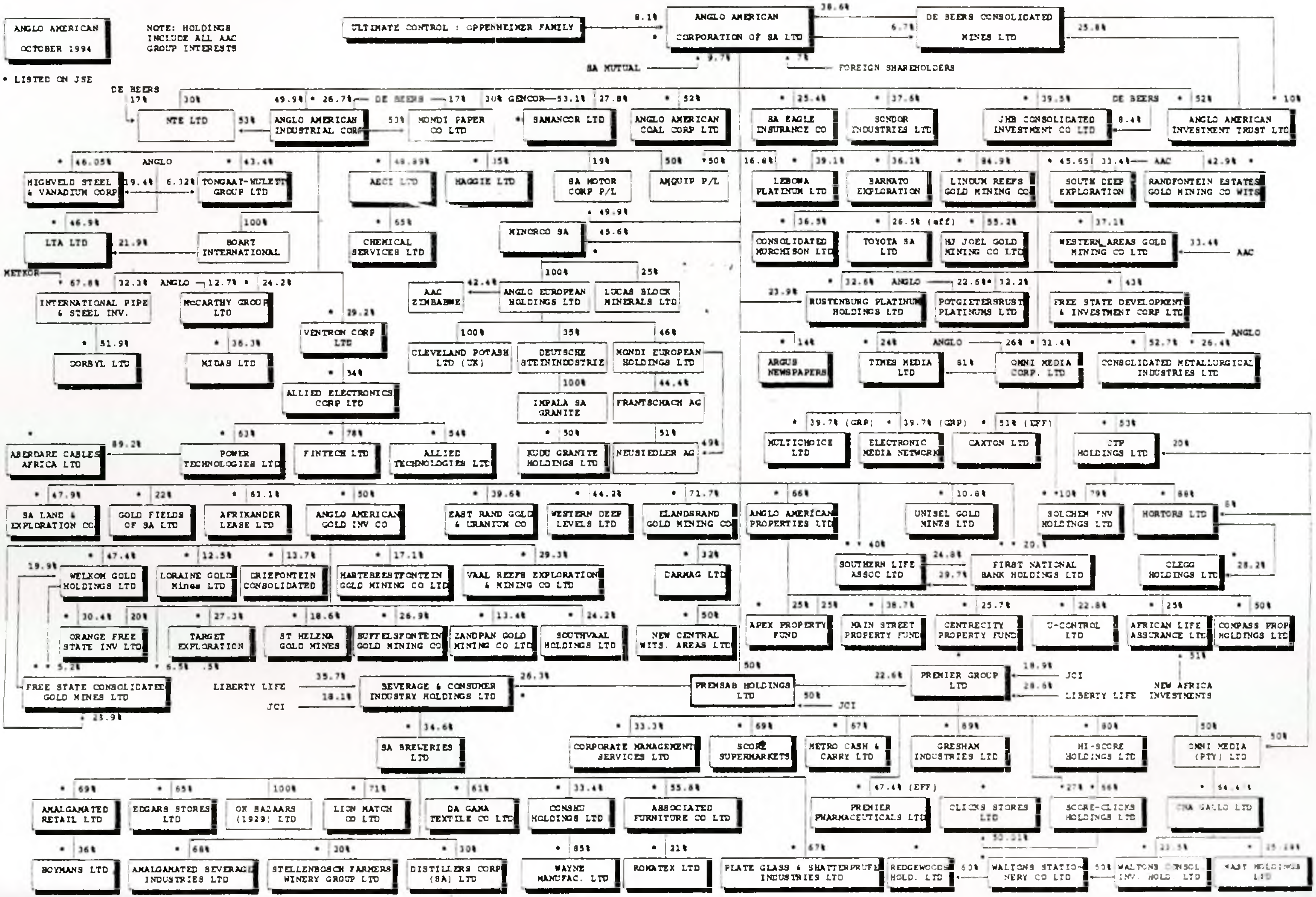
SOCIAL EQUITY AND JOB CREATION

The key to a stable future

Proposals by the South African labour movement

ORGANOGRAM A ANGLO AMERICAN, OCTOBER 1994

Source: McGregor, R. 1995. *McGregor's Who Owns Whom.* Johannesburg: Purdey Publishing



Introduction

Two years after the 1994 elections, South Africa remains a society characterised by vast inequalities, in wealth, economic power and incomes. Much progress has been made to build a common nationhood, to normalise political processes and to create a culture of freedom. We now face the challenge of addressing the glaring inequities in our country.

In the process, some hard choices need to be made. As the white population had to give up its monopoly of political power in order to usher in the new democracy, so the economic elite should now be challenged to share the wealth and resources of our country to the benefit of all.

This critical requirement for the new democracy — the active promotion of social equity — is the key objective organised labour sets for itself during 1996. We do this because too many South Africans are poor, underpaid or unemployed, homeless and with their basic needs and requirements not satisfied by the economy.

Social equity in South Africa, and particularly the reduction of the vast inequalities in the society, must entail

- substantial redistribution of wealth,
- the eradication of poverty,
- the promotion of worker rights,
- increased employment
- the development of the full human potential of our people, and
- the provision of basic infrastructure and services to all citizens.

The RDP calls for a programme to satisfy the basic needs of all South Africans. It calls for the development of our people. It calls for workers rights, and the building of the economy. These central pillars of reconstruction in the RDP should now be given concrete expression.

Labour puts forward this framework as a first contribution to the current debate, and in order to clarify to the society what our analysis of the current situation is, and what our vision for the future entails.

A very unequal society

According to the HSRC, the poorest 40% of households in South Africa earn less than 6% of total income, while the richest 10% earn more than half the total income. While africans make up 76% of the population, the african share of income amounts to only 29% of total income.Whites, who make up less than 13% of the population, takes away 58,5% of total income. *(Source: HSRC. A Profile of Poverty, Inequality and Human Development in South Africa. 1995).*

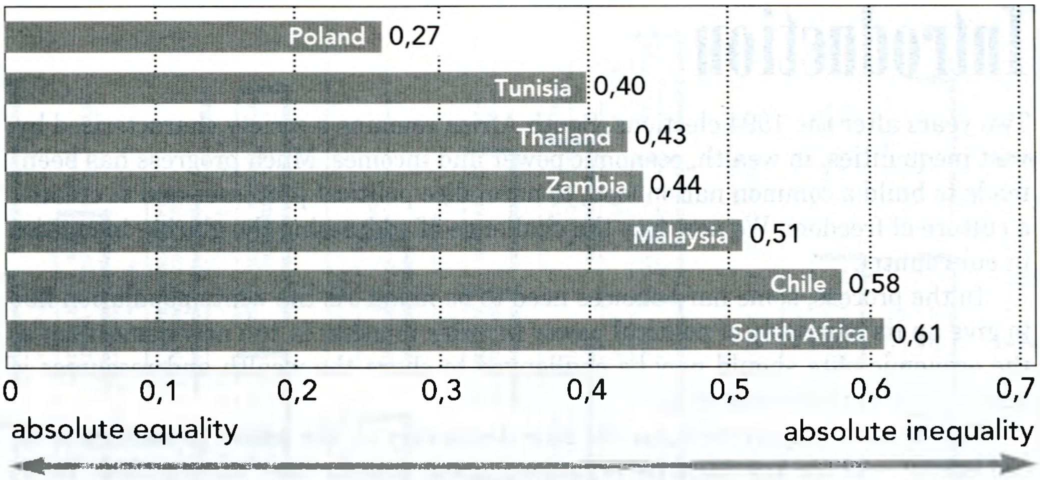
Income inequality is sometimes measured by the Gini co-efficient, which allows for comparisons across countries. By this measure, South Africa has, in the words of the recent study on Key Indicators of Poverty in South Africa, "among the highest income inequality in the world." The study cites comparative figures — 0 signifies absolute equality and 1 absolute inequality (also see graph on next page):

Poland	**0,27**
Tunisia	**0,40**
Thailand	**0,43**
Zambia	**0,44**
Malaysia	**0,51**
Chile	**0,58**
South Africa	**0,61**

(Only Brazil had comparable figures)

The poorest 53% of the population account for less than 10% of total consumption in our country, while the richest 6% of the population account for over 40% of consumption.

Income inequality by country



Of the poorest part of the population, a third live in shacks or 'traditional dwellings'. Of the poorest 53% of the population, about 80% have no access to electricity, about 70% have no access to piped water to their premises, and more than 80% no access to modern sanitation.

Inequalities in education and health care are as striking. Every indicator, from attendance at university, to the incidence of TB or stunting rates among children, tell the same story : the wealthy have a great quality of life, and our community pays the price for their lifestyle.

(Source: Study on Key Indicators of Poverty in South Africa, Saldru / World Bank 1996).

Even commentators not particularly sympathetic to organised labour, are struck by this contrast. The World Bank study in mid 1994 admits:

> "While only one in a hundred white children dies in infancy, ten of every hundred African children do — five of them from easily preventable conditions. Of African children who reach the age of five, more than half suffer stunted growth because of inadequate nutrition. Among those who manage to enter school, only one in seven reaches standard 10, after many years of repetition. Of adults, fewer than half work in the formal economy. For those who become parents, the maternal mortality rate is 70 times higher among Africans than among whites. The cumulative effect of such inequity carries through life. Per capita, whites earn 9,5 times the income of blacks and live, on average, 11,5 years longer. In sum, South Africa exhibits that most bitter of social outcomes: destitution amid plenty."

(Source: Reducing Poverty in South Africa, The World Bank, June 1994.)

These inequalities are not accidental: they are the natural outcome of the low wage policies, followed by the private sector, and the deliberate policies of the old state to under-spend on social services for black people.

A newly developing country such as Malaysia outperformed South Africa in social spending. Even Cuba, a smaller economy than ours, has an impressive record of investment in health care.

Take for example a comparison between Malaysia and South Africa, between 1998–1993, for spending on Education, Health and Housing as a percentage of total central government expenditure. (See table 1)

Powerful conglomerates

Our country has a very high concentration of ownership and control by a few large corporations. Indeed, the level of control, based on market capitalisation of the Johannesburg Stock Exchange (as at January 1995), shows the following:

The concentration of economic power has been helped by the weak competition policies followed in the past, and the use of pyramid companies to grant control to holding companies far in excess of the actual equity invested.

Such high levels of economic concentration, combined with a corporate culture which excludes workers from decision-making, produces a society of powerful and

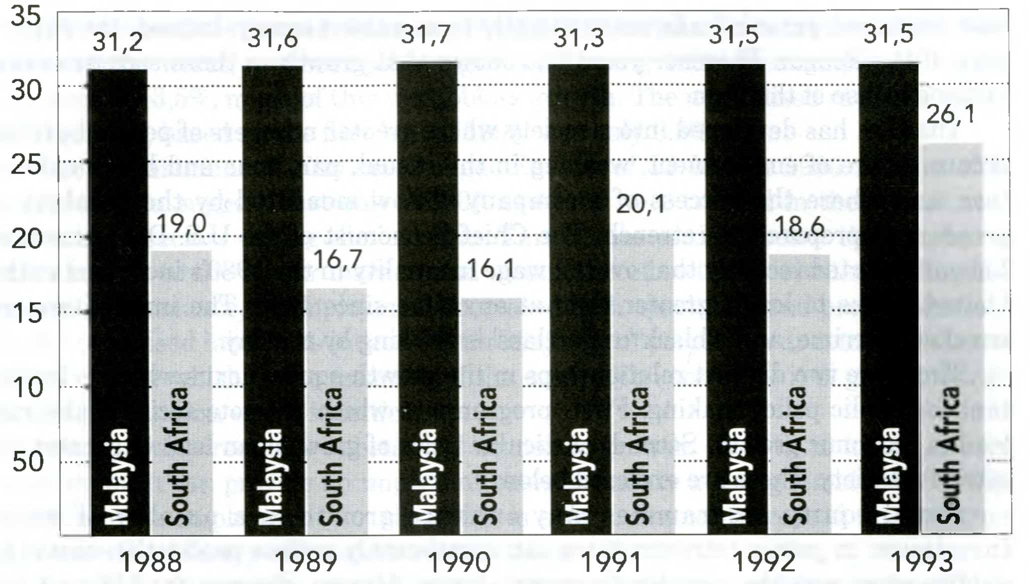


Table 1: Comparative spending on certain social services, 1988-1993

(Source: NIEP, From IMF and CSS data).

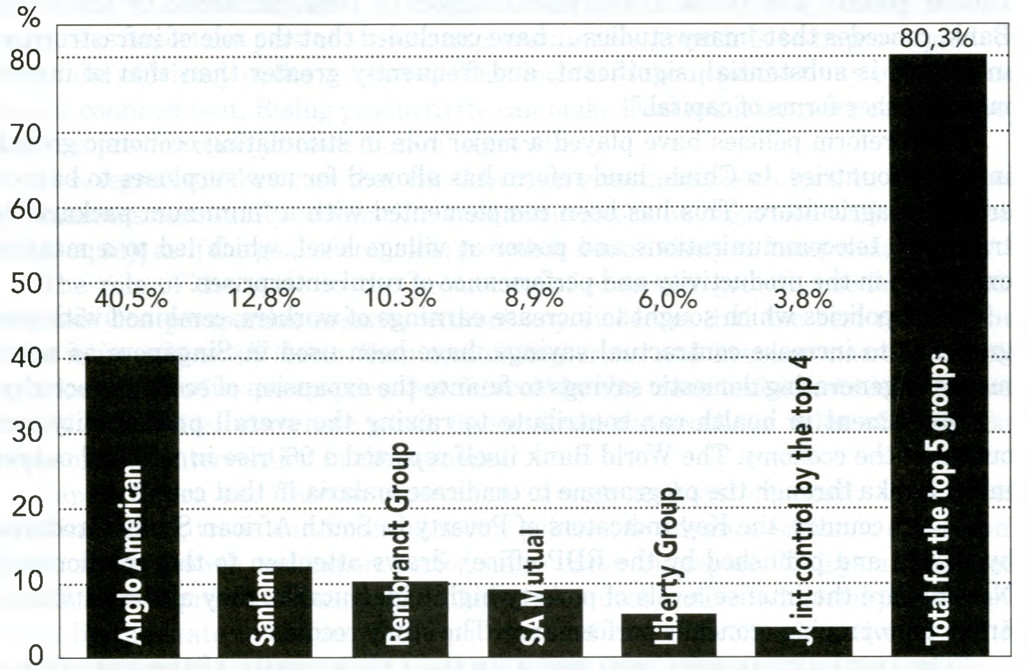


Table 2: % control of the market capitalisation of the JSE

(Source: McGregor's Who Owns Whom)

powerless, wealthy and poor.

The current holders of economic power have acquired their wealth over the last few hundred years through land dispossession, the conquest of black people and the exploitation of black workers. Our country's 'economic miracle' of the past has been based on the low wages and migrant labour system imposed with brutal force on black people.

In more recent times, business has engaged in speculative activities, which have served to foster unproductive economic activities, and instead of investment in plant, equipment and people, it has invested in shopping malls, and huge glass and concrete towers as monuments to the sterility of the corporate and financial sector. This must change now.

Economic growth and development

The debate about growth is important, for with the wrong policies, we may achieve either no growth, or growth which benefits shareholders, but offers no equity to workers and the unemployed.

The relationship between growth and equity is complex. It is certainly not true

"Trickle-down economics has failed in the United States"

that increased growth leads automatically to increased equity. Indeed, the experience of the Reagan-Thatcher years has shown that growth in those societies came at the expense of the poor.

