the articles in this column.

Finally, our statistical series looks at the performance of economic sectors in South Africa and their contribution to gross domestic product.

Turp is a service organisation which assists trade unions with economic research and education. It also produces publications for sale to workers and shop stewards, and has a well equipped resource room. The annual subscription fee for Turp News is R10.00 for 5 issues.

SA in the Global Economy

There are growing ties in the world between countries which coincides with current major social, political and economic restructuring. This is what many refer to as "globalisation". Globalisation is a process which involves greater influence by global forces on individual countries such as South Africa. It means that global rules are being set which impact on:

- the policies of our government,
- the way companies in South Africa make their plans,
- the way that trade unions, community organisations and development organisations take up issues, and
- the way individuals make a living in the country.

Globalisation has raised new and difficult issues for the labour movement and have thrown up new forms of struggle. Some of these issues have stumped and even demobilised some unionists in South Africa and internationally. Some feel that globalisation cannot be challenged and that there is no alternative. Others feel that we have not become powerless and that there are ways to fight its negative effects. Turp has published a book on these issues entitled, ***South Africa in the Global Economy: understanding the challenges, working towards alternatives.*** One of the main purposes of the book is to clarify what the new complex and challenging issues are. By doing this, we hope to clarify what we are up against.

In the Foreword of ***South Africa in the Global Economy***, Sam Shilowa writes:
"The labour movement is facing a global offensive. How and why has this new global reality come about? What are the issues that it raises and what are the implications for Labour? ***South Africa in the Global Economy*** clarifies the issues in a way that is accessible to workers and ordinary people. This is essential if we are to participate in debates that have usually been the preserve of economists and other specialists."

South Africa in the Global Economy can be ordered from Turp for R30 (plus an extra R5 for packaging and posting) - see our contact details at the top of this page.

Inflation figures

	Apr 1997	May 1997	Jun 1997
Bloemfontein	11.5%	11.0%	10.4%
Cape Peninsula	10.6%	10.1%	9.4%
Durban / Pinetown	10.5%	10.1%	9.0%
East London	10.8%	10.8%	10.2%
Nelspruit	10.3%	9.6%	8.8%
Pietermaritzburg	9.4%	9.3%	8.6%
Port Elizabeth	10.3%	9.7%	8.8%
Witwatersrand	9.2%	9.0%	8.4%
National average	**9.9%**	**9.5%**	**8.8%**
Food inflation	10.5%	11.7%	12.8%

Source: Central Statistical Services

WHAT ARE 'SKILLS'?

Everyone has skills. Skills allow you to do the job that you do. Some skills are general like arithmetic skills. Other skills are very specific to either a particular industry or a particular job. The skills you have will make you able to do the tasks required to be "competent" in your job. Everyone uses a range of skills in doing a job. When a worker uses a number of skills together to do a task, it is called a "competency".

The debate around "skills" has gone on for a long time. With the Department of Labour's latest proposals around skills and skills development, this has again raised the debate. Why is everyone talking about skills? How do they affect workers' grades and wages?

Skills and the economy

Unions argue that an important way to increase the competitiveness of the South African economy is through human resource development and training. Unions also argue that business does not provide sufficient and adequate training to workers. Research has shown that South Africa does have low levels of training when compared to other countries. Training is especially low for workers. The training that does happen is often task-based and does not lead to the learning of new skills and competencies.

Skills and grading

At present most grading systems do not take into account the skills of workers. Rather, they grade workers according to their tasks. To improve the economy and the lives of workers, unions argue for a skills-based grading system instead.

Skills-based grading systems use "skills" as the factor that decides what grade a worker should fall into. Grades are linked to credits earned through training. Workers who acquire skills can get these recognised through the National Qualifications Framework (NQF) which will give them credits which proves they are competent to perform certain jobs.

