DEBATE: Labour Productivity and wages in South Africa

Is SA's labour productivity in decline?

Dick Forslund vs. Loane Sharp |

21 January 2012

Text of exchange between Dick Forslund and Loane Sharp that first appeared in Business Report

The following is a debate on South Africa's labour productivity between Dick Forslund of the Alternative Information and Development Centre (AIDC) and Loane Sharp of Adcorp that first appeared in Business Report in December 2011.

In September 2011 AIDC released statements questioning the accuracy of productivity data used by Adcorp and the Centre for Development and Enterprise (see here).

In November 2011 Adcorp released a report stating that "this year, labour productivity (i.e. labour's unique contribution, separating out the productivity that is rightly attributable to capital equipment and machinery) fell to the lowest level in 40 years" (see here).

Dick Forslund, *Business Report*, December 13 2012

Productivity is rising even as wage share dips, data show

Last week, the Reserve Bank (SARB) issued its latest Quarterly Bulletin. It covers economic development in South Africa up to June 2011 and economic prospects for the coming period, as the SARB views it. As usual, the bank also discussed developments in labour productivity. Data underpinning that discussion are published in a supplement called Key Indicators, together with data about many other things. The document reveals that average labour productivity was up 1.1% in June, compared to June last year.

During the past year, both labour productivity data and the very concept *labour productivity* have become increasingly surrounded by confusion and spin. Economic commentators and think-tanks have intervened in the debate about wages and protective labour laws with claims that the productivity of labour is going down, is "the lowest in 40 years", et cetera.

Given the attention that is currently being paid to the so called "New Growth Path Social Dialogue", which is concerned with the establishment of a productivity accord, it is essential that this ‘propaganda' and these easily refuted statements are challenged. Indeed as the latest Reserve Bank figures again make evident that it is a National Employment Accord that is really needed and not a productivity accord.

Labour productivity is defined by the OECD as "output per unit of labour input". For output, the SARB looks at the recorded value of all goods and services produced in South Africa during a 12 month period. For labour input, the SARB uses the number of employees producing that output.

Calculated in that way, there has been a total 660 per cent increase in output per employee in South Africa since 1990. This means that the average South African formal employee today produces 6.6 times more per year than he or she did only 20 years ago [*note Dick Forslund's correction below*] Labour productivity stands at a level never before experienced in history. This is so in South Africa and in the whole world.

Of course, one might add that a steady increase in labour productivity over time is normal. In recent decades, the only time that an increase in labour productivity was not achieved in South Africa was during the volatile and difficult years immediately before 1994.

So how is it that different "experts" arrived at contrary conclusions this year? Firstly, debaters, like the Centre for Development and Enterprise, have been using two statistical tables in which historical under reporting from employers completely distorts the numbers. Corrections made by Statistics SA in 2002, 2004 and 2006 added over a million formal employees to these tables in three batches, creating illusory drops in labour productivity during the 2000's. Many more workers suddenly seem to be producing almost the same amount of goods and services. The "new" employees had been there all the time, but were not reported. Stats SA and the SARB are therefore using revised data for the period 1990-2006; the SARB to get a truer account of labour productivity before 2006.

In addition to making this grave error, so called "labour unique productivity" has been marketed in media during 2011. There is no such thing. All economic schools recognise that the productivity of our labour over the past is crucially dependent on our tools and machines (i.e. capital). It cannot be "stripped out", without arriving at the most peculiar conclusions. In one bizarre press statement from the labour broker Adcorp, the public is informed that real GDP increased by 6.6% in 2011, employment by 2.6%, but that labour productivity is going down. When production increases faster than employment, the difference incontrovertibly signifies an *increase* in labour productivity. The most zealous search will not turn up a serious economist who thinks otherwise. In this case, labour productivity has increased by 4 %, because 6.6 - 2.6 = 4.

What should the trade unions and the general public make of this? Firstly, the official numbers are the natural starting point for a critical discussion. It is the table "Labour in the non-agricultural sectors" that is used by the SARB in its productivity reporting. According to the SARB, labour productivity has increased at an average rate of about 3%, quarter by quarter in 12 month periods, during the last ten years. Real wages has increased at an average yearly rate of only a little more than 2% during the same period or at a 0.9 percentage points lower rate (Diagram).

Because real wages increase at a lower rate than labour productivity, the wage share of the national income has been falling since 1998. The profit share of the national income rises correspondingly. The latter fact SARB reports in "National Accounts: Ratios of selected data".

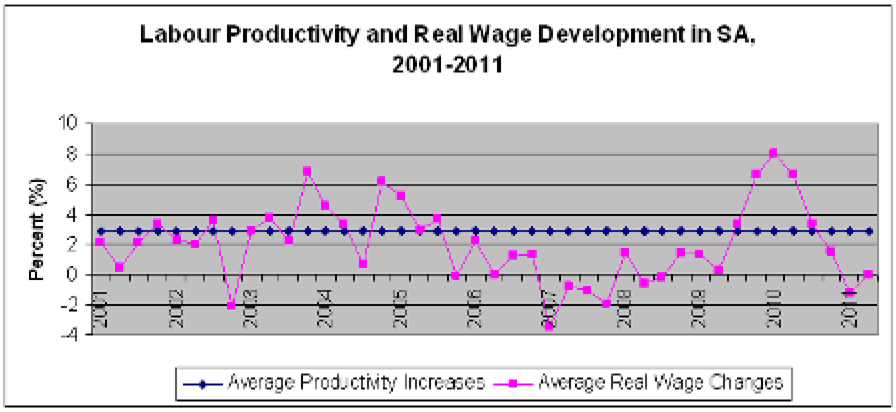


Diagram: *Average labour productivity increases 2001-2011, compared to changes in real wage, quarter by quarter, year on year, in the non-agricultural sector. Source: SARBs Key Information table Labour in the non-agricultural sectors. The diagram is made by the author.*