The U.S. has developed into a society where greater numbers of people have insecure tenure of employment, working in the casual, part time and low wage sectors, and where the success of a company is now measured by the numbers of people it is prepared to retrench. The Chief Economist of the U.S. Department of Labour reported recently that overall wage inequality in the 1980's increased in the United States to levels greater than at any time since 1940. The inner cities are wrecked by crime, and a black 'underclass' is growing by the day.

There are two distinct relationships in the growth-equity nexus which is important for public policy making. First, programmes which promote social equity can lead to economic growth. Second, particular types of growth can lead to greater equity in a society. These are explored below.

"Social equity measures can enhance growth in a number of ways ... and growth can in turn enhance social equity"

Social equity programmes may enhance growth in a number of ways. Investment in public infrastructure can significantly reduce production costs (as studies show was the case for Germany, Japan, Mexico, Sweden the UK and the United States). The World Development Report of 1994, published by the World Bank, concedes that "many studies ... have concluded that the role of infrastructure in growth is substantial, significant, and frequently greater than that of investment in other forms of capital."

Land reform policies have played a major role in stimulating economic growth in many countries. In China, land reform has allowed for new surpluses to be generated in agriculture. This has been complemented with a "minimum package" of transport, telecommunications and power at village level, which led to a massive expansion in the productivity and performance of rural enterprises.

Wage policies which sought to increase earnings of workers, combined with programmes to increase contractual savings, have been used in Singapore as a key means of generating domestic savings to finance the expansion of economic activity.

Investment in health can contribute to raising the overall productivity and output of the economy. The World Bank itself reported a 9% rise in national output in Sri Lanka through the programme to eradicate malaria in that country.

In our country, the Key Indicators of Poverty in South African Study (produced by Saldru and published by the RDP office), draws attention to this relationship. Not only are the intense levels of poverty highly inequitable, they also constitute a brake to improving economic performance. The study records:

> "The rural african poor, who make up the vast majority of the poor, face a number of specific barriers that prevent them from increasing their economic productivity. On average, these households spend more than three hours a day fetching water. In addition, rural African households in the poorest quintile who rely on firewood spend more than one hour daily collecting wood."

The World Bank study on Reducing Poverty in South Africa argues

> "Redirecting public expenditure on urban infrastructure and services towards the black community would have an immediate and rapid impact on poverty and inequity. Such a strategy would also contribute to economic growth. In the short run, an intensive programme of broadening access to basic services will directly create employment opportunities. Over a longer horizon, a network of urban services and infrastructure would improve the workings of the urban economy by facilitating ready communication among firms and people."

This first relationship has explored some of the linkages between increased equity, and increased economic performance. It informs an important part of the proposals we submit in the later parts of this document.

Let us turn to the second relationship. Growth can in turn enhance social equity. It can do this in South Africa when it is labour absorbing growth, when the nature of the economic activities measured in the growth figures contribute to a rising standard of living for workers and when enough of the resources generated by growth are transferred to the fiscus for redistributive public policies.

Recent economic growth, following the trend in certain liberalised markets elsewhere in the world, has been jobless growth. During 1995 for example, while the Gdp grew by 3,5%, much of this was jobless growth. The annualised rate of employment growth, based on the first half of 1995, was only 0.3%.

The Department of Finance Budget Review of 13 March 1996 advises that available data suggest that only 55 000 new jobs were created in the formal non-agricultural sectors during the last year. This is substantially below the number of new entrants to the labour market, and means therefore that, notwithstanding the growth performance, unemployment increased both absolutely and proportionately. So, for organised labour, as indeed for the majority of people in our country, it is not growth per se which is the measure of the economy's success — it is growth which fosters job creation which is critical.

Social equity requires substantial economic growth. Growth is important for workers, for it can provide an important basis to finance a rising standard of living. It can provide employment for all, and it is able to finance increased tax revenues to pay for the delivery of social services to the poor.

Growth is fostered by investment, training and technological innovation. These key engines of growth both contribute to, and are encouraged by, rising productivity. An important part of stimulating sustainable growth is to improve productivity and efficiency in the workplace. This includes labour productivity but is by no means confined to it. Rising productivity can make local industry more competitive, and can provide a major contribution to growth.

It is regrettable however that the debate on growth has been used by sections of the business community to launch a systematic attack on organised workers and on social equity, as if the goal of economic growth is not precisely to foster social equity.

The role of the state in the promotion of economic growth needs to be addressed. One perspective asserts, without any evidence, that the best role for the state is no role at all (other than combatting crime and keeping macro-economic balances). The other perspective, put forward by the trade union movement, draws on the experiences elsewhere which demonstrate the economic value of particular types of state intervention in the economy.

Japan, Korea and Taiwan intervened strongly and systematically in markets with industrial, trade and financial sector policies, to advance economic expansion, productivity, growth and export performance. Even Singapore, Malaysia, Thailand and Indonesia previously used, and China today uses, active industrial policy measures by the state to influence the pattern and rate of economic activities. With such widespread evidence, it is surprising that Anglo-Saxon economic orthodoxy still seeks to limit, rather than enhance, the role of the state.

Organised labour does not argue for the wholesale copying of these countries — indeed, their record on worker rights and human rights, have generally been poor. Many of these countries have lacked democratic institutions of governance, and multi-party democracy. Yet, when they are cited with approval by local businessmen, their interventionist policies in the economic arena are not mentioned. Their labour policies however are strongly supported by such commentators.

Market deregulation, or the 'rule of the free market' is often put forward as the main engine to develop the society. In theory, the immediate freeing of markets would allow capital, labour and other resources to flow to the areas where they can most productively be used. In practice it is not so clear, nor so simple. Societies which have deregulated their markets have not necessarily grown fast.

Many market failures — particularly the failure to allocate resources to education and training, or to investment in infrastructure and big capital projects — have led to poorly performing economies. The premature and unco-ordinated removal of tariffs, without attempts to address structural weaknesses of local industry, has wiped out employment. The failure to have financial market regulation has led in some countries to the collapse of major financial institutions, and of public confidence in the financial system. The system itself has often been inadequate in allocating capital to new economic activity.

"Growth is fostered by investment, training and technological innovation"

"The state has an important role in promoting economic growth"

"The East Asian economies are examples of high levels of state intervention, and high growth economies"

"The theory of markets must be subjected to rigorous practical test"

"South Africa needs a set of active policies, which builds a partnership for growth between the public and the private sector"

Indeed, a study by Palle Andersen, head of research at the Bank of International Settlements shows that the link between liberalised financial markets and faster economic growth is not borne out by the empirical results of the performance of a number of Asian economies.
(Source: Economic Growth and Financial Markets, in Amex Bank Review, 1993).

Nor does recent research show an increase in savings in poor countries after the liberalising of financial markets. The Economist magazine, a strong supporter of market liberalisation, acknowledged that, in some countries "the freeing of the financial sector has been followed by a sharp decline in private saving ... . Financial liberalisation can thus cause saving to fall".
(Source: Economist, March 9th, 1996).

Markets have been inadequate in responding to the social needs of human beings — in setting decent wages and fair standards, in protecting the poor and the marginalised, in correcting imbalances of wealth and inequality and in addressing the problems of exploitation.

Free markets, if reduced to the freedom to exploit, have led to the development of major inequalities and poverty in societies, and defeated the purpose of economic policy.

The alternative is a coherent development plan, based on market realities, and seeking to marshall resources towards the building of an efficient, dynamic economy.

All governments intervene in economic decision-making. Some do so through the blunter tools of fiscal and monetary policy only. Others have active industrial policies which create a strong support environment for companies to do business in, and thrive. Such policies address the flow of investment, the capacity of production and the availability of people and capital. It does so through a system of incentives and requirements.

South Africa needs a set of active policies, which builds a partnership for growth between the public and the private sector.

We put forward the alternative economic vision set out in this document as a challenge to an economy, which, whilst under the stewardship of big business, has failed our society.

"The SA Foundation document will divide society, strengthen the wealthy and reduce the prospects of negotiated agreements on the key challenges facing society"

A sterile business response

It is telling that the business community represented by the SA Foundation has launched a well-financed and well publicised campaign to cling onto their wealth. They do so by creating a range of red-herrings, such as the alleged "inflexible" labour markets and the alleged "labour elite". In so doing, they seek to let poor people pay for growth and development, whilst keeping the wealth and power of the privileged intact.

Their policy prescriptions consist of a restatement (with graphs and graphics) of ideologically driven 'solutions'. Behind the gloss lies the oft-repeated programme of economic deregulation, lower tariffs, privatisation, weaker trade unions, lower corporate taxes, reduced labour standards and financial market liberalisation. This has become known as the "neo-liberal" programme. It is a programme which has been advanced by the International Monetary Fund and the World Bank, and by international capital. South African business has merely repeated the stale and simplistic formulae underpinning this programme.

It is a programme to cut back the capacity of a democratic state to moderate the use of market power. It fails to acknowledge the real weaknesses in the economy, and the potential benefits in an active public sector fostering policies to promote growth.

It is a programme to weaken the trade unions, one of the important institutions in society which seek to advance social justice.

It is a programme which will divide society, strengthen the wealthy and reduce the prospects of negotiated agreements on the key challenges facing society.

In the process, big business seeks to repudiate key elements of agreements reached by their representatives with labour and government, on centralised bargaining (at the National Economic Forum in 1993) and on the Labour Relations Act (at Nedlac in 1995).

They talk the talk of tripartism, but they walk the walk of undermining labour standards.

The unemployed and business

The cynical attempt by business to blame workers for high levels of unemployment, needs to be challenged.

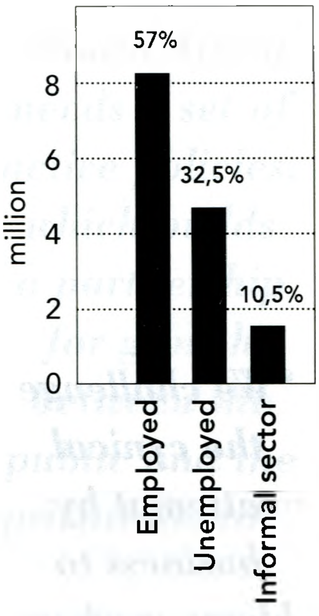
- First, it is the business community (not trade unions or workers) which retrenches thousands of workers each year. They do this simply in the chase for higher profits. Many companies continue to retrench ('downsizing and rightsizing', they call it), even when making above average profits. Yet these same companies now blame workers for unemployment!
- Second, the uncompetitiveness of sections of the economy is precisely due to the low levels of investment by business in education and training of the majority of workers. The partial exception to this has been the resources put into training of white artisans and professionals, by the business community, and the public sector in the past.

Successive editions of the World Competitiveness Report have placed South Africa at the bottom of the league of nations in human resource development. In the in-company training category, we are nearly at the bottom, ranked 40th in a list of 48 countries. In contrast, in areas such as infrastructure, finance and science and technology, the Report rates us as a mid-ranking country.

"We challenge the cynical attempt by business to blame workers for high levels of unemployment"

WCR rating of South Africa by in-company training

Ranking		
1	JAPAN	8.04
2	SWITZERLAND	7.29
3	GERMANY	7.27
4	SINGAPORE	7.08
5	KOREA	7.00
6	AUSTRIA	6.91
7	AUSTRALIA	6.64
8	NETHERLANDS	6.61
9	TAIWAN	6.47
10	FINLAND	6.46
11	FRANCE	6.38
12	SWEDEN	6.37
13	DENMARK	6.33
14	MALAYSIA	6.20
15	NORWAY	5.94
16	EGYPT	5.90
17	PHILIPPINES	5.83
18	BELGIUM/LUX.	5.79
19	HONG KONG	5.74
20	NEW ZEALAND	5.72
21	CHILE	5.66
22	USA	5.65
23	THAILAND	5.63
24	BRAZIL	5.47
25	IRELAND	5.44
26	INDONESIA	5.20
27	ARGENTINA	5.14
28	UNITED KINGDOM	5.10
29	SPAIN	4.98
30	TURKEY	4.92
31	ISRAEL	4.92
32	PORTUGAL	4.85
33	CZECH REPUBLIC	4.84
34	ICELAND	4.82
35	JORDAN	4.81
36	CANADA	4.79
37	ITALY	4.76
38	INDIA	4.74
39	COLOMBIA	4.60
40	SOUTH AFRICA	4.58
41	PERU	4.53
42	VENEZUELA	4.53
43	GREECE	4.48
44	MEXICO	4.29
45	CHINA	4.24
46	POLAND	3.97
47	HUNGARY	3.94
48	RUSSIA	3.14



"Wages for the majority of unionised workers are low"

• Third, the cosy cartel of conglomerates which dominate the South African economy, have engaged in collusive and price-fixing practices which have blunted the ordinary competitive pressures in a market economy. The entry of foreign firms to the South African market has so often exposed the weaknesses, indeed the managerial incompetence of these large companies. In a telling comment, the authoritative Financial Times of London, for example, disparagingly described the senior executives of Anglo American Corporation as

"polished Oxford-educated courtiers, for whom relations with the (Oppenheimer) family matter more than commercial ability."
(Source: Financial Times, 2 July 1992)

The detail may differ, but the indictment of incompetence applies equally to much of corporate South Africa. The Competition Board has been ineffective in breaking up these forms of corporate organisation which have failed to add value to economic processes, and which have brought no discernable benefits to society.

• Fourth, it is the employed workers which provide the social security net for the unemployed. The October Household Survey produced by the Central Statistical Services, reported the following breakdown of the economically active population:

Employed	**8,2 million (57%)**
Informal sector	**1,5 million (10,5%)**
Unemployed	**4,7 million (32,5%)**

Given the absence of a publicly-funded welfare net in South Africa, workers provide accommodation, food and other help to unemployed family members. In addition, employed workers, not the owners of capital, buy from the informal sector in the townships, use the taxis and support spaza shops. The wages of the employed workforce therefore sustains the informal sector and the unemployed.

In practice, Jabu Xulu who works in a metal factory, is the sole breadwinner, in a family which includes Cynthia Xulu, an ex-clothing worker recently retrenched. Cynthia's brother, Jonas Gumede, lives with them — he has been unable to find work since he left school. Their neighbour, Sipho Loro, sells meat at the taxi-rank, and Jabu buys from him once a week.

• Fifth, wages of many employed unionised workers are extremely low. Wage agreements concluded by trade unions set wages in Isithebe at R363.00 a month. Here are some further union negotiated wage rates, for the labourer or related category:

Motor Industrial Council*	**R405,29 per month**
Anglovaal Gold (Loraine) Surface	**R508,00 per month**
Randmines ERPM (Surface)	**R569,00 per month**
Transvaal Building Industrial Council*	**R794,73 per month**
Randcoal Douglas Underground	**R873,40 per month**

(= certain areas)*

According to the Labour Research Service, the average wage in unionised workplaces for South African labourers was R285 per week in 1995 — a wage well below what is required to maintain a reasonable standard of living. While some workers have made progress in the campaign to achieve a living wage, this is by no means the norm. Sensational press reportage of the higher than average wage of workers at particular companies does not reflect the reality of low wages in industry in general.

A clothing sewing machinist, with 20 years experience in the industry, currently earns R276,50 per week in Johannesburg. The average wage in the mining industry, for a semi-skilled worker, is R336,85 per week. Even after years of collective bargaining struggles, average wages for a semi-skilled worker in the iron and steel industry and the metal industry is only R392.00 per week, and in the food industry, it is R396,84 per week.

Contrast this with average earnings of executive directors of leading companies on the JSE who earn R67 000 per month (or R15 500 per week)!

In rural areas, the picture is even grimmer. Wage determinations set the following wages for rural areas:

Clothing and knitting	R365,89 per month
Sweet manufacture	R446,00 per month
Goods transport	R506,61 per month
Commercial distributive trade	R469,81 per month

In agriculture, wages in the Western Cape (not the lowest in the country) varied from as little as R87,00 per week for males, to R58,00 per week for females.