Some of the advantages of this approach include the following:

- **workers can have a career path:** by studying and training, workers will earn credits which will lead to them being promoted further (at present it is difficult for workers to get promotions);
- **recognition of prior learning:** Workers often find themselves in a situation where they have skills that are not recognised when they are graded. The first step when implementing a skills-based grading system is to recognise these skills;
- **transparency and fairness:** under skills-based grading, promotions are only implemented on completion of training courses, so there is less chance of discrimination of workers as can happen with other promotion practices;
- **fewer grades:** because broad skill bands are the criteria behind grades rather than specific tasks, there can be fewer grades. This process, where many grades based on tasks are squashed into fewer grades based on skills, is called broad-banding.

Problems with skills-based grading

Although skills-based grading systems are supported by most unions some problems that unionists have pointed out in seminars with Turp and in other forums include the following:

- **workers' access to training:** who decides what training is to take place? what if a worker wants to develop a career path outside of his or her industry, will they have access to this training and will such training be recognised?
- **workers who don't want to train further:** these workers will be prejudiced by this system since increasing skills is the only way to receive promotions, workers cannot rely on length of service or other criteria to increase their earnings
- **willingness of management:** how willing is management to give necessary time off to workers to undergo training?
- **realistic career paths:** is it really true that workers can follow a career path that takes them from "a sweeper to an engineer"?
- **broad banding might mean work speed up:** some unionists have said that management may use broad banding as a way of getting workers to multi-task (do lots of different jobs) rather than be a tool for recognising many skills.
- **other factors are ignored:** some unionists argue that factors such as dangerous work should also be included when grading workers. Some managers argue that factors that measure productivity should be included when grading workers.

IMPLEMENTING SKILLS-BASED GRADING: NUMSA'S EXPERIENCE

NUMSA negotiated the implementation of skills-based grading into the auto industry. This was a path breaking agreement and started moves to get workers' skills recognised and paid for. In their agreement, workers were encouraged to learn new skills by having the training paid for them. Three years into this agreement their initiatives are under attack. The first problem is that although workers have earned enough credits to move to a higher grade, there are no jobs at those grades. Employers say that buy staying in their present jobs the workers have been "voluntarily" down-graded. The other problem is that unions and employers cannot agree on what number of credits are needed for a worker to be upgraded. The matter is at arbitration.

Under debate: exchange controls and the value of the rand

The government recently decided to drop "exchange controls". The reason for this is to continue a process of taking the economy to "full liberalisation". COSATU said that this would lead to problems for the economy, while business welcomed the government's decision because it would help the economy. This article will help you to understand the debate on exchange controls.

What are exchange controls?

Exchange controls are regulations that control the inflow and outflow of money into the South African economy. For example, SA companies can only invest up to R50 million outside of the country. The government is able to control the exchange rate of the rand this way. The exchange rate is the value at which we exchange our currency for a foreign currency.

The rand

Currencies are exchanged when two countries are trading or one country is investing in another.

SA adopted an exchange control policy where it developed two exchange rates, that is two currencies for one country called a "dual currency system". These were the Commercial Rand and the Financial Rand (Finrand). The Finrand was introduced in 1961, in order to attract foreign investments and prevent money leaving the country.

The effect of the dual currency system was that it allowed foreign investors to invest or buy South African goods at a lower favourable rate using the Finrand. When buying goods from other countries, South Africans had to use the Commercial Rand at a higher rate. This discouraged the outflow of money.

However, under the new government in March 1995, the Finrand was removed. The dual currency system was replaced with one rand value. Analysts felt that the unified currency was given "more real value" for the first time in years. Other exchange controls still remained, however.

How is Balance of Payments (BoP) affected by this?

As the country must export and import goods and services, these transactions are kept in a record known as Balance of Payments (BoP). These transactions

are affected by the exchange rate of our currency. BoP has two parts, namely "capital account" and "current account". The capital account records all the inflow (of foreign money) and outflow (of local money). The current account records the exports and import of goods and services.

If there is too much money going out of the country then the BoP goes into a deficit (where more money flows out of the country than in). To avoid this, our government put up exchange controls to prevent the rand from becoming too weak.

SA's latest developments

Since the government abolished the dual currency in March 1995, it has been under a lot of pressure to remove the remaining exchange controls. This call has been made by local business and foreign investors, whilst labour and government remained opposed to it because too much money would leave the country and the value of the rand would decrease too much.