These wages are even substantially below those of sections of the informal sector. A survey by Business Report earlier this year, makes the point tellingly. It sets out a few categories of informal sector earnings on the streets of Johannesburg (these are in practice tax-free income):

Haircutting	R2 600 per month
Banana sales	R1 300 per month
Mealie sales	R1 040 per month

(Source: Business Report, 23 January 1996. See Annexure 3)

Even the study by Saldru into poverty concedes that 44% of those covered by their definition of the poor (the poorest 53% of the population) are wage earners (regular and casual wages). In addition, 19% of the income of the poorest 53% of the population is derived from remittances, principally from earnings of migrant workers sent to dependents.
(Source: Key indicators of Poverty in South Africa, RDP Office).

This means therefore that up to 63% of the income of the poorest 53% of the population are from regular and casual wages, and from the earnings of migrant and commuter workers. So, on any definition of the poor, the earnings of workers form the bulk of income of our country's poorest people. Yet now business seeks to cut this income.

- Finally, it is big business that has shown unpatriotic tendencies, given its clamour for the removal of exchange controls in order to move capital overseas. Indeed, the life insurance industry alone, with an asset base of R500 billion of worker and individual policy holder incomes, seek to move more than R100 billion of business off shore in the event of a removal of exchange controls. *(Source: See Business Day, 4 March 1996).* This will have a dramatic, and damaging effect on the SA economy.

Yet the ploy to blame workers for unemployment is being pursued with ruthlessness by sections of business. Every new proposal to challenge their wealth, their power or the way they conduct business is immediately said to "limit job creation" or to "scare off investors". These phrases have become the latest rationalisation for the powerful and the elite to cling onto their privileges in a society where the vast majority of people cry out for social justice. They are able to wheel out any number of ageing "captains of industry" and well-paid economists to provide these standard sound bites. But it does not ring true, and it resolves no problems in our society.

"Average earnings of executive directors of leading companies on the JSE are R67 000 per month"

"Sixty three percent of the income of the poorest half of the population comes from the wages of workers"

It is time to break with the past

The RDP Base Document has a very clear analysis of the fundamental problems in South Africa. It says:

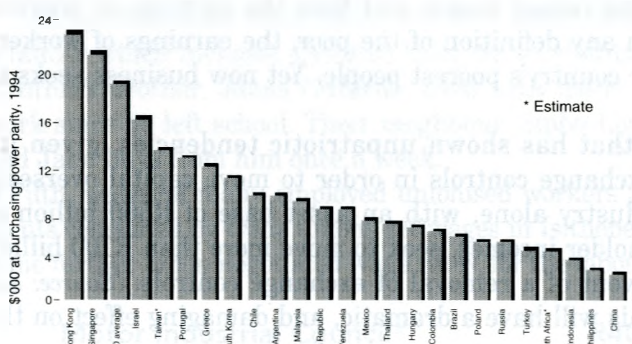
> "Our history has been a bitter one dominated by colonialism, racism, apartheid, sexism and repressive labour policies. The result is that poverty and degradation exist side by side with modern cities and a developed mining, industrial and commercial infrastructure. Our income distribution is racially distorted and ranks as one of the most unequal in the world — lavish wealth and abject poverty characterise our society".

In the vision and objectives set by the RDP for Rebuilding the Economy, it says we need an economy which will

> "Eliminate the poverty, low wages and extreme inequalities in wages and wealth generated by the apartheid system, meet basic needs, and thus ensure that every South African has a decent living standard and economic security...[and] ... create productive employment opportunities at a living wage for all South Africans." *(clause 4.2.2, RDP Base Document.)*

South Africa has been on the other road: trade unions banned for african workers, wages shockingly low in general and lower still in the second part of the two tiered labour market which was the old decentralised areas, a powerful business community able to determine public policy in its own interest, and a criminal neglect of the basic needs of our people by government and business. That road has brought our country to ruin. It has divided the nation. And it failed to advance the interest of the people. Take for example the per capita GDP of so-called emerging market nations, many of whose wealth was well below that of South Africa, prior to the introduction of apartheid.

GDP per person at purchasing power parity, 1994



We must now break with these policies, and start on a fresh road as a country. Our call is for policies which are built on South African realities, and put our country, its workers and its citizens first.

We now propose six pillars to promote social equity, based on South African realities. These are:

- **a programme of job creation**
- **a redistributive fiscal policy**
- **proposals to break up economic concentration**
- **measures to promote worker rights**
- **a plan to build industrial democracy**
- **steps to promote equity and economic development globally.**

We call on our people, on organised workers, on the unemployed, and on the democratic government, to take steps to have this programme implemented now. We call on the business community to break with the past, and to embrace the new South Africa. South Africa requires fresh social and economic policies for the new democracy, policies which mark a clear and decisive break with the policies of apartheid. Our country requires such fresh policies now.

1. The first pillar is job creation.

We propose eleven measures to create jobs in South Africa.

- **first, through public works and mass housing programmes**
- **second, through modernising our industrial base**
- **third, through "job sharing" arrangements**
- **fourth, through pragmatic trade and tariff policies**
- **fifth, by expanding domestic demand and local purchasing policies**
- **sixth, through training and retraining the workforce**
- **seventh, through productivity increases in the economy**
- **eighth, through creating jobs in labour intensive processes**
- **ninth, through stopping retrenchments in the economy**
- **tenth, through a programme of land reforms**
- **eleventh, through the stimulation of economic activity**

1.1 Start public works and mass housing programmes

The Reconstruction and Development Programme which the ANC put to the electorate before the 1994 elections, calls for a co-ordinated public works programme in order to create jobs. Sections of the business community opposed this. The electorate backed the programme. Since the election, we have seen little evidence of a substantial public works programme on the scale we envisaged. The old bureaucracy which we inherited, comfortable with their job guarantees, have not been prepared, with energy and professionalism, to tackle the job at hand.

The attempt to involve the private sector in the provision of housing has not been successful. Indeed, only 34 000 units have been built by the private sector over the last 18 months, while the housing shortage is more than 2 million units. *(Source: Business Day, 25.03.96).*

Other societies devastated by war, or economic depression, have used public works and related programmes as a short term measure to bring the unemployed into employment. This has been done in the United States, Europe and Japan, with great success.

The housing shortage is in excess of two million units. We propose the immediate provision of public housing, on a rental and a purchase basis.

We propose that at least 300 000 such housing units be built every year over the next three years. Such a programme will employ hundreds of thousands of workers. Our initial calculations show that over this period between 150 000 and 220 000 direct construction jobs can be created. An estimated further 200 000–330 000 indirect jobs may be created. (This uses the direct to indirect job ratio applied by the Department of Housing and the Building Industries Federation of South Africa). Indirect jobs would flow from the construction materials sector (brickmaking, cement, timber, steel, paint, glazing) and from the home furnishing industry (furniture, appliances, home textiles).

In short, 350 000 to 550 000 jobs can be created over a three year period through implementing such a policy. The cost of such a programme would be about R30 billion over a three year period, at current prices. It can yield a continuous stream of income from occupants to help pay for the cost of construction.

It will pump high levels of wages into the local economy, hence stimulating economic activity in other sectors, and creating further jobs in the country.

For such a programme to be effective, a number of institutional matters would need to be addressed. This includes the public sector agency responsible for co-ordi-

"300 000 houses should be built every year over the next three years"

"Between 150 000 and 220 000 direct construction jobs can be created"

"We propose an accelerated programme of public works in the provision of electricity, piped water supply, sanitation, child care facilities and health care clinics to black areas"

"We propose that the long term unemployed, women and youth be targeted for employment in these programmes"

nating the financing and overall management of the programme, and mechanisms to prevent speculative activities and profiteering.

Public expenditure on residential infrastructure (roads, drainage, water supply, electricity and garbage collection) in the white areas of Gauteng in 1990 was, according to the World Bank, approximately $552 per capita, in contrast with the national average of $62 per capita which reflects the lower expenditure in black communities. There is a real and urgent need to develop infrastructure for the majority of our people.

We propose an accelerated programme of public works in the provision of electricity, piped water supply, sanitation, child care facilities and health care clinics to black areas. Programmes to provide roads and major dam and canal works, and to address telecommunication inadequacies, should be put into place. This entails a major upgrade of urban infrastructure, and provision of rural infrastructure.

Such a programme will lead to increased employment in the short term, but crucially, it is a fundamental part of improving the performance of the urban and rural economy. It will reduce commuting time. It will reduce labour 'down time' caused by illnesses due to inadequate sanitation and water supply. It will have a positive effect on national output, and on productivity levels in the economy.

We propose a negotiated wage applicable on these public works programmes. Such a wage should be negotiated through Nedlac. This wage should be set at a level which combines the need for fair labour standards with the requirements of job creation.

We seek that labour based construction methods be utilised, and that projects are designed to this specification, in order to ensure that we maximise employment on the projects. A wealth of experience on labour based construction exists in the projects started under the National Economic Forum, in certain of the presidential lead projects and in the work done by the International Labour Organisation in many other countries.

One concern we want to express about current and past community and public works programmes relates to the high proportion of funding which is consumed by consultants and specialists. These programmes appear at times to be designed for the enrichment of professionals, not to create jobs and infrastructure for the poor! We propose that consultants only be used when no reasonable alternative exists, and that all consultant fees be capped, and publicly disclosed.

We propose that the long term unemployed, women and youth be targeted for employment in these programmes. Special emphasis should be placed on developing infrastructure in rural areas. Attention should be given to building a training component into such public works programmes, including a course on adult basic education (literacy, numeracy and life skills).

The sources of funding a major programme such as the above, is within our capacity. The key sources of finance are the fiscus, the corporate sector and prescribed investment requirements on the retirement and long term assurance industry. We address our comments on the budget, the deficit, additional sources of taxation and the gross public debt, later in this document.

The corporate sector must accept the need to contribute to development: they feared a vigorous attack on their wealth before the election, and since this has not happened, they have settled back into complacent arrogance. The asset base of the long term assurers, provident and pension funds, self administered funds and the assets of the Public Investment Commissioners amounts to more than R695 billion. These would all need to be harnessed to meet the needs of developing our society.

We propose the public works programme be financed from government, business and labour, in the following manner: first, through a major contribution from the fiscus (the government sector), second, a three year levy of 5% on the pre-tax profit of businesses (the business sector), and third, the introduction of a prescribed investment requirement on pension and provident funds, the life assurance industry and the assets of the Public Investment Commissioners, to invest 5% of funds in special government bonds to finance RDP projects (workers and policy-holders).

The lack of success of the Masakhane campaign needs to be discussed by all stakeholders. At the same time that we find ways of promoting a culture of payment for services delivered, we need to give content to the campaign. We believe this task will be much easier once infrastructure has been built and real service delivery improvements are evident in townships.

Aside from finance which will be raised through the Budget, substantial funds can be raised (through the levy revenue and RDP bonds) from the non-governmental sector.

From the corporate levy, we would be able to raise at least R3,5 billion a year (more than R10 billion over the three year period). From retirement and the assurance industry, we would be able to raise R35 billion in investment funds.

1.2 Modernise our industrial base

A major means to foster job creation is through the modernisation of our industrial base. A more efficient industry is able to win back parts of the domestic market that have been lost to imports. It is the essential platform from which to launch a successful export effort. Both of these consequences – a greater share of the domestic market, and increased exports – will lead to job creation, and the drawing of currently unemployed workers into gainful employment. Crucially too, the operation of the rest of this programme of labour, which will result in a substantial increase in economic activity and stimulation of demand, requires an efficient and modern industrial base to maximally utilise the opportunities for expanded production. This objective requires a mix of incentives and disincentives.

We propose the retention and expansion of fiscal measures to encourage reinvestment of corporate profits, instead of the paying out of dividends.

We propose the setting up of a National Restructuring Fund (NRF), to finance the introduction of new technology and work organisation, in instances where companies are able to show expanded output and the creation of new jobs. This NRF should have a board directing its activities, with guidelines worked out by the Trade and Industry Chamber of Nedlac. The board should have delegates nominated by organised labour, government and the business community.

We propose policies to expand the savings rate in South Africa, as a critical means of financing new investment. An important means of achieving this is through the promotion of savings levels from workers, through strengthening provident fund and pension fund facilities. Current efforts to develop a national Provident and Pension Fund, capable of achieving economies of scale in benefits, and able to harness the investment potential of such funds, should be strongly supported. The Joint Standing Committee on Finance of parliament has recently endorsed the proposal that at least half the seats on the board of such funds should be occupied by elected worker representatives. We now call for rapid implementation of this decision.

The investment policies for the use of the funds should, subject to normal risk considerations, promote job creation and the need to grow the economy.

The current statutory and regulatory requirements governing asset deployment of financial institutions, should be revisited. The policy goal should be to require the deployment of assets in South Africa, and not to move assets off-shore.

The Financial Services Board is considering proposing that long term insurers, short term insurers, and the pensions sector be permitted to invest assets equal to 10% of their domestic liabilities outside the country. By the end of 1994, the total domestic liabilities amounted to about R500 billion.
(Source: Financial Services Board).

This figure would have grown significantly since then. Even on the reduced base however, a 10% facility would permit more than R50 billion to leave South Africa.

There was a further proposal initially considered within the FSB that this 10% be permitted to increase, by 5% a year, until it reaches 25% of domestic liabilities. While

"A modern industrial base is important for the domestic market, and is an essential platform from which to launch a successful export effort"

"Savings need to be encouraged through a National Provident and Pension Fund"

"Sections of business seek to shift money off-shore, when our development needs are so substantial"

"A 'ban' on overtime can create jobs in industry"

"Trade reform should not be driven by ideology. It must be sensitive to the employment impact in South Africa"

this second proposal has not been pursued, it was agreed to leave the matter of any further increases to be considered once the 10% proposal has been finalised and accepted.

These two proposals are in addition to the current entitlement to invest abroad surpluses (the difference between total domestic assets and domestic liabilities, worth at least R82 billion in 1994), subject only to exchange controls, and assets covering foreign liabilities.

We are strongly opposed to the FSB proposal to permit the movement of assets worth more than R50 billion out of the country. Under normal circumstances, public policy may favour a diversified investment portfolio, with flows of inward and outward investment. In the current circumstances, there is an urgent need to promote active domestic investment policies, to make up for a vast backlog of investment in areas of basic needs and to rebuild our economy. We now request that this proposal to shift significant levels of domestic assets abroad should not be accepted.

We propose serious consideration be given to the impact which the removal of exchange controls will have on flows of resources abroad, and that the state retain adequate measures to ensure that domestic assets are deployed in the national interest. Since mid-July last year, the insurance and related industry was allowed to invest funds outside the country through approved asset swop arrangements.It is noteworthy that in the five months to December 1995, asset swops to the value of R9 billion had already been approved.

We propose further that the Financial Services Board be restructured as a matter of priority, that its deliberations be more transparent and that labour be fully represented on the Board.

1.3 Share the jobs

Overtime work performed by currently employed workers, constitutes a significant contribution to industrial and service output. Workers are reluctant to give up overtime work, since this makes up an important source of regular income for lower paid workers. In many instances, overtime is systematically built into the shift pattern and the payment system. It is necessary though to balance these real needs with the important objective of job creation.

Figures released by the International Labour Organisation (1996) for overtime work in 1995 in the manufacturing sector, show an average of 3.25 hours per week overtime worked. Based on a 40 hour working week, it is equivalent to 115 000 jobs in manufacturing alone. Not all overtime is able to be converted to new full time work, for a range of reasons. Nonetheless, large numbers of new jobs can be created should overtime work be cut.

We propose therefore that the current high level of overtime work be strongly discouraged, and in every possible instance, it be replaced by full time new employment. This requires a campaign by the trade union movement, and support from other constituencies for this effort.

1.4 Don't export our jobs

We are opposed to trade related policies which destroy local jobs.

The trade union movement accepts the need to open our economy, but we require a process that is carefully managed and sequenced in order to avoid job losses.

First, we need a series of active industrial policy measures to improve efficiencies and the performance of companies. Then, we need a pragmatic programme which lowers tariffs carefully, and not faster than required under the terms of the General Agreement on Tariffs and Trade. Simultaneously — not afterwards — we need to put into place a set of social adjustment programmes which will absorb, retrain and then place into new jobs, those workers who are displaced by restructuring.

Material assistance should be given by the public authorities to the trade union movement, to help it in its efforts to manage this process carefully.

It is instructive that the east Asian economies, often cited in support of a range of economic policy proposals in South Africa, were not big bang trade liberalisers. The World Bank study into the eight high-performing east Asian economies, confirms this reading. It says

"Most high performing East Asian economies began industrialisation with a protectionist orientation and gradually moved toward increasingly free trade ... The northern-tier economies — Japan, Korea and Taiwan — stalled the process of import liberalisation, often for extended periods, and heavily promoted exports."

(Source: The East Asian Miracle Summary document, World Bank,1993).

We propose that we follow pragmatic trade policies geared towards opening up the economy in a manner which will not lead to massive job losses. Tariff reduction should not be driven by ideology, but by a careful analysis of its impact on the domestic economy.

In this connection, we now propose a review of the current trade liberalisation programme, and where job losses may result, our country should not liberalise faster than required under the terms of Gatt. In addition, where serious damage may be created by the Gatt programme, South Africa needs to call for an urgent review of the programme in the WTO.

Within the context of our international commitments, trade liberalisation should be preceded by industry agreed active industrial policies. Specifically, we require the introduction of active industrial policy and human resource development measures in sectors affected by major trade liberalisation programmes. Provision should be made in the national Budget to adequately finance such measures.

It is very important that concrete social adjustment programmes be introduced, in order to ensure that workers do not bear the brunt of the globalisation of the South African economy.

We propose that the Social Plan Act proposals submitted by labour to Nedlac be agreed, and that social adjustment packages be implemented at sectoral level without delay. These should be done particularly for industries facing tariff reductions and downscaling.

Our policy framework for the conclusion of bilateral trade agreements must be driven by the imperative of job creation in South Africa. We must find ways to strengthen and expand the export effort, and rapidly move exports into areas of greater value-addition. In this context, preferential access to the European Union markets should be on a non-reciprocal basis.

We seek direct representation of labour on the negotiating committees concluding bilateral and multilateral trade deals. We draw attention to the section of the RDP (5.13.3) which explicitly calls for union involvement in the negotiation of international trade agreements.

We call for careful consideration of an appropriate and effective role for parliament in overseeing trade negotiations.

We propose a reorientation of export incentives away from the current cash subsidy system under the Generalised Export Incentive Scheme (Geis). Instead, it should be replaced by the tripartite National Restructuring Fund, which assists companies to address the fundamental problems of uncompetitiveness in areas of education, technology upgrades and work organisation.

The budgetary allocation of R1,88 billion for Geis which was available in the 1995/6 budget (and subsequently trimmed) should now be allocated to this fund, with a 10 year commitment to public funding for the Fund. Clear statistics of the impact of investment and assistance of the fund on job creation and on other indicators of social equity, should be published annually, and tabled in parliament and at Nedlac.

We propose greater use of active measures such as external trade fairs and the use of the Department of Foreign Affairs, to market SA industry abroad.

Trade policies and customs-related fraud have led to many thousands of job losses, with more than 30 000 jobs lost in the last six months in various sectors of manufacturing.

We propose that the top management of the Customs and Excise section of government be replaced with a capable management, in order to stem the huge flow of

"Active industrial policies are required to develop our manufacturing base"

"Social adjustment measures are required to ensure that restructuring is done with sensitivity to the needs of workers"

"Parliament must have a role in trade negotiations"

"Geis must be replaced by a National Restructuring Fund"

"The domestic market must be expanded, and wage policies will play an important part in securing this objective"

"Research shows a decline in real incomes of blue collar workers"

"State procurement policies must create jobs in South Africa"

goods entering South Africa illegally.

We propose that the 13 point plan proposed by labour in early 1993, for reforms of Customs and Excise, be implemented without delay. These entail among others, increasing the resources at ports of entry and computerising all ports of entry, providing for product-dedicated ports of entry, beefing up the invoice analysis auditing programme, increasing the rate of container inspections, increasing the rewards for information leading to successful prosecutions, raiding the warehouses of suspects and publicising the names of companies found guilty of customs fraud.

These measures can lead to an immediate increase of tens of thousands of jobs in manufacturing which had previously been lost due to trade policies and customs fraud.

1.5 Expand domestic demand and promote local purchasing policies

There are two markets for South African goods and services — the domestic market, and the export market. The domestic market must remain an important focus for the output of our goods — it constitutes a major market, where local producers have closeness to location and all the advantages of quick delivery. It offers an opportunity to satisfy basic needs of local consumers. In addition, tariff protection in certain sectors favour locally made goods. The domestic market is also a major platform from which to launch a successful export effort. The domestic market cannot therefore be neglected.

Instead of the current attempts to cut down domestic demand, and hence the size of the domestic market, we argue for wage and incomes policies which expand the local market for manufactured goods, and for services. This approach should be combined with efforts to increase the efficiency of production. Given that low income earners spend a high proportion of their wages on basic necessities, all of which can be produced locally, this policy requires too the expansion of domestic production.

Contrary to the opinion of many commentators, wages for blue collar workers have been falling in real terms over the past few years. In the research results of the Labour Research Service (based on a database of 186 wage agreements for labourers, 117 wage agreements for semi skilled workers and 96 wage agreements for heavy duty drivers), over the last three years, real wages declined as follows:

labourers	**– 2,5%**
drivers	**– 1,9%**
semi-skilled	**– 3,1%**

Over this period, wages for artisans increased by 4,1%.

(Source: Bargaining Indicators, Labour Research Service, 1995).

Aside from the inequity of wages at the bottom dropping, this development has the effect of depressing domestic demand. This policy needs to be reversed.

We propose policies which will expand the income of workers, hence stimulating domestic demand. The way to avoid such policies leading only to inflationary pressures, is to substantially increase efficiency of production. This should be done through decreasing the layers of managers in companies, decreasing the income of top management and introducing other productivity enhancing measures. (See proposal in paragraph 1.7 hereunder.)

Attention should also be given as we expand domestic demand, to supportive tariff policies, and to mechanisms which would expand the development of small and medium enterprises, which in most parts of the world, tend to focus on the local market.

There are substantial opportunities to utilise the purchasing power within the domestic market. This can create and save jobs in our country. Japan and Korea have been embroiled recently in fights with the United States precisely because they have had such success in the local purchasing of locally made products area.

In order to use our public purchasing power, we propose the introduction of additional incentives through the procurement policies of national and provincial tender-boards, the SANDF and parastatals, to further encourage local job creation.

Such policies should encourage the use of locally manufactured raw materials, and grant preferences for companies who are expanding production for the domestic and the export market.

Provincial tender boards should all be required to operate under such a policy framework. Furthermore, representation for stakeholders in the provincial tender board should be based on the same model used in the national State Tender Board.

In order to use our consumer power in the country, we propose we start a 'buy local, buy fair labour standards' campaign, to encourage consumers in the spirit of the 'new patriotism', to purchase goods made in South Africa, under fair labour standards.

In this regard, we propose too the introduction of a label of origin requirement on all consumer goods sold in South Africa.

Retailers should actively source locally, and be required to disclose the proportion of their stocks which are locally sourced, as a means of encouraging the 'buy local' campaign. We now call on business, through the forum of Nedlac, to endorse this commitment, and to set targets on a sectoral basis of local sourcing which will be secured.

The successful implementation of these measures will lead to strong employment growth within South Africa. It will save the country substantial amounts of foreign exchange which is currently used for consumer-goods imports.

1.6 Train and develop the workforce

International experience shows unambiguously the importance of a well-trained workforce to high growth economies. The development of a country's human resource is a sustainable advantage in the search for new markets. It offers real equity benefits to workers, through increased pay for increased skills. It leads to increased productivity. It provides skills to overcome the skills bottlenecks which previously choked off growth.

One Korean Study for example showed returns of 28 percent from formal in-service training, with the highest returns for workers with basic literacy, numeracy, cognitive and communication skills.

The Ministry of Finance has noted the high levels of structural unemployment in South Africa. Investment in training is an important way of countering structural unemployment, and permits a larger number of people to be absorbed in employment.

A key constraint is the availability of resources to finance a massive training programme. On average South African companies spend, according to the results of research conducted by the Industrial Strategy Project, only 1% of their payroll on training: the equivalent figure in OECD countries is 4 to 7%.
(Source: Improving Manufacturing Performance in South Africa, ISP,1995.).

Though OECD countries are characterised by higher levels of general education and literacy, they still spend a greater proportion of funds on additional, in-company training. Our backlogs in training and human resource development are staggering, and substantially greater resources are required, particularly over the next five to ten years.

The National Productivity Institute has noted that many successful exporting nations spend at least 4% of payroll on training.

We propose the introduction of a levy on companies of 4% of payroll, to be used to finance the retraining of workers, with supporting grants from government. This levy should be introduced initially for all firms with a turnover of at least half a million rands a year.

We propose that the levy be phased in as follows:

1 October 1996: 2%
1 October 1997: 3%
1 October 1998: 4%

Consideration should be given to training programmes financed by government,

"We propose a Buy South Africa campaign under the slogan of 'buy local, buy fair labour' "

"Investment in training shows high returns, and is vital for sustainable economic growth"

'We propose a training levy of 4% of payroll, introduced over a three year period"

"Labour productivity has risen over the past ten years"

"The real sources of inadequate productivity performance need to be identified"

"We propose a national productivity and equity framework agreement by October 1996"

"The mission of the Industrial Development Corporation must be redefined"

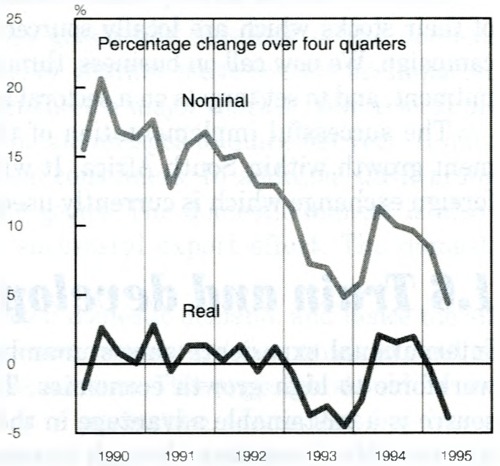
which address the area of managerial training, particularly in small and medium enterprises. Vocational training with emphasis on multi-skilling, and broadbanding of jobs in a new skills-based grading system, should be a key priority in the year ahead. This should become a common item in all collective bargaining forums.

This programme to invest in training and retraining is a key means of addressing one of the structural problems in the economy — the low level of skills. It will lead, through increased effectiveness of workers, to sustainable job creation in industry.

1.7 Increase productivity

Over the last ten years, labour productivity in South Africa has risen by more than 15%. The graphs below set out the performance of labour productivity, remuneration and real unit labour costs, over the last 5 years.
(Source, SA Reserve Bank, Quarterly Bulletin, March 1996.)

Non-agricultural labour productivity and remuneration



Non-agricultural nominal and real unit labour costs

Tellingly, real unit labour cost increases have reduced sharply in recent years, and labour productivity has risen.

Notwithstanding this performance, however, it is vital that levels of productivity in the South African economy are improved. This will allow for some of the policies advanced elsewhere in this document, to be managed in a non-inflationary manner.

The sources of inadequate productivity performance need to be identified. In our view, the combination of poor training of blue collar workers, with the effects of the recession on capacity utilisation, the lack of world class technology and work planning systems and an incompetent managerial layer grown fat in the apartheid years, are all important contributors to the productivity problem.

The hostel system with its inhuman single-sex barracks, the residential policies of the past which now require workers to spend long periods travelling to and from work (in parts of the country, workers wake up at 4.00 am to be at work at 7.30 am) have all combined to limit opportunities for productivity growth.

We propose a national productivity and equity framework agreement to be negotiated through Nedlac, to cover all industries, which should be put into place before October 1996. This should be part of the overall package of measures set out in this document. The agreement should cover the goals of improving managerial, labour, capital and raw material usage productivity levels. It should cover equity issues such as the distribution of productivity benefits, and the reorganisation of relations on the shop floor. It should deal with job creation and job security.

This framework agreement could then be used as a basis, in industry-level negotiations, to address concrete targets of productivity improvement.

The detailed plant level negotiations on the implementation of specific measures to be followed, should be negotiated between shop steward committees and managers. Productivity issues should become a matter for collective bargaining.

1.8 Create jobs in labour-intensive processes

There is a vital role for the state in leading productive investment, through the policies of the parastatals and the public sector.

South Africa has in addition, an important institution to promote public investment in line with nationally agreed priorities. It is the Industrial Development Corporation (IDC). Yet, in practice, the IDC appears to decide its own priorities, and is not part of a nationally integrated strategy for development and growth.

The Industrial Development Corporation (IDC) should be required to shift from its fixation with capital-intensive mega-projects, and use its resources to invest in labour intensive processes in industry. Job creation should be the primary mandate of the IDC over the next 36 months. Other goals, such as earning foreign exchange, should be carried out through promoting investment in labour absorbing activities with real export potential. A number of countries have successfully managed this process, and have shown that it does not require capital-intensive enterprises to earn foreign exchange.

The Board of the IDC should be required to publicly report on a six monthly basis on the impact on employment, and the net number of direct jobs created, by its investment and technical assistance policies.

An immediate programme to promote the beneficiation of local raw materials should be undertaken. The availability of steel, gold and a range of minerals, and agricultural products such as wool and wood, provides opportunities to process these raw materials in South Africa, and create jobs locally.

In addition to the allocation of funds from the investment portfolio of the IDC, the full pre-tax profit of the IDC (currently R322 million) should be applied to such job creation ventures. Consideration should be given on how best to deploy the considerable reserves of the IDC.

We propose further that the IDC Board should contain nominees from labour.

The private sector too, should be required to invest in job-creating projects. Vast sums of private sector investments have gone to profitable capital-intensive projects, often in partnership with the IDC. Yet little attention has been focussed on the net employment effects of such investment. The conglomerates should be challenged to support a major programme of raw material beneficiation, particularly in labour-intensive sectors. One economic reality is self-evident: there are clear limits to the growth of output and employment in the manufacturing sector, based on current capacity. A substantial expansion of output requires investment in new productive capacity by the business community.

The resources of the CSIR should be deployed in a similar manner, and public funding for research and development should be tied to performance within a new policy framework which seeks to expand labour-absorbing sectors and processes.

This beneficiation programme is capable of creating hundreds of thousands of jobs in downstream industries such as the metal, paper, plastics, textiles, clothing, packaging, jewellery, electronics, footwear and white-goods sectors.

1.9 Stop retrenchments now

A major cause of unemployment is the constant retrenchment by businesses of workers. Even profitable companies engage in periodic frenzies of retrenchment and 'downsizing'. This is not only jobless growth, it is "jobloss growth". This has occurred because it costs very little to retrench, and retrenchment avoids the real challenge of entrepreneurship: that is, growing a company out of economic problems rather than shrinking it down to the most profitable sections of the business. To us, retrenchment is often a real indictment of management, and a barometer of its incompetence.