The concern expressed by labour representatives at NEDLAC was that dropping exchange controls too soon would have a negative effect on the economy. The issue started hotting up when in late 1996 there was a rapid decline in the value of the rand.

The government remained committed to its stated policy of "gradual relation of exchange controls" as opposed to the "big bang approach" proposed by its business.

The Minster of Finance made the long waited announcement that South Africans, from 1 July 1997, may invest or move R200 000 out of the country. Also, South African companies could now invest up to R30 million outside of South Africa. There are more exchange controls which remain, but the government will phase them out over the next few years.

Who benefits?

There has been a mixed reaction to the announcement. While some commentators see this as a positive move, COSATU has criticised it as "being not in the best interest of the country". COSATU argued that the poor will not benefit from this, only few rich individuals who can afford to invest outside the country.

These measures further entitle rich South Africans to hold foreign currency accounts at SA banks and to keep money earned outside in foreign currency accounts.

Economic sectors: an update

Some of the information in Turp's book - ***A Users' Guide to the South African Economy*** - is out of date. ***Turp News*** continues to give you more recent statistics about South Africa's economy and people. ***Turp News 50*** gave you up to date statistics on economic growth and the size of the economy. This issue looks at the structure of the economy and the importance of different economic sectors.

What are economic sectors?

The economy is made up of various sectors. Each sector makes up a major economic activity. Examples of sectors are mining, manufacturing and transport. Activities within each sector are referred to as industries, for example the chemical industry.

Contribution of different sectors to GDP

The table below, which gives each sector's contribution to South Africa's gross domestic product (GDP). GDP is the total goods and services produced in an economy over a year (for more on GDP see *Turp News 50*).

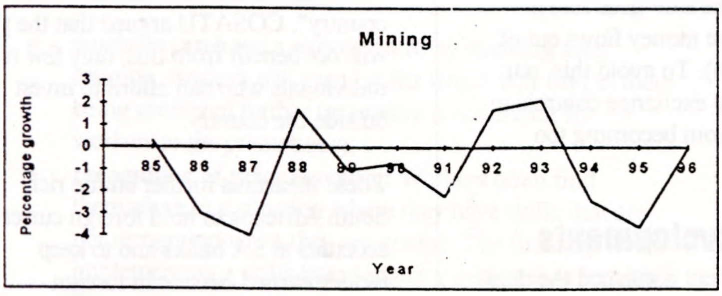
CONTRIBUTION ECONOMIC SECTORS TO TOTAL GDP AT 1990 CONSTANT PRICES				
SECTOR	1995	%	1996	%
Manufacturing	64351	25.2	64581	24.5
Wholesale / retail	39687	15.5	41167	15.6
Finance / insurance	39100	15.3	40406	15.3
General govt	35991	14.1	36551	13.9
Mining / quarry	22981	9.0	22773	8.6
Transport	20351	8.0	21109	8.0
Agriculture	11726	4.8	14755	4.9
Electricity	12332	4.6	12942	5.6
Construction	7376	2.9	7506	2.9
Other	5641	2.2	5767	2.2
Social service	4760	1.9	4948	1.9
GDP	264296		272505	

(Source for table and graphs: Reserve Bank)

Each of the graphs below shows year-on-year growth in some of the sectors in the economy. It shows how some sectors have unstable growth and other sectors have stable growth.. A sector is in decline if the growth is negative and it is stagnant if there is no or little growth.

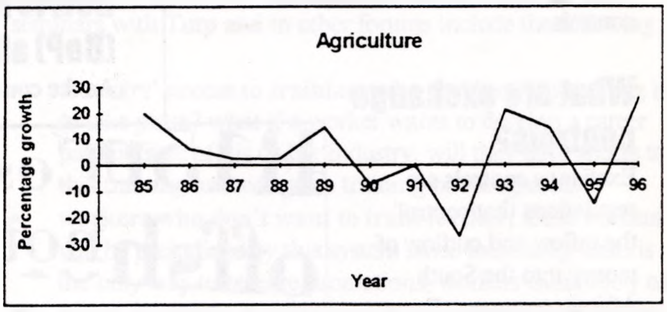
Mining and quarry sector

The mining sector has been important in our economic development, but over the last ten years it has been declining on average 1%. This year the gold mining industry reached a crisis point where the gold price has dropped so low that 100 000 mine workers could lose their jobs.