"Private sector investment policies should be geared to job creation"

"Many profitable companies are retrenching workers"

"Job losses in the public sector are cause for great concern"

"Companies should sign a code committing themselves to avoid retrenchments"

"Land reform can lead to a substantial increase in employment. The World Bank estimates two million jobs through land reform in South Africa"

The public sector too has contributed substantially to the crisis of unemployment. Staff reductions and natural attrition/early retirement programmes have cut the size of the public sector and parastatals dramatically. Indeed, the latest South African Reserve Bank Quarterly Economic Review, for March 1996, attributes the decline in employment nationally in the first half of 1995 'entirely on reduction in employment by public authorities'.

This excludes the latest announcements, which will entail in excess of 100 000 further jobs being lost. It is of grave concern to us that many of these jobs are concentrated within the black population, and in areas of high unemployment with little viable alternative sources of economic activity.

Restructuring of the public sector should be driven by, among others, the following principles:

- those responsible for line function delivery (eg health care, teaching and social welfare) should be productively deployed, not retrenched;
- wherever possible, internal transfers within the public sector should be considered;
- staff should be retrained, and redeployed to areas of social delivery required in historically neglected areas;
- the public sector service delivery capacity should be expanded in areas of need;
- there should be be a reorientation from bureaucracy to service delivery;
- the beneficiaries of preferential employment by the old government, particularly its bureaucracy, should have their positions and protections reviewed;
- no retrenchments should be effected in areas of high unemployment, and major backlogs in public services;
- the government must lead the process of Human Resource Development.

These policies affect not only the public sector. We call for a general accord with organised labour on the restructuring process in the public sector, which seeks to address the overall interests of society. Such negotiations should be conducted through Nedlac.

We propose that all private sector companies sign a code committing themselves to avoiding retrenchments.

We propose that national government compile statistics at company level, on levels of profit and rates of retrenchment, and publishes such figures widely inside the country.

We propose that the companies and sectors affected by economic problems be required to undertake negotiations with workers and their organisations, in order to identify viable alternatives and to jointly undertake the restructuring measures which may be necessary.

We propose that retrenchment be a matter for negotiation between business and labour, rather than a matter for consultation between the parties.

We propose that a statutory provision be introduced that companies contemplating retrenchment be required to exhaust all alternatives, including the cutting of management packages, and reducing the layers of management.

We propose further that the minimum severance pay for retrenched workers be increased to four weeks pay per year of service or part thereof.

A tougher attitude against retrenchment can slow down job losses in the short-term and compel entrepreneurs to manage their companies better and to search for orders and customers with much greater determination. The other proposals in this document address some of the structural problems inhibiting employment creation in the economy.

1.10 Redistribute land to the poor

There are real opportunities in South Africa for a major programme of land reform, combined with the promotion of small scale farming among black people, which can promote economic activity and employment very substantially.

Small-scale farming is important in South Africa, for growth and equity reasons. It requires land redistribution to the poor, and public support measures geared towards small farmers.

The growth evidence of a land reform programme is substantial. Numerous studies show there is an inverse relationship between farm size and efficiency of resource use.

A Kenyan study found for land of comparative quality, output on small farms was 19 times higher, and employment was 30 times higher than large farms. Other studies in India and Malaysia confirm the general relationship.

Studies in South Africa in the tea industry and in sugar cane plantations, show greater yields for small rather than large farms. With proper public assistance policies, these could be improved even further. The growth is also of a desirable type: small-scale farming is more labour intensive than large scale agriculture.

In fact the World Bank has calculated that 2 million full time jobs would be created in agriculture and related activities, through a programme of land reform in South Africa. *(Source: Reducing Poverty in South Africa, 1994).*

Land reform policies are also required for equity purposes. Black people were originally forced off the land. Their key source of traditional livelihood was taken over by white farmers, and converted to large-scale, often highly mechanised, agriculture. Decades of preferential access to public resources through subsidies, soft loans and market protection allowed these farmers to prosper and expand. It is time to share the land more equitably.

We now propose that active redistribution of land policies be followed, and the government immediately identifies land for redistribution. We propose that a Land Reform Commission be set up, to develop the detailed proposals by the end of this year for a comprehensive land redistribution programme.

1.11 Stimulate economic activity

The policies which we advance in this document, seek to stimulate economic activity, and simultaneously to put into place those elements of reform which can make it sustainable. The expansion of domestic demand, the need to create opportunities for exports through trade policies, the public sector programmes advanced, the policies on investment, industrial policies and land reform and the productivity enhancing proposals, taken together, constitute a coherent programme towards this end.

Monetary policy has been the subject of discussion in recent times, but the debate has been dominated by either the repetition of the virtues of tight monetarist policies, or by the discussion on the independence of the central bank. The real impact of day to day monetary policy on economic performance has not received enough attention.

The current very restrictive monetary policies followed by the Reserve Bank need to be moderated, in order to stimulate economic activity. With real interest rates at 12%, the cost of borrowing for investment for many businesses is prohibitive.

As a result, job creation is restricted. This policy particularly penalises those, mostly small firms who often operate in labour intensive sectors. Larger firms owned by conglomerates are able to source finance from within the conglomerate. The heavy reliance on the use of a blunt instrument such as monetary policy, to combat inflation, imposes major other costs on the society.

In addition, the cost of financial intermediation, that is, the price charged by financial institutions to lend one person's money to another person, is extreme. Indeed, currently, the banking sector takes one third of the cost of credit, thereby choking off economic activity and housing development. Measures need to be considered to dramatically reduce the costs the banking sector imposes on society. We call on the Department of Finance to put to Nedlac by October 1996, proposals to reduce the costs of financial intermediation.

A large part of the public debt is payable to domestic institutions. Lower interest rates will substantially reduce the interest payable on the public debt, and will ease the budget deficit problem significantly.

The level of interest rates which is being charged in consequence of the above is, in the name of combatting inflation, destroying the society. These policies are based on the notion that "the operation is successful, but the patient is dead". We call for a review of monetary and interest rate policies. Other, less destructive means of addressing inflation should be pursued through Nedlac, and at sectoral level.

"The policies set out here, taken together, constitute a coherent programme for job creation and expanded economic activity"

"The monetary policy followed by the Reserve Bank needs to be reconsidered"

"The cost of financial intermediation is too high, and needs to be reduced"

2. The second pillar is redistributive fiscal policies

We propose two measures to ensure a more equitable fiscal policy.

- **first, redirect spending towards social services for the poor.**
- **second, increase the redistribution features of tax policy.**

In the 1995/6 fiscal year, it was reported in the Budget that almost R7 billion of RDP related monies were lying unused in government bank accounts. The Department of State Expenditure has subsequently said that the true figure is closer to R10 billion. These monies, allocated previously for services and infrastructure for the poor, were not utilised because of problems in the delivery mechanisms in the private and public sectors.

In the private sector, the much vaunted 'partnership' with the state on provision of housing, has been a failure. The private sector should not be allowed to escape its commitments to redirect investment towards the poor. It should not be allowed either to hold up the programme of providing mass housing.

In the public sector, sections of the old bureaucracy have not used the reconciliatory policies to energise itself, and use the instrument of the state to deliver to our people. Instead, its tardiness has contributed to a snail's pace of delivery. This must change, and if it requires changes in staff at senior level, these should be implemented without delay.

Much of the existing budget should be redirected towards the required services and infrastructure. The budget of the Defence Force should be cut further. In other sections of this document, certain proposals are set out in more detail.

Wealthy South Africans are using the policies of nation-building and reconciliation to clamour for their privileges to be left untouched. They fail to see that the stability of the new democracy cannot be built on squeezing the poor.

There is one important source of income to assist in creating greater equity in society, and that is to tax the wealthy. Indeed, modern fiscal policy has developed precisely to achieve this aim.

Taxation is one of the many areas where hypocrisy is rife – special pleading by the wealthy are dressed up as arguments to attract foreign investment, decrease the 'undue tax burden', widen the tax base, simplify the administration of tax collection or encourage savings and discourage consumption.

2.1 *Finance housing and health care for all*

We propose the building of 300 000 houses a year, over the next three years as a major contribution to reducing the housing shortage. This is likely to require at least R10 billion a year.

We support the introduction of the national health scheme, providing quality health care to all, including the unemployed. The full introduction of the scheme should be completed by no later than the end of 1999, and additional budgetary allocations would need to be made to pay for the infrastructure and services. This will require a major allocation of resources to this item.

"Much of the budget should be redirected towards services and infrastructure"

2.2 *Increase corporate taxation*

The last few years has seen a shift away from corporate taxes. Table 3 sets out the tax revenue breakdown by tax category. Company taxes yielded half of total government tax income in 1970. Twenty years later, it had been reduced to a quarter of revenues. By 1995, the corporate sector was contributing only 14% of tax revenue. Effective corporate tax rates are lower than nominal rates, after allowance is made for all the tax breaks for companies. The table below shows changes in the composition of government revenue, for 1970, 1990 and 1995.

	1970	1990	1995 *
Company tax	47%	24%	14%
Personal income tax	18%	34%	42%
GST/VAT	0	29%	27%
Other	35%	13%	18%

(Source: IMF for 1970 and 1990, and Department of Finance for 1995.
** Not equal to 100 due to rounding).*

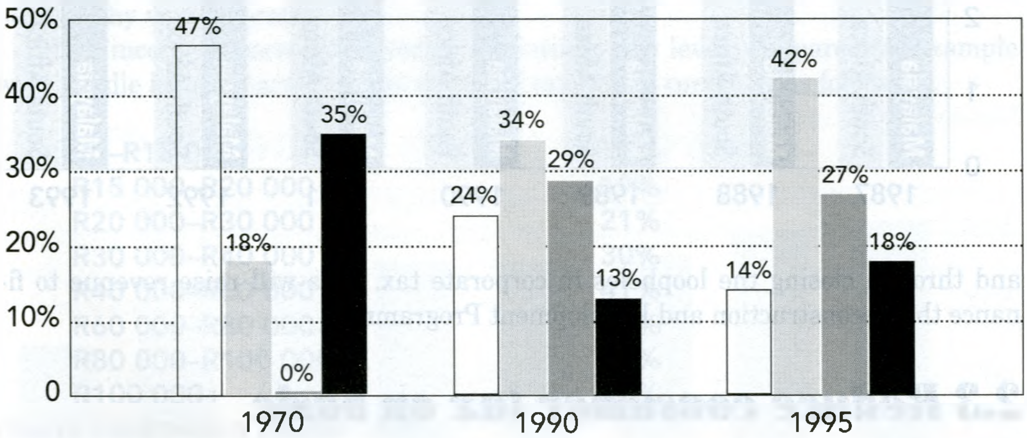


Table 3: Composition of Government tax revenue, 1970,1990 and 1995

Company tax
Personal income tax
GST/VAT
Other

It is worth noting that the stagnation in private sector investment occurred in a period where the corporate share of taxation declined.

In the latest Budget, the increase in corporate taxes is due to the taxation of the retirement industry, which is ironically the only source of 'wealth' (in the form of contractual savings) of workers.

Further relief has been provided to corporations through a reduction in the Secondary Tax on Companies (STC). The STC was introduced to induce companies to reinvest profits in the expansion of productive capacity. Indeed, in the 1993 Budget Speech, the Minister of Finance motivated the introduction of STC as follows:

> "It should prove an important incentive for the new and fast growing company: the more a company exploits investment opportunities and finances itself, the lower its tax rate will be. Such investment is not only important from a job creation perspective but can also serve to stimulate domestic demand".

The corporate sector responded by issuing scrip rather than paying dividends. Then they expressed concern to the Ministry of Finance about the 'dilution of ownership' that this resulted in! Now government has, in response to such concerns, reduced the tax payable! And this at a time when corporate tax rates (excluding STC) have been reduced from 48% four years ago, to 35% today.

It is instructive to compare corporate tax rates as a percentage of GDP between South Africa and Malaysia. (See table on next page.)

"Malaysia's ratio of corporate tax rates to GDP is more than twice that of South Africa"

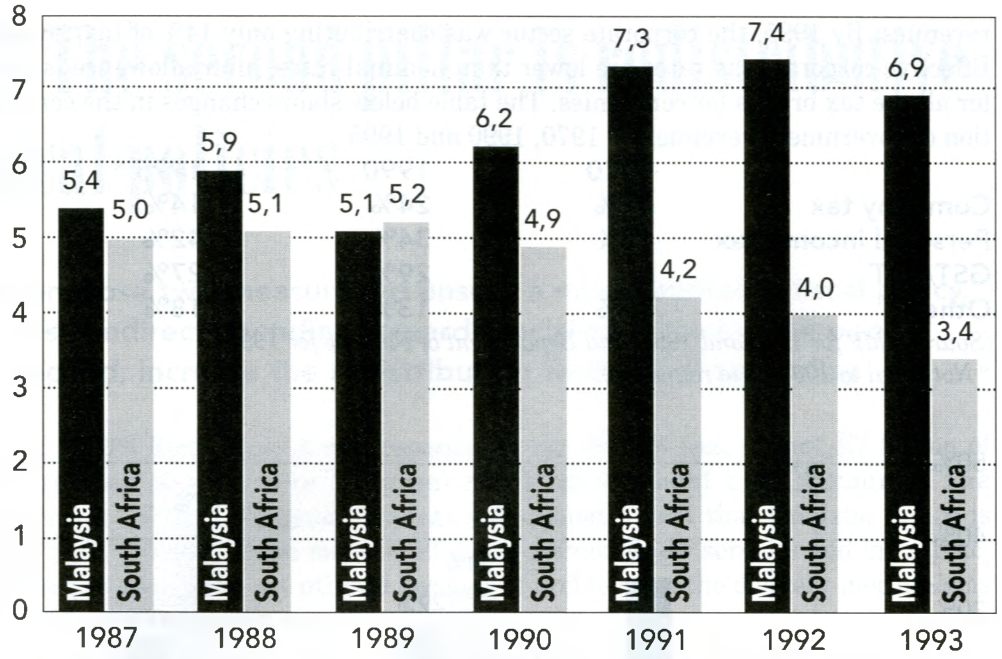
It is also instructive to note that Malaysia's economic growth prospects have not exactly been hurt by the ratio of corporate tax rates to GDP, which is more than twice that of South Africa. At last count, in 1995 their GDP growth was 8,8% compared to South Africa's 3,3% for the equivalent period.

Nominal tax rates are eroded by the exemptions which profitable companies are currently able to claim, being non-taxable income (such as dividends), and depreciation allowances. The effective tax rates are therefore, for many companies, considerably lower than the nominal tax rates.

Labour proposes that effective corporate taxation be increased, through the mechanisms set out earlier in this document, through increasing the STC rate

Corporate tax as % of GDP: Malaysia and South Africa

(Source: IMF and CSS, prepared by NIEP)



"An increase in the VAT rate of 1 per cent would increase the tax burden on the poor"

and through closing the loopholes in corporate tax. This will raise revenue to finance the Reconstruction and Development Programme.

2.3 Reduce consumer tax on basic requirements

VAT is a regressive tax. Unemployed people and the very poor pay it. Workers spend a large portion of their income on items subject to this tax. A recent paper by the Department of Finance (Broad Perspectives of the Tax System in South Africa, Fiscal Year 1995/6) gives some indication of this regressivity. This study shows that the very poor (under R9 000 per annum income) pay 9,1% of their income on VAT. Without zero-rating, this figure would go up to 11%. The figures for the wealthy (R330 000 income per annum) on the other hand, are 5,5% and 5,04% respectively.

The current VAT relief, as a percentage of income, is worth the following:

For very poor (R9 000 annual income)	1,9%
For low income (R25 000 annual income)	1,4%
For middle income (R70 000 annual income)	1,0%
For high income (R160 000 annual income)	0,6%
For very high income (R330 000 annual income)	0,04%

Over the last few years, the shift of taxation to indirect taxes has increased the burden on the poor.