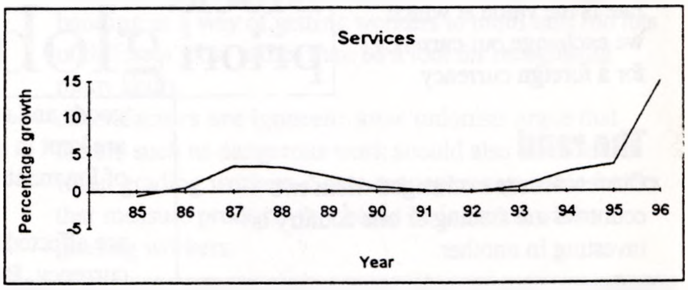
Agricultural sector

Output here has also been in long term decline. sometimes because of the weather. The sharp decline in production in 1991 and 1992 was because of droughts. Few agricultural products are exported as manufactured products, meaning that there is little value added to the raw materials.



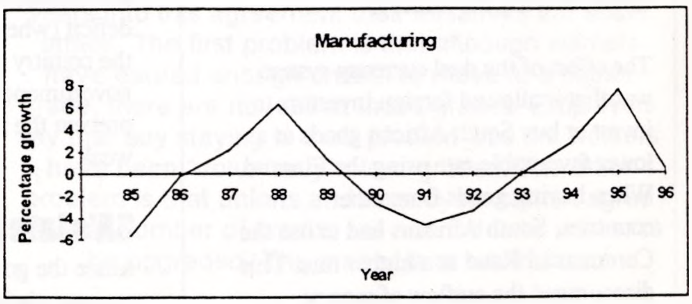
Service sector

The service sector is made up of economic activities in the finance, electricity, retail and wholesale. transport, social services and general government sectors. Although it has been stagnant for some years, it is expected to grow more in the near future.



Manufacturing sector

The manufacturing sector is the most important in terms of GDP. Output has been declining until recently when export markets opened up and production increased to meet the new demand. Manufacturing makes up most of the country's economic growth for 1997.



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IN THIS EDITION:

In the Masikhulume column we examine 'productivity'. Employers often use productivity against workers, but there are worker friendly ways to increase productivity.

Secondly, we look at the workers' struggle against neo-liberalism and we do this by looking at how neo-liberalism has negatively impacted on New Zealand's economy. There is much to learn from the unions' experience in New Zealand.

Once again, the newsletter ends off with our statistical series. This issue we focus on 'economic control'.

Turp is a service organisation which assists trade unions with economic research and education. It also produces publications for sale to workers and shop stewards, and has a well equipped resource room. The annual subscription fee for ***Turp News*** *is R20.00 for 5 issues.*

Employment lowest in 16 years

The Reserve Bank of SA's latest ***Quarterly Review*** shows that employment levels in the country are at their lowest in sixteen years. In the first half of 1997 up to 62 000 jobs were lost, bringing the total number of employed people to roughly the same as in 1981. SACOB has predicted that employment levels would fall by a further 2% in 1998. It has also predicted an economic growth rate of 1.8% for 1997 and of 2.8% for 1998. In order to increase jobs, economic growth should be at least 5% or 6%.

Why is this happening ?

Employment is not falling because output and investment are falling - these are still growing. Part of the reason for the loss of jobs is the production decisions companies are making to become internationally competitive. Industrial companies cannot maintain the profit margins they used to under apartheid South Africa because of new international competition. To protect their declining profit margins companies are seeking to lower costs through new technology and re-organising work to improve productivity.