An increase in the VAT rate of 1 per cent would constitute the following tax burden as a percentage of average annual income;

Very poor	9.8%
Low income	8,0%
Middle income	7,9%
High income	7,6%
Very high income	5,9%

(Source: Department of Finance, 1995)

No wonder organised business calls for a VAT increase, albeit under the guise of broadening the tax base, or of using a simple tax mechanism !

Labour proposes that the VAT rate should not be increased. A Super VAT on luxury goods could be considered.

Labour proposes that no VAT be payable on all basic foods, medicines, water, domestic electricity and education. Both these measures will offer effective, easily-administered relief to the unemployed and to low and middle-income earners.

2.4 Introduce a tax category for the super rich

Currently, the top marginal tax rate, at 45%, is introduced on earnings above R100 000. This penalises the middle-income earners, and treats the truly wealthy very leniently.

High income earners are taxed at a relatively low level (compared for example with middle income earners.) The marginal tax rate is currently as follows:

Current personal income tax rates

R0–R15 000	17%
R15 000–R20 000	19%
R20 000–R30 000	21%
R30 000–R40 000	30%
R40 000–R60 000	41%
R60 000–R80 000	43%
R80 000–R100 000	44%
R100 000+	45%

(Source: Department of Finance, 1996)

Given the operation of marginal tax, the average tax rate (that is, the effective rate paid by individuals) is lower than the table above suggests. The average tax on earnings of R100 000 is about 32%, and on double that income, that is at R200 000, it is 38%.

"The tax relief offered to low and middle income earners in the current budget is limited"

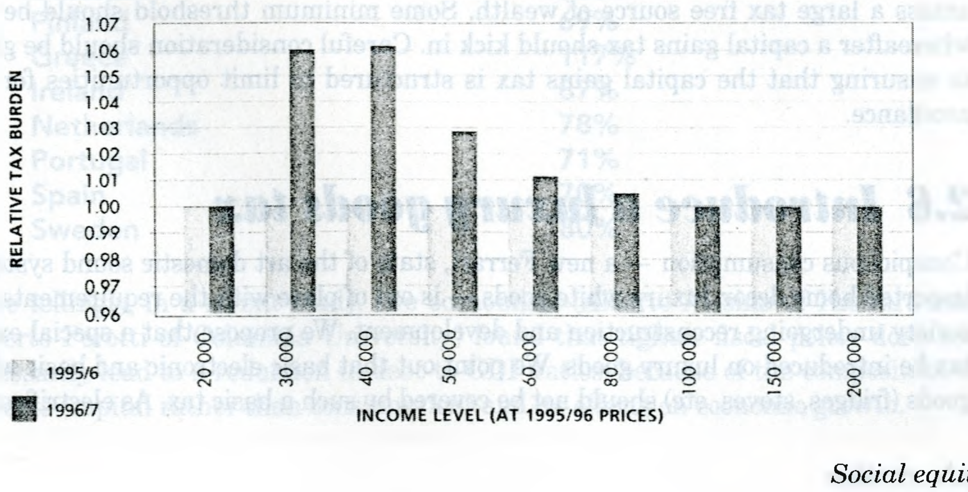
In the latest Budget, the tax relief offered to low and middle income earners is limited, and at times illusory, once provision is made for inflation. Calculated on fixed incomes, i.e. without allowance for inflation, the following emerges.

Taxable income (TI)	1996 rate	1997 rate	% decrease on TI
17 000	475	270	1,21%
30 000	3 175	2 940	0,78%
200 000	79 980	76 540	1,72%

From the above, the tax relief granted amounts to R205 for the lower paid category, and such relief equals 1,21% of taxable income. For the middle category quoted, the tax relief equals less than 1% of taxable income. However, for a person earning R200 000, the tax relief of R3 440 equals 1,72% of taxable income.

The Budget Project at the UCT School of Economics calculated the effect of inflation on incomes and generated the following graphic:

Relative changes in tax burdens: 1995/96 to 1996/97



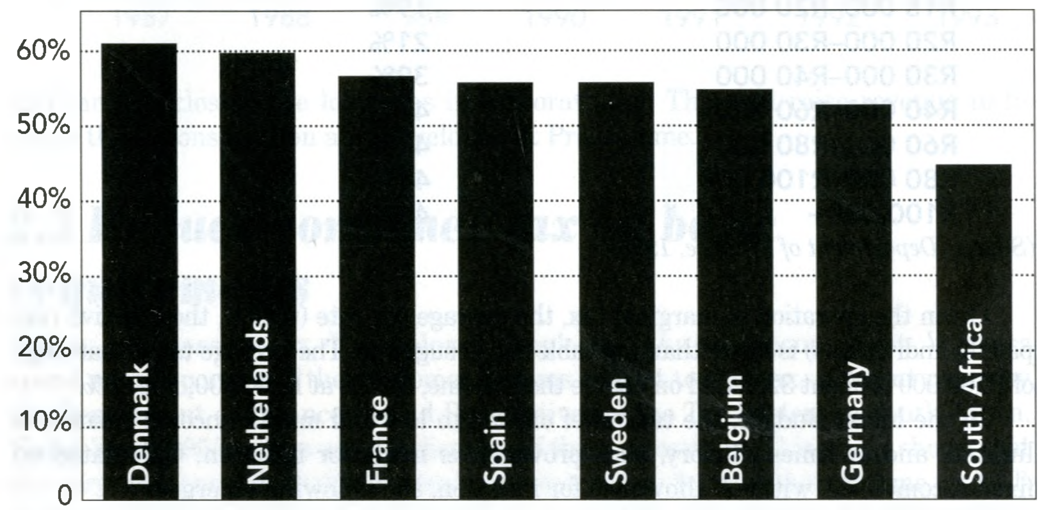
This illustrates that the tax relief offered in the latest Budget is regressive, and, in the words of the economists in the Project, it "reduces the progressivity of the tax structure, calls into question its equity, and mitigates against its use as an efficient tool for redistribution".

It is interesting to look at maximum marginal individual tax rates for a select group of countries, to compare South Africa (see table below).

Denmark	61%
Netherlands	60%
France	56,8%
Spain	56%
Sweden	56%
Belgium	55%
Germany	53%
South Africa	45%

(Source: Coopers and Lybrand, 1996)

Maximum marginal individual income tax rates, 1995



These tax rates are in societies not characterised by the massive inequalities which exist in South Africa.

We now propose the introduction of a 55% tax rate on annual incomes from R200 000. In addition, we propose that all current tax loopholes utilised by the truly wealthy, such as trusts, close corporations and other dodges, be closed immediately. The revenue raised from this source can be utilised to reduce the vast wealth gap in our society.

"Conspicuous consumption is out of place with the requirements of a society undergoing reconstruction and development"

2.5 *Introduce a capital gains tax*

A capital gains tax should be considered, to deal with individuals who are able to amass a large tax free source of wealth. Some minimum threshold should be set, whereafter a capital gains tax should kick in. Careful consideration should be given to ensuring that the capital gains tax is structured to limit opportunities for tax avoidance.

2.6 *Introduce a luxury goods tax*

Conspicuous consumption — a new Ferrari, state of the art domestic sound systems, imported home decor, luxury white goods — is out of place with the requirements of a society undergoing reconstruction and development. We propose that a special excise tax be introduced on luxury goods. We point out that basic electronic and basic white goods (fridges, stoves, etc) should not be covered by such a basic tax. As electrification proceeds, more poor families will require such basic commodities.

We propose that the Department of Finance identifies a list of such luxury goods, for submission to Nedlac for comment, by 1 July 1996.

2.7 *Encourage savings through provident funds*

Participation in provident funds should be encouraged through equal tax treatment of provident and pension funds, by no later than March 1997. In addition, the pension enhancement proposal made by the Smith Commission for low income earners who participate in provident funds, should be implemented without delay. This will encourage savings, and also counteract the regressive effect of taxation on the earnings of the retirement industry.

"Participation in provident funds should be encouraged through equal tax treatment of provident and pension funds, by no later than March 1997"

2.8 *The debt, the deficit and equity*

Italy and the United Kingdom have budget deficits of 7,4% and 5,3% of GDP. They are constrained in reducing it too quickly, because of their high levels of unemployment, and the consequences of budget deficit reduction on employment. Their unemployment rates are currently as follows:

Britain	7,9%
Italy	11,6%

In contrast, South Africa, with a substantially higher rate of unemployment, is reducing its budget deficit at great speed. The deficit has been reduced from 6% of GDP to 5,1%, in the latest Budget. In 1993, it was 8% of GDP.

Japan, with an unemployment rate of only 3,4%, decided to implement fiscal policies to stimulate the economy. The result is a rising public sector deficit, which is expected to be 4,2% of GDP. Significantly, this represents, in the opinion of the OECD, a public debt equal to 95% of GDP. *(Source:Economist, 2.03.96).*

South Africa's debt to GDP ratio is 55,6%. The average for the key OECD countries, that is societies not undergoing a Reconstruction and Development Programme, is 72%. The following table sets out some comparative figures for gross public debt as a percentage of GDP for 1995, as supplied by the OECD.

Gross Public Debt as a percentage of GDP

United States	63%
Germany	60%
France	57%
Italy	124%
Canada	97%
Austria	69%
Belgium	134%
Denmark	80%
Finland	69%
Greece	117%
Ireland	87%
Netherlands	78%
Portugal	71%
Spain	70%
Sweden	80%

(Source: OECD Economic Outlook, December 1995)

More tellingly, in a recent study, two economists (Alberto Alesina of Harvard and Roberto Perotti of Columbia University) found that tighter fiscal policy does not necessarily lead to a reduction in debt-to-GDP ratios, because of the composition of the cuts (capital rather than consumption) and its effects on economic growth.

"Reducing the deficit too quickly would cause deflationary pressure on the economy, and would slow down economic growth and job creation"

Yet, South African business has been repeating with regularity the need for cutting the public debt and for reducing the deficit sharply, irrespective of its impact on overall economic performance. Reducing the deficit too quickly would cause deflationary pressure on the economy, and would slow down economic growth and job creation. Low economic growth in turn would discourage investment. Therefore, the deficit reduction process needs to be carefully managed, and be situated within the context of a range of other economic tools and objectives of government.

There are in short, clear trade offs in this programme of deficit reduction. One of the costs is that of job creation.

We propose that this policy framework for the annual budget should be reviewed.

2.9 Tax amnesty

The tax amnesty which was announced on 19 July 1995, was necessary, but not very successful. In total, only 23 000 applications were received. It is necessary to put the past behind us, and to encourage a culture of tax payment. This will ensure all those who are liable to pay taxes, do indeed pay their taxes. The tax amnesty which was in operation, was intended to do precisely this. There were a number of weaknesses in the operation of the previous tax amnesty however. Much of this related to communication to the black community, particularly the small business sector. This does not in any way suggest support for tax avoidance but a mechanism to draw more people into the tax net.

We propose that a final tax amnesty be declared, for all taxes which were payable until 27 April 1994. This proposal is intended to bring such business and individuals into the tax net, and thus broaden the tax base. Such amnesty should run until the end of 1996. A team of at least 10 000 communication officers should be appointed for this period, to do visits to small businesses and communities, explaining the amnesty and encouraging people to register for tax. These officers could be drawn from the current public service, where restructuring has resulted in some public servants being underutilised. We propose further that the leadership of small and large businesses, labour, communities and political parties actively campaign in support of this process.

3. The third pillar is breaking the stranglehold of big business in the economy

The high levels of economic concentration in South Africa have major negative consequences on social equity. The big conglomerates own banking, mining, industrial and retail businesses. The concentration of power in a few hands limits the prospect of inclusive economic decision-making.

As an example, consider the organogram on the inside front cover setting out the companies under effective control of Anglo American Corporation.

The spread of the conglomerates are truly breathtaking. Take for example the boast by Anglovaal in a Financial Mail Top Companies survey a few years back:

> "We finance, manage, own and invest in some 200 companies with products that vary from bearings to burgers, cement to coffee, fruit juices to ferro-alloys, biscuits to bottles and shirts to switchgear. Apart from this we mine gold, uranium, copper, zinc, pyrite, antimony, chrome, manganese and iron ore."

Major decisions on investment, on employment, and on prices, are taken by a tiny minority, the real elite in the society. There is currently no acceptable mechanism in place for workers and trade unions to participate effectively in such decision-making.

In addition, there is a wealth of international experience to the effect that the existence of such large and powerful conglomerates limits economic performance.

We propose that a new anti-trust policy be negotiated, which will address these problems. Current efforts by conglomerates to 'unbundle' are no more than corporate camouflage, which retains power and control in the small group of shareholders and their directors.

Organised labour will now set up an Anti-Trust Commission, to report with concrete proposals within the next 2 months. We will seek far reaching changes to the corporate structure in the country.

"Major decisions on investment, on employment, and on prices, are taken by a tiny minority, the real elite in the society. There is currently no acceptable mechanism in place for workers and trade unions to participate effectively in such decision-making"

4. The fourth pillar is through improving worker rights

We propose four broad measures to improve the incomes and quality of life for workers:

- **first, strengthen worker rights through labour market measures, including the development of centralised bargaining;**
- **second, invest in training and human resource development;**
- **third, use public procurement policies to advance worker rights;**
- **fourth, reduce wage differentials between managerial and 'blue collar' workers.**

4.1 Set up bargaining forums now

For some years, labour has argued the case for national bargaining institutions. There are considerable benefits from an integrated, industry-level set of bargaining institutions. These benefits relate to equity, and to managing the restructuring of industries. Nedlac should analyse progress in the setting up of centralised institutions in all sectors of the economy. Wherever no progress has been made, firm efforts should be undertaken to ensure that such forums are in place by no later than the end of 1996.

4.2 Legislate for paid maternity and child care leave

The historic discrimination against women in the labour market, must be ended. One area where discrimination had been rife, is in the recognition of parental rights.

We propose the introduction of six months paid maternity leave, one week paid paternity leave, and one week child care leave.

Organised labour will shortly table more detailed proposals on parental rights.

"We propose the introduction of six months paid maternity leave, one week paid paternity leave, and one week child care leave"

4.3 Introduce a 40 hour week

The campaign to reduce hours of work is older than 100 years, and indeed, International Labour Day has its roots in the struggle by workers for a 40 hour working week. Our country now officially recognises this holiday, and should progress towards implementing the very matter which had led to the May Day struggle in the first place.

A reduction in hours of work permits workers to have more time with their families. It recognises the large amounts of time spent in travelling to and from work. It can play a role in increasing productivity in the remaining working hours. It can have a beneficial effect on net job creation in certain sectors of the economy.

We propose the introduction of a 40 hour working week for all workers.

4.4 Change the Insolvency Act

We propose changes to the Insolvency Act, in order to introduce proper notice to the trade union and greater preference in the schedule of creditors for the contractual earnings of workers at companies put under liquidation.

Organised labour will separately table more detailed proposals in regard to the Insolvency Act.

4.5 Train and promote the workforce

Current programmes of affirmative action tend to focus on the appointment of token blacks to well paid, but powerless positions with high public profile. Black economic empowerment programmes are geared to enriching a few black people, creating 'instant millionaires'. In the process, corporate South Africa is able to avoid the necessary, and more fundamental, empowering of the vast majority of black people. One such area of affirmative action and empowerment is in skill enhancement.

We propose that a major training and retraining programme should be geared towards clear career-pathing, in order to promote opportunities for workers. Multi-skilling of workers should be promoted, in order to create greater flexibility, and higher wages for workers. This programme should be the real black economic empowerment programme for the corporate sector.

The business community should be given an opportunity to negotiate an agreement with organised labour on clear targets for internal training and promotion through career-pathing, by October 1996. Thereafter, legislation should be introduced to ensure adherence to these targets.

"We propose that a major training and retraining programme should be geared towards clear career-pathing, in order to promote opportunities for workers"

4.6 Use of procurement policies

The RDP states that instruments of policy such as subsidies, taxes, tariffs and tenders "must be utilised to encourage stakeholder participation in the RDP and promote worker rights, human resource development and job creation." (Base document, 1994, clause 4.8.11).

The principle of using procurement policy to advance a range of social or economic objectives, is not new. A number of countries have applied the collective procurement power of the state to achieve national objectives.

We now propose that a Workers Rights Index be developed, and that companies tendering for public contracts should be required to report on compliance with the standards in the index. These standards should include the following core areas

- no employment of scab labour during legal strikes
- participation in centralised bargaining institutions where these exist
- contribution of 4% of payroll towards training programmes agreed to with the trade union movement

Successful tenderers should be companies who adhere to the core areas, and who perform well in the other elements of the index.

4.7 End the apartheid wage gap

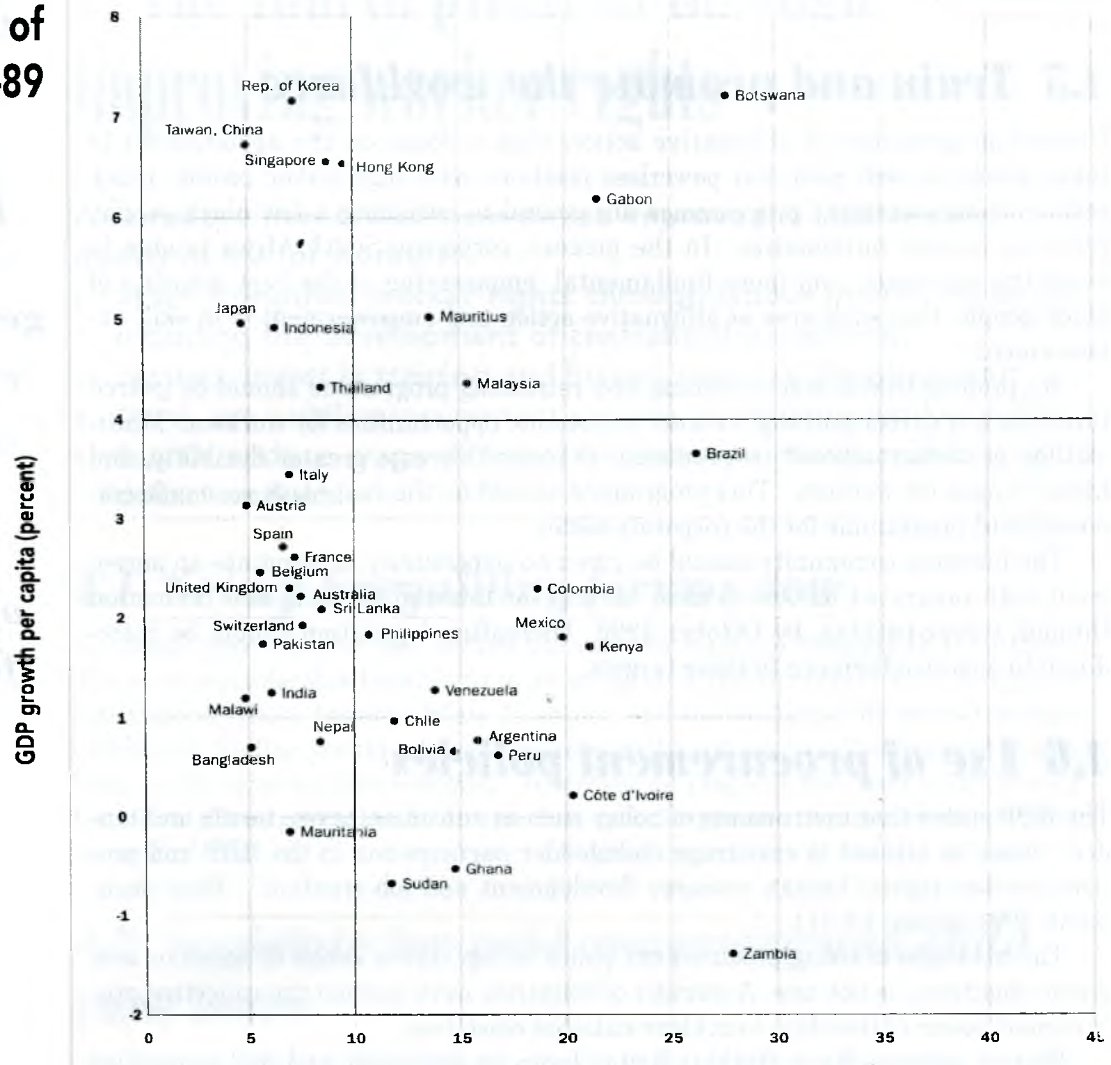
A major source of inequity in the society is the huge differentials in earnings between workers and management. These differentials are based on the apartheid wage gap which existed between white and black. The gap remains one based largely on colour.

The high wages at the top consume the resources of companies and hence increase the cost of production. They feed industrial tension and conflict on the shop floor. They reduce the prospects of a shared commitment to improving company performance. They divide the workforce into two totally different worlds, based on income. They are substantially out of line with equitable international practice.

A look at the following graph is instructive, for it plots economic performance and levels of equity in a society. (See next page)

High salaries for managers are often justified on the basis of performance. Yet, the evidence does not bear this out. Recent research shows that salary increases for

Income inequality and growth of GDP, 1965–89



Annual salary* per director

Company	Annual average salary	Salary increase	Profit growth
Murray and Roberts	R2,04m	50%	25%
Afrox	R1,92m	96%	15%
Dorbyl	R1,78m	201%	-25%
AECI	R1.67m	122%	-8%
Iscor	R1,60m	85%	48%
Anglo Alpha	R1,39m	115%	26%
Sasol	R1,33m	25%	11%

(Source: Labour Research Service)

** South African law does not require disclosure of the pay of the CEO and of individual directors. The information in this table is based on total earnings of executive directors at a company, divided by the number of such directors, and the base information is extracted from company annual reports.*

directors of many major companies exceed profit growth significantly. The table above sets out some examples.

Contrast these earnings with some of the wages for blue collar workers set out earlier in this document!

Those who defend this wage gap often cite the fear that well paid staff will emigrate if their earnings are not maintained, and indeed improved. They thus accept the right of such individuals to exercise market power to push up their earnings, yet condemn workers for using their power to seek a living wage. This is not acceptable.

An important moral leadership on reducing wage inequities should come from large companies, and we propose that companies with a market capitalisation of more than R2,5 billion, give some clear commitments through Nedlac, and through the collective bargaining structures set up between business and labour. They total about 58 companies.

We propose that the top 58 companies publicly agree to release information on the pay of their individual executive directors, particularly their CEO's. This should include salary or director's fees, pension, bonus, perquisites and share options. Information on the minimum wage payable to workers in their companies, should be made available too.

We propose further that the top 58 companies commit themselves to reducing the wage gap (including all fringe benefits and options) in the companies to no more than 1:8. This means that the earnings of the highest paid person should not be more than eight times that of the lowest paid person. Even such a wage gap would be unacceptably high, but would constitute an important first step in our country, towards a shared future.

We will now take this proposal to the following Top 58 companies:

Absa	Engen	Murray & Roberts	Sasol
AECI	Eskom	Nampak	Sentrachem
Afrox Ltd	FNB	NBS	Shell
Amcoal	Gencor	Nedcor	Siemens Ltd
Amgold	GFSA	Old Mutual	Southern Life
Amic	IBM SA Ltd	Pepkor	Std Bank Inv Corp
Anglo Alpha	Investec	Plate Glass	Telkom
Anglo	Iscor	Premier Group	Total
Anglovaal	JCI	Remgro	Tongaat Hulett
Barlow Ltd	Johnnic	Reunert	Transnet
BMW SA	Liberty Life	SAB	Trencor
BP	MacSteel	Safren	Volkswagen SA
Caltex	Malbak	Sankorp	RMB Holdings
CG Smith	MC Retail	Sanlam	
De Beers	Metlife	Sappi	

The transparency and disclosure we propose should be extended to all parts of our society, from the public sector to professions, the trade union movement, parastatals, statutory bodies, the private sector and NGO's. Where any of these categories of institutions do not adhere to good practice, they should be required to do so. These policies must apply to all.

One final area: Some employers have resorted to the employment of illegal immigrants and have paid them very low wages. Wages in these instances have often been below the negotiated or regulated level. Such workers are rightless and powerless because of their legal status. We propose that measures should be introduced to prevent such employment practices, and in line with policies adopted elsewhere, companies guilty of such practices should be heavily fined.

"We propose that the top 58 companies publicly agree to release information on the pay of their individual executive directors, particularly their CEO's. This should include salary or director's fees, pension, bonus, perquisites and share options"

5. The fifth pillar is greater industrial democracy

We propose four broad measures to ensure this:

- **first, use workplace forums to strengthen shop steward structures**
- **second, reduce managerial prerogative through legislation**
- **third, grant workers 50% of the seats on company boards**
- **fourth, address representation on mutual insurance companies immediately**

5.1 Union-based Workplace Forums

We propose that all members of Business South Africa, and Nafcoc, agree that Workplace Forums established in terms of the new Labour Relations Act, should be trade union based forums.

This means that the shop steward committee/s at the workplace concerned should take on the powers and duties set out for Workplace Forums. Any variation from this norm should then be by agreement.

In order to ensure that such forums are used constructively, it is necessary to invest in training of workers and shop stewards.

We propose that 2 days paid leave be granted to all workers, to participate in union-run training programmes to familiarise them with the objectives of the LRA and the role of Workplace Forums.

South Africa should agree to ratify the ILO Convention on Paid Education and Training leave as a further step.

5.2 Worker participation

Worker participation in company level decision-making cannot just be crafted onto a managerial structure which actively resists openness, involvement and joint decision-making.

We propose therefore that an urgent review be instituted of the areas of current 'managerial prerogative', to determine what changes are required in legislation in order to create a culture of worker participation in economic activity.

5.3 Corporate governance

The King Report on Corporate Governance recognised the importance of workers as stakeholders. The Committee indeed defined a modern corporation as "a nexus of stakeholder interests". The report recognised "that workers should participate in the governance of corporations." It failed however to grasp the nettle and require company boards to reflect this definition in its composition.

We propose that the principle of granting workers the right to elect 50% of the members on company boards be agreed.

We propose that a commission be appointed to determine the legislative changes required, propose phasing in arrangements and the resources to be allocated in order to effectively implement such an arrangement.

"Shopsteward Committees at the workplace should take powers set out for workplace forums"

"The principle of granting workers the right to elect 50% of members in company boards should be agreed to"

5.4 Mutual companies

Mutual insurance companies such as SA Mutual and Sanlam are nominally controlled by policy-holders, but in practice are controlled by their managers. These companies control and manage large sums of provident fund contributions from workers, yet grant no real ownership rights to workers. This in iniquitous.

We propose that organised labour, and other representatives of policy-holders, be given immediate representation on the governing structures of the mutual companies, and that these companies be requested to commence negotiation through Nedlac on this proposal. Thereafter, appropriate legislative changes should be introduced by parliament.

"Organised labour and other representatives of policy holders should be given immediate representation on governing structures of mutual companies"

6

6. The sixth pillar is championing economic development and worker rights internationally

We propose six broad measures to achieve this.

- **first, help the development of the Southern African region through technical and other assistance and aid to neighbouring countries;**
- **second, assist the growth of trade unionism as an important instrument of social development in all Southern African countries;**
- **third, campaign for a social clause to be part of all multilateral and bilateral trade agreements;**
- **fourth, pursue the proposal that the WTO become a tripartite body, with representation by government, labour and business;**
- **fifth, campaign for special market access to developed country markets for those developing countries with specified labour rights;**
- **sixth, champion the call of Third World countries for a debt write off by international creditors.**

National policies for generating employment, and promoting social equity, while being an essential firt step for South Africa, are inadequate on their own. The independence of the global economy means that changes are required in more than one country only, to boost demand and promote employment. At present, while certain newly industrialised countries are growing fast in production output, aggregate consumption is not keeping pace. This is because of low wage policies followed in certain high-growth economies.

This is a dangerous cocktail at global level — expanding output and a structural decline in incomes, and hence demand. While South Africa is a small economy, and our influence at global level is limited, it is absolutely vital that we now advance policies which address some of these strcutural weaknesses.

We are profoundly affected by the global economy, and unless we are able to influence it positively, we will be under pressure continuously to adjust to the ruthless requirements of those who are driving the globalisation process.

These are requirements for lower wages and a shift in the distribution of economic rewards from poor to wealthy.

We should advance policies which increase incomes in low wage economies, ease the debt burden of poor countries, and in short, redirect the products of economic growth to the poor, not to the elite in poor countries, and not to international investors seeking to legitimise their super-profits off the back of the poorest citizens in the world today.

We must take clear steps to help develop Southern Africa, to promote economic development in the region and to promote social equity for all people in Southern Africa.

"We must take clear steps to help develop Southern Africa, to promote economic development in the region and to promote social equity for all people in Southern Africa"

6.1 Grow Southern Africa

The Southern African region must be developed, through technical and financial assistance to neighbouring countries. We should find ways, while mindful of the employment imperatives in South Africa, to help grow the Southern African economy, to build its industry and expand its standards of living. A regional reconstruction and development plan for Southern Africa should be developed as a priority. We should now set up a regional summit, of governments and trade unions to consider how to give effect to this plan.

6.2 Support the regional unions

South African workers were greatly assisted in the anti-apartheid struggle by the northern European countries. We should now as a country support the development of trade unionism in Southern Africa. The policy framework for regional policy is set out in the RDP.

"One element of regional policy, defended particularly in the call for a Southern African Social Charter by trade unions, is that minimum standards with regard to rights of workers to organise be established across the region as a whole. This will allow a process of greater integration to become one of levelling up rights and conditions of workers, rather than of levelling them down to the lowest prevailing standards". *(RDP Base document, paragraph 4.9.6)*

This policy requires a strong, well-resourced labour movement in the region. We propose a regional trade union solidarity fund, with R20 million a year made available by government for programmes by the labour movement in the region.

We propose further that the South African government initiates a process to negotiate a set of minimum standards to be established across the region as a whole.

6.3 Social clause

The state president has publicly recognised the need for trade and workers rights to be linked. The labour movement has called for trade agreements to contain a social clause which commits countries to observe the following fundamental standards:

- the right of workers to associate and bargain collectively
- freedom from forced labour, prison labour and child labour
- no discrimination on the basis of race, religion and gender.

We propose that South Africa must now campaign for endorsement of the social clause at the World Trade Organisation, and at the forthcoming conference of Unctad in South Africa.

The Departments of Trade and Industry and Foreign Affairs should seek international support for this proposal.

Preferential access to the South African market must be based, among others, on acceptance of the content of the social clause in such bilateral agreements.

6.4 World Trade Organisation

The World Trade Organisation has become the major institution driving the globalisation of the world economy. Its effects are far-reaching for workers, yet the terms of such globalisation are not discussed with the trade union movement.

We propose that this deficiency be corrected, and that South Africa calls for the WTO to include labour, business and NGO representatives in its governing structures.

6.5 Special market access

The promotion of labour rights should be further advanced, through incentives to countries to expand such rights.

We propose that South Africa calls for special preferential tariffs between all countries who observe certain **further** standards (beyond those in the social clause). A committee should identify these as a matter of priority.