Companies are making decisions to invest in new technology which is "capital intensive" - this means that machinery plays an increasing role in production and less labour is required. Also, research has found that, when demand for their products are under pressure because of international competition, companies tend to improve productivity by cutting jobs,

The need for improved economic growth

Since 1981 the country's population has been growing at around 2%. If all the economically active population (that is, all adults willing and able to work in a country) were employed in 1981, the economy would have to grow at the same rate as the population in order to provide jobs for those people entering the labour market each year. But there was not full employment in 1981 and the economy has not grown consistently at 2% a year. There has not been sufficient growth to provide jobs for new job seekers or the unemployed.

INFLATION FIGURES

	Jul 1997	Aug 1997	Sep 1997	Oct 1997	Nov 1997
Bloemfontein	9.9%	9.3%	8.3%	7.2%	6.2%
Cape Peninsula	9.7%	9.1%	7.6%	6.6%	5.7%
Durban/Pinetown	9.1%	8.9%	8.4%	7.8%	7.2%
East London	10.7%	10.0%	9.2%	8.5%	7.9%
Kimberley	10.6%	10.5%	9.8%	8.5%	7.9%
Nelspruit	8.5%	8.9%	8.5%	8.4%	7.6%
Pietermaritzburg	9.1%	8.7%	7.8%	6.9%	6.3%
Port Elizabeth	8.9%	8.3%	7.2%	6.3%	5.7%
Witwatersrand	8.6%	8.3%	8.2%	7.8%	7.1%
National ave.	**9.1%**	**8.7%**	**8.0%**	**7.5%**	**6.8%**
Food inflation	12.0%	10.0%	8.3%	6.8%	6.9%

Source: Central Statistical Services

Productivity

Productivity is often used as a stick with which to beat workers and unions. Management point to other countries and complain that South African workers are unproductive. To enter into this debate we need to clear up the following issues:

- What exactly is productivity?
- Can it be measured?
- If it can be measured, how do we measure it?

Generally when we talk of an organisation as being 'productive', we mean that it is **efficient and effective** in its management of resources (for example raw materials, workers and machinery) and achieves its goals with a **minimum of waste** and at a **high quality**.

To determine whether it is productive or not, a company has to either

- measure its productivity over time to see whether it has improved or not (for example, measuring productivity over a number of years) or,
- compare its productivity to that of similar companies (this is called 'benchmarking').

Most managers in South Africa point to other countries and complain that local workers are not 'value for money' in terms of their skills and work effort. This view concentrates on what is called **labour productivity** (this is when productivity is measured only in terms of workers' rate of output). This does not consider managers' roles in improving productivity or the productivity of the machines used in a company which is **capital productivity**.

Trade unions on the other hand complain that any lack of productivity is because of factors such as mismanagement, lack of training for workers, authoritarian management styles and so on. The only thing that unions and managers seem to agree on is that there is low productivity. But without an agreement on what exactly is being discussed when we talk of productivity how are workers and management going to reach agreement?

There are some important points about productivity to remember:

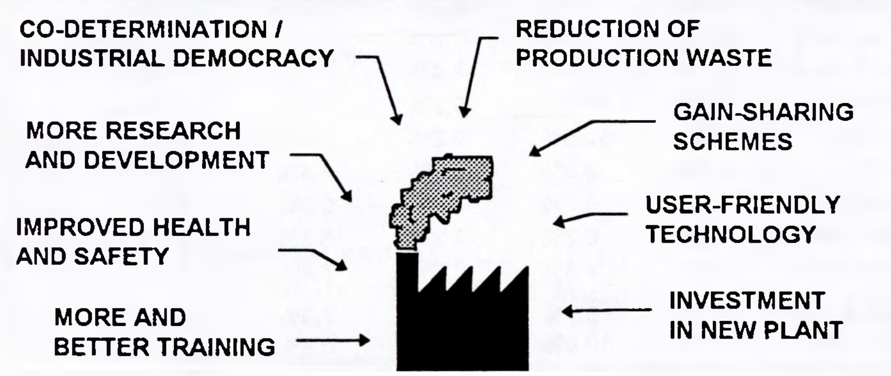
- **Productivity is about quality.** Productivity has not increased if there is any decrease in the quality of the product or service that is being offered. Increases in productivity have to be accompanied by the same levels of quality or increases in quality;
- **Productivity is not output.** Output is the total amount of goods a company produces. It is not a measurement of productivity unless it is measured in relation to inputs and quality. The fact that a company produces more does not necessarily mean it has increased its productivity... it has merely increased its total amount of goods it produces;
- **Productivity is not profit.** Sales, or turnover, or profit should not be used in any measurement of productivity. Many outside factors not related to productivity affect sales and profit. For example, a mine may produce the same amount of gold, with the same inputs, at the same quality, but if productivity is measured as **sales divided by employees** it will seem as if productivity has decreased if the price of gold drops;
- **Productivity is not just labour productivity.** Labour does play a role in productivity but so do many other factors including the quality of managers, the decisions about machines, government policies and other factors in the world outside of which labour has no control;

Productivity can be increased by reducing inputs or increasing outputs in relation to each other. This can be done in five ways:

1. Reduce inputs while producing the same amount of outputs
2. Reduce inputs a lot and reduce your outputs a little
3. Reduce inputs but increase your outputs
4. Retain inputs at the same amount but increase outputs
5. Increase inputs a little but increase outputs a lot

Whereas managers could find all of these methods satisfactory, unions would definitely be in support of the fifth option. Increasing both inputs and outputs but with rapidly increasing outputs means that new investments are happening and these new methods are more productive. Through this last option, employment could be created.

INGREDIENTS FOR A PRODUCTIVE FIRM



If managers concentrated on improving training, decreasing waste, increasing Research and Development and investing in new plant, then productivity, measured in just about any way, would increase at a far greater rate than any gains that could be achieved by merely increasing 'worker effort'.

In addition increases in productivity need not be in conflict with increases in union objectives around workplace issues such as: industrial democracy, participation, increased training and possibly co-determination. These goals should be included in any productivity plans that look at gain-sharing rather than performance-linked pay.

Neo-liberalism in New Zealand: economic miracle or nightmare?

Since 1984 neo-liberal economic policies have been introduced in New Zealand. The effect on the country's economy is considered to be a "miracle". But the New Zealand Council of Trade Unions (NZCTU) tells another side of the story.

New Zealand has been hailed as a model neo-liberal economy. Our *Sunday Times* (17/4/97) remarks that "what the tiny island country has achieved is remarkable and has become a benchmark against which others can judge their efforts".

Radical neo-liberal policies implemented since 1984 by the New Zealand government include:
- removing import tariffs and controls
- removing subsidies to local producers
- breaking down collective bargaining
- lower tax on company profits
- removal of exchange controls and liberalisation of financial markets
- strong anti-inflation policies with high interest rates

Amongst the claims that New Zealand experienced an "economic miracle" are:

- **High and sustained economic growth:** Initially, in 1984, economic growth shot up to nearly 7% but there was little growth until 1992. Since then the economy has been growing above 2% peaking at over 6% in 1994. Neo-liberal economists say that New Zealand is at last bearing the fruits of the 1984 restructuring.
- **More employment:** The government believed that the presence of unions and collective bargaining slowed employment growth. In response, they introduced the Employment Act of 1990 which is seen as the cornerstone of the restructuring. This has made the determination of wages more flexible and has virtually ended collective bargaining. Since the introduction of the Employment Act, unemployment halved from 11.9% to about 6.1% in seven years.
- **Reduction of the budget deficit:** Before the reforms, New Zealand had a government deficit of 9%. Since 1984, privatisation and lower government spending, neo-liberal reforms have reduced government spending. In fact, for the last four years, the government has spent less than it budgeted.
- **Low inflation:** The Reserve Bank has kept inflation between 0% and 2%.
- **Increased international competitiveness:** The World Economic Forum ranked New Zealand the third most competitive economy in 1996 and the fifth most competitive in 1997 (*Sunday Times*, 17/4/97).