"A regional reconstruction and development plan for Southern Africa should be developed as a priority"

"There should be a regional trade union solidarity fund for programmes by the labour movement in the region"

"The WTO should include labour, business and NGOs in its governing structures"

"South Africa should support the calls for a write-off of all debts incurred by the poorest developing countries, and a renegotiation of the terms of debt of those developing countries"

6.6 Third World debt

The debt of the Third World drags down opportunities for equitable economic development. Many countries are caught in a debt trap, where payments on the debt consumes such high proportions of gross national product that countries are unable to finance development, and domestic growth itself is choked off.

Aggregate external debt of developing countries rose by 8% in 1995. The total debt of sub-Saharan Africa alone rose by 5%, to $223 000 million, while foreign direct investment in this region fell by one third. Official development assistance (ODA) from the 25 donor countries in the OECD fell by 6% in real terms. This means that ODA as a percent of aggregate GNP of these economies, at 0,29% is now the lowest since 1973. *(Source: World Bank and USIA, 1996).*

This high level of indebtness, combined with inadequate, inappropriate and decreasing levels of aid, leads to dictators imposing the costs of servicing these debts on poor people, through the structural adjustment programmes advocated by the IMF and World Bank, and the most intense exploitation of workers.

South Africa should support the calls for a write-off of all debts incurred by the poorest developing countries, and a renegotiation of the terms of debt of those developing countries whose longer term economic and social programmes are hampered by debt-repayment schedules and terms.

Implementation

We set out the proposals in this document, as our input in the negotiation process. We expect to negotiate the core principles in the document at Nedlac, and in line with previous decisions of Nedlac, will prioritise the work of the chambers in light hereof.

This document is simultaneously submitted to all our affiliates, for consideration and elaboration. Particular emphasis is placed on the need to develop and expand on sectoral strategies consistent with the framework of this document.

Organised labour seeks agreement by business and government on all these proposals in the first half of 1996. We expect that implementation will commence by mid-year, and that it will continue over the next few years.

We identify a range of instruments to give effect to our proposals, including

- legal mechanisms
- institutional reform
- fiscal and financial measures
- policy changes within constituencies
- use of public corporations, and
- processes of negotiation.

Our proposals will require a major rethink of priorities and policies in the National Budget, both at macro-level, and in defining departmental priorities and implementation mechanisms.

We require proper facilities for the shop stewards to be actively involved in the processes of national, industry and plant-level negotiations on these measures. We propose that all shop stewards of the three union federations, that is, Cosatu, Nactu and Fedsal, be given one week's paid leave to take part in preparatory workshops and discussions, in order to equip them with the resources to be active participants, and to keep the membership well briefed.

"Shopstewards should be given one week's paid leave to take part in workshops and discussions"

Annexure 1
The World Competitiveness Report

The annual World Competitiveness Report (WCR), produced by the World Economic Forum, and a Swiss management school, has become very popular among business and media commentators in South Africa. Much is made of the country's low ranking in the league of nations on the criteria of the WCR.

Organised labour has not been particularly excited by this annual analysis. The WCR is a mix of opinion and objective measure, and not a survey we have been party to. Yet, given its importance to the corporate community some comments may serve a purpose.

The 'people factor' in the WCR has often been cited in the press, where it is acknowledged that South Africa performs badly. It is instructive however to unpack what is meant by the people factor, and how South Africa performs in some of the components making up the total people factor of competitiveness.

As a rough guide to South Africa's performance, we constructed four categories, in the language of the WCR: 'very competitive', 'competitive', 'uncompetitive' and 'very uncompetitive' and used 25% rank cohorts to classify South Africa (ie if we are in the first 25% of a category, we are 'very competitive' and if we are in the last 25%, we are very competitive'.

Interestingly, the WCR defines competitiveness in income distribution in a manner which would not please South Africans business. This category measures the income accruing to the top 20% and the bottom 20% of households — where a high share goes to the top 20%, a country's competitiveness ranking drops, and where a low share goes to the bottom 20%, a country's competitiveness ranking also drops.

For the top 20%, South Africa has the second highest share (after Brazil) of income going to these households, and our ranking is 44 (out of 45 measured countries). For the bottom 20%, South Africa has the absolute lowest share of income going to these households, and our ranking is last on the list of 45 measured countries.

Factor	Very competitive	Competitive	Uncompetitive	Very Uncompetitive
Working hours		X		
Working week		X		
Illiteracy				X
Compulsory education				X
Income distribution (highest 20%)				X
Income distribution (lowest 20%)				X
In-company training				X
Public expenditure on education			X	

Annexure 2
Housing and employment

There are a number of ways of calculating the impact of a housing programme on employment. We have used a range of methods, and sources of information. The sources include:

- the Department of Housing
- the Building Industries Federation of South Africa
- a consultant of Bifsa
- a private quantity surveying firm recommended by the Master Builders Association

Method 1

This relates the annualised number of labour-hours per house, to the proposed housing programme.

The basic calculation was done on a house approximately 40m² (a particularly small dwelling — the numbers are larger as the size of the house increases).
The labour-hours per house, using different construction methods and sources, varied from 975 to 2760: we used the two lower figures of 975 (Bifsa) and 1360 (Quantity Surveying Firm). Hence, a programme of 300 000 houses equals between 152 000 and 213 000 direct jobs.

Method 2

This relates the spending on housing to the annualised employment.
On the following assumptions
R1 million of spending equals 60–80 direct jobs.
(Bifsa says 60 jobs and the Department of Housing says 80 jobs)
One house typically takes 3 months of construction.
Costs of 300 000 houses equals about R10–12 billion
On R10 billion, and the R1 million: 60 jobs ratio
300 000 houses equals 150 000 direct jobs
On R1million: 80 jobs ratio
300 000 houses equals 200 000 direct jobs
(Source of basic information: Bifsa, Bifsa Consultant and Department of Housing).

The ratio of direct to indirect jobs applied by the housing industry is 1:1,5.

Annexure 3: Notes on information

We have used a range of sources for data, and for analysis. This has included the International Monetary Fund (IMF) and the World Bank. These two institutions have produced some of the most detailed sets of statistics and studies. In our experience, the Bretton Woods institutions are not always objective commentators.

Much of the construction of data, the assumptions and the framework of analysis, has been coloured by strong ideological choices, and the promotion of the neo-liberal programme described in our document. We cite these sources, but with reservation, and without accepting any of the assumptions and some of the conclusions reached by these institutions.

International comparisons have become the vogue in South Africa. They are fraught with problems of comparability, and these are not always capable of resolution. We have taken this into account as far as possible.

We acknowledge with thanks those within government, the research community and the private sector who have made available information to us, often at short notice. We bear responsibility for the conclusions.

Street sellers outperform formal sector

By Ross Herbert

BANANA KING *Joseph Manjati and his partner sell 200 to 225 bunches of bananas a day for R2 each. Take home pay is R1 430 a month each, better than most formal-sector jobs offered him, with no hard work*

Johannesburg — Streetside hawkers, with their wares arrayed on overturned cardboard boxes, blankets and milk crates, may appear to be on the lowest rung of South Africa's economic ladder. But if the earnings they claim is any measure, many hawkers are substantially outperforming formal-sector workers.

No studies confirm it, but central Johannesburg seems to be experiencing a rapid rise in streetside hawkers. The streets of the Johannesburg central business district seem to grow narrower daily with the arrays of tomatoes, bananas, sweets, knick-knacks and roasted mealies.

The business is huge and is arguably the nation's biggest employment programme. Street hawkers sell goods worth an estimated R500 million a year in central Johannesburg and earn R100 million a year in profit, according to the Central Johannesburg Partnership, which focuses on street trade.

According to the government White Paper on small business strategy published last March, there were about 800 000 small, medium and micro enterprises and an estimated 3,5 million people involved in some type of "survivalist enterprise".

Who is really better off, formal-

□Continued on Page 16

continued on next page

Johannesburg vendors earn about R100m a year

☐ From previous page

or informal-sector workers?

An average goldmine worker earns R800 to R1 000 a month. Entry-level workers in the steel and metal industry earn R6.74 an hour or R1 285 a month for a 44-hour working week.

Joseph Manjati, who sets up a small array of bananas six days a week on the corner of Sauer and President streets in Johannesburg, says he can sell an average of 225 bunches of bananas a day at R2 a bunch. That works out to a daily profit of R110 to R120, which he splits with his partner.

An average month brings in R1 430 for each partner.

"You need to get a good corner where you have shade in the afternoon for the fruit – and lots of people," Manjati says.

"Over the last few months the number of hawkers has definitely increased," says Saul Hertzikowitz, who is working on a programme for Anglo American Property Services to give hawkers formal steel stalls outside Anglo buildings.

"You can have 10 hawkers outside a building and suddenly you have 30 when they hear what we are doing."

Three years ago, Jasper Skosana invested R2 000 in a small Yamaha electric generator and R560 for a tent and electric hair-cutting tools. He operates across the street from Manjati, offering R10 haircuts.

Skosana says he takes home R100 to R200 a day with almost no expenses. Business varies during the week, with Friday and Saturday the best days. He still complains about traffic police who made him leave a better location on North Street, where he says he could often take home R300 a day — R7 800 a month.

Skosana and other traders also have the key advantage of not paying taxes. Asked if anyone from the government had asked him to pay taxes he said: "What taxes?"

Skosana is a high earner, but the profit of every hawker who talked to Business Report outperformed most formal sector minimum wages.

"That doesn't surprise me, based on the clients we are servicing. For example, backyard clothing manufacturers make R3 000 to R5 000 a month," says Abbey Mahlalela, who handles micro-sector finance at Standard Bank.

A growing number of formal-sector businesses are also hiring workers to run streetside carts.

BUZZING BUSINESS *Jasper Skosana earns about R2 600 a month*

"The business has picked up. The public is getting used to buying from the street," says Colin Joseph, owner of Mobile Business Developments, which leases 45 carts to hawkers in Johannesburg. He says his carts pull in from R150 a day to R2 000 a day at sporting events or concerts.

Sphiwe Mazibuko sells jeans for R45 a pair near Diagonal street in Johannesburg. He rents a metal stand for R60 a month in an outdoor pedestrian mall. He takes home about R150 a day, split with his partner.

Earnings can vary widely. Sam Moshodi works at a rented stand immediately behind Mazibuko and takes home only R30 a day, six days a week.

A monthly profit of R800 is the average for members of the African Council of Hawkers and Informal Business, which collects membership fees from hawkers and defends them against regulation and police harassment.

"The business is definitely growing, particularly with foreign traders," says Freddy Moyemangene, the council's executive director. The group's paid membership has grown 21 percent in the past year.

Moses Kenya and Ricardo Joao have been repairing shoes at a small stand on Sauer street in Johannesburg for the past five years. They learned the trade of putting on new heels and soles at a craft school in Maputo. But business was bad in Maputo, prompting a move to Johannesburg where they each earn R50 to R60 a day, or about R1 300 a month.

Mazibuko keeps his jeans inventory in a locker for street traders, but thieves have raided it four times in three years. Once his entire inventory was taken, which took him months to rebuild for lack of funds.

Most hawkers said affordable transport of goods from purchase point to streetside was a problem.

Growing competition is also a threat. Too many street traders sell the same things, often immediately next to one another.

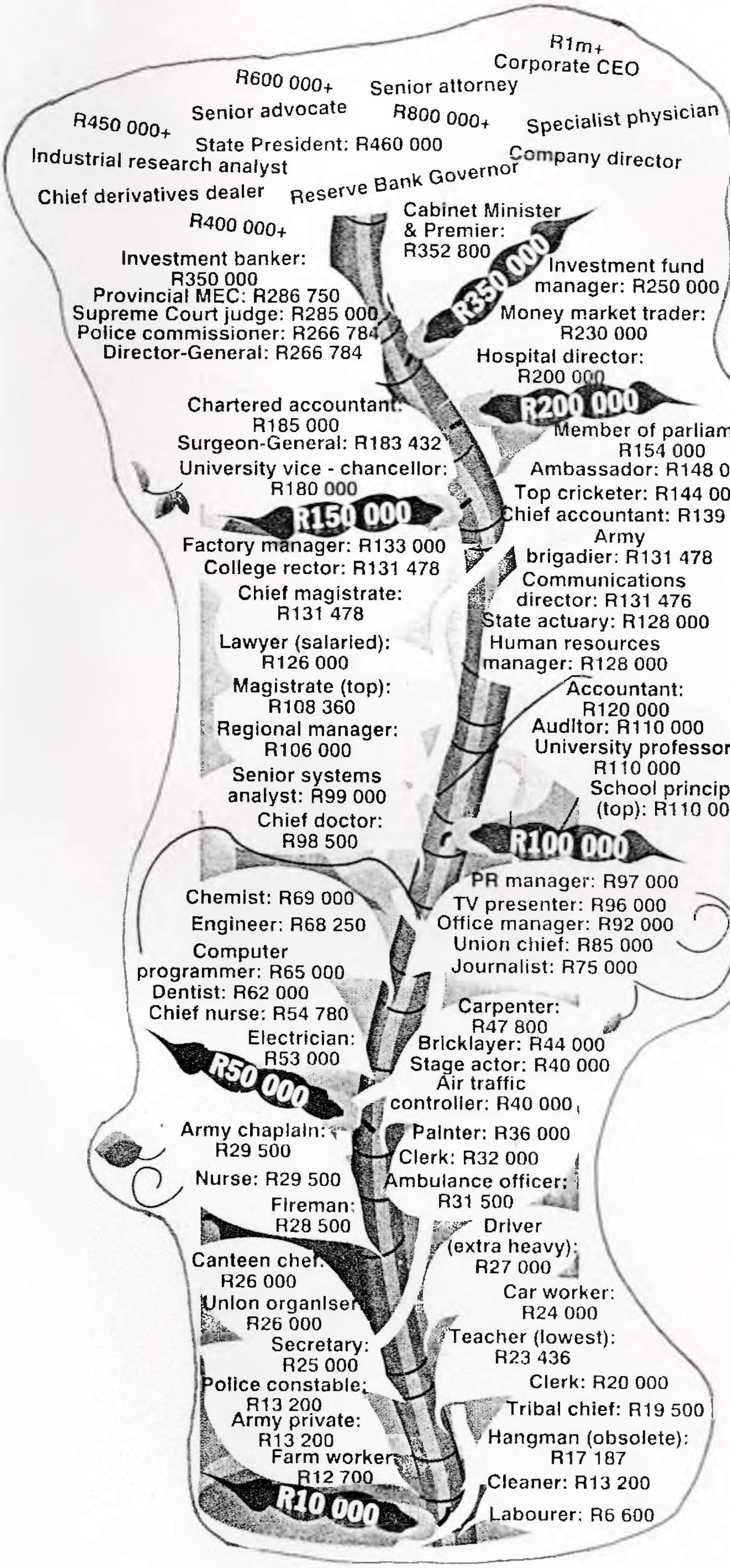
Hawkers' monthly earnings

Haircutting	R2 600
Banana sales	R1 300
Mealie sales	R1 040

Formal sector entry wages

Clothing, Gauteng	R980
Building trades Gauteng and Western Cape	R925
Textiles	R1 251 – R1 442
Furniture	R1 284
Engineering and steel	R1 284
Knitting KwaZulu Natal	R1 256
Footwear	R1 243

Source: National Labour Economic and Development Institute and Informal Business Report survey



This graphic appeared in the Financial Mail of 28 July 1995. Not all the figures are accurate, but it gives a good sense of earnings dispersion in South Africa. Note that the tree is not done to scale — if it was, the CEO should be as far above the presidents's salary as the labourer is below!

Issued by the labour caucus at Nedlac, incorporating Cosatu, Nactu and Fedsal

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