But, the NZTCU argues that this is only half the story of the "economic miracle". They point out that the above outcomes of neo-liberal reform hide some of the more terrible effects of the neo-liberal policies. These include:

- **The destruction of workers' rights:** Since 1991, unionisation rates have fallen by 45% and now 90% of wage agreements are concluded between <u>individual</u> workers and employers. A previous Minister of Labour is reported to have said that workers must choose between rights or a job. While 200 000 jobs have been created with the neo-liberal reforms the quality of these jobs has decreased. There is little protection for workers and the jobs are under constant threat. Real wages have been falling. 21% of workers depend on state benefits such as welfare and pension, whereas in 1985 only 8% depended on these benefits.
- **Increasing inequality:** Wealth has become more concentrated in the hands of the rich. A part of the reforms has been privatisation and less spending on welfare.
- **Deteriorating balance of payments:** A balance of payments (BoP) deficit occurs when too much money leaves a country (when imports are higher than exports). New Zealand has a BoP deficit which is worsening all the time. This is as a result of the strong anti-inflation policies of the Reserve Bank which has caused their currency to be very strong. This means that exports are more expensive, leading to less exporting, and imports are cheaper, leading to increased imports.
- **Declining local manufacturing industry:** In the early 1980s, the manufacturing sector contributed around 23% to overall exports, but by 1993 it contributed less than 18%. Between 1985 and 1995, 14% of manufacturing jobs were lost. In 1996, a further 9.4% of jobs were lost. Part-time, insecure employment is 52% higher than it was in 1986. Exports are hampered because the currency is too strong. A study found that 65% of manufactured exports were being produced at a loss. This means that 85 000 jobs were threatened.
- **Less state investment into skills and infrastructure:** The reforms have resulted in less government expenditure on developing the country's human resources and state investment into industrial infrastructure. This is seen as hampering the development of industry and productivity growth.

As the NZCTU notes, the reforms have worked for financial capitalists, but it has not been kind to workers, farmers and manufacturers.

CTU
NZ Council of Trade Unions

Information for this article was taken from the NZCTU's internet home page: http://www.union.org.nz

TURP NEWS STATISTICS SERIES PART 4:

Economic control: an update

Some of the information in Turp's book - ***A Users' Guide to the South African Economy*** - is out of date. ***Turp News*** continues to give you more recent statistics about South Africa's economy and people. ***Turp News 51*** gave you up to date statistics on the structure of the economy and the importance of different economic sectors. This newsletter looks at who holds economic power in the economy.

Conglomerates - is their power declining?

Conglomerates are large companies which own many companies across different industrial sectors of the economy.

Below is a table showing the percentage control of the value of shares on the Johannesburg Stock Exchange. It compares the percentage of shares that these conglomerates controlled in 1987 with the shares they currently control in 1997.

	1987	1997
Anglo American Corp.	56.1%	24.4%
Sanlam	9.7%	11.3%
Rembrandt Group	4.9%	9.8%
SA Mutual	8.9%	10.4%
Liberty Group	1.6%	11.3%
Director control	5.9%	6.7%
Anglovaal	2.8%	2.9%
Foreign control	4.9%	4.7%
Black control	0%	8.6%
Top 5 groups	85.1%	67.2%

Source: McGregors on line service

Economic power has, for a long time, been concentrated in a few conglomerates. Attempts to decentralise the structure of these conglomerates, through unbundling, has changed the concentration to some extent, as the table above shows.

Control of financial resources

The top five conglomerates still, however, control 67.2 percent of the public shares in the country. In addition, they control the financial resources of the country in the form of banks and insurance companies. The diagrams below show how four of the top five groups (the companies in bold and capitals) have controlling interests in banks and insurance companies.

ANGLO AMERICAN
↓
First National Bank
Southern Life
SA Eagle

SA MUTUAL
↓
Nedcor
Old Mutual
Mutual and Federal

SANLAM
↓
ABSA
Santam
Sanlam

LIBERTY GROUP
↓
Standard Bank
Liberty Life
Guardian National

Best wishes to all our readers for 1998

From TURP staff:

Shafika Isaacs (Director), Judith Shier (Librarian), Tracey Harper (Administrator), David Jarvis, Alfred Mafuleka, Jillian Nicholson, Gary Phillips