Labour productivity is indeed growing every year in South Africa. The task of a progressive government must be to use the steady productivity gains made in many sectors, by transferring surplus resources created there to useful public jobs, like housing, or to sectors like health care - i.e. sectors which by their nature is very labour intensive and where productivity development therefore always is much lower. At Cop 17 in Durban, one million public jobs to protect the climate were suggested.

In general we must recognise that the economic elites in SA inherited extreme profit shares of the national income from apartheid and colonialism. Those profit shares are growing, instead of decreasing. In August, the investment company Stanlib reported that big business in South Africa currently sits on a R479 billion mountain of cash, equalling 18% of the GDP, or close to half of the entire government budget for this year. A wait-and-see practice, of hoarding excess profits is bank accounts, has currently reached the same levels that prevailed in 1995.

This is an indication that the trade unions are gaining much too little in their fight for decent work conditions and higher wages. Every year, wage increases should on average correspond to the increase in labour productivity plus the expected rate of inflation. This is a minimum. The wage share of the national income must go up. South Africa's local markets for food, everyday items and semi-durable goods will otherwise continue to be strangled by extreme inequality and deplorable incomes for the vast majority.

There can be no diversified local industry without local mass markets. Broad Based Working Class Consumption is needed to break away from mass unemployment in South Africa.

Dr Dick Forslund is an economist and researcher at Alternative Information and Development Centre in Cape Town.

Foot note added by Dick Forslund (January 16 2012): Due to a calculation error, the "660%" or "6.6 times" numbers (the latter changed to "7.6" by the editors), which illustrated the ever growing labour productivity in SA and elsewhere, became impossibly high. According to the data series used by the Reserve Bank, the total increase in labour productivity 1990-2011 is about 65%. This is a normal increase. I discuss this further in my final reply to Mr Kantor's and Mr Sharp's contributions of the 22nd December. The error has not been mentioned by the other debaters.

Reply by Loane Sharp to Dick Forslund, *Business Report*, December 14 2012:

Productivity myths and labour illusions

Dick Forslund argues that labour productivity in South Africa has risen sharply in recent years ("Productivity is rising even as wage share dips, data show", December 13 2011). He concludes, among other things, that "trade unions are gaining much too little in their fight for decent work conditions and higher wages".

Forslund's argument hinges on the output-per-unit-labour measure of productivity. If a firm produces 100 units using 100 workers, average output per worker is 1 unit (i.e. 100/100). If, by installing a new machine or adopting a new technology, the firm produces 120 units with 80 workers, retrenching the other 20, average output per worker rises to 1.5 units (i.e. 120/80), an increase of 50%. In this simple example, it is clear that the additional production was achieved, not by workers, but by the introduction of a new machine or technology. This is the labour productivity illusion: attributing to workers what is, in fact, attributable to capital or technology.

In contrast with Forslund's claims, the OECD defines productivity as "the ratio of a volume measure of output to a volume measure of input". As such, labour productivity varies as a function of both other input factors (management, arable land, natural resources, physical capital, information and other technologies, etc.) and the efficiency with which the input factors are used. The US Bureau of Labor Statistics, which calculates productivity in the United States, prefers the "marginal productivity" measure: the change in output that results from changing one of the inputs by one unit, all other factors remaining constant. An exact statistical procedure for doing so is described on Adcorp's web site (contact loane@adcorp.co.za for details). Using the OECD's and BLS's preferred methods, South Africa's labour productivity recently fell to the lowest level in 40 years.

Attributing all production to workers, as Forslund does, is closely connected to the Marxist conception of value. This conception, the labour theory of value, was demolished long before Marx's writings by one of its early proponents, the 18th-century economist David Ricardo, who, writing in his later years, showed that a bottle of wine lying in a cellar increases in value with no additional labour input. Later, John Maynard Keynes dismissed Marx's *Capital*, in which these ideas were most elaborately expounded, as "an obsolete economic textbook which I know to be not only scientifically erroneous but without interest or application to the modern world". Yet Marx's ideas are enjoying a surge in popularity: his German publishers have reported 10-fold growth in orders since the global financial crisis. Forslund, whose institute's slogans "People before profits" and "Resisting the WTO" hanker after those errors, has an ideological axe to grind.

Productivity, in the sense of making better use of available resources, is a paramount economic goal. It is the only known way of producing improved living standards, and the various input factors, including labour, should be applied to this end. But a raft of laws and regulations undermines labour productivity in South Africa. In the 15 years since the Labour Relations Act was introduced, real (after-inflation) wages increased by 28.8%, which is nearly *treble* the increase in the preceding 25 years. Per unit of productivity, real wages have increased at an astonishing average annual rate of 7.6% - or 200% in total - since the LRA was introduced. The economy's capital intensity is rising sharply for the simple reason that the productivity of capital exceeds the productivity of labour, relative to their respective costs. This (not wavering on trade unions' part, as Forslund claims) is why labour's share of national income has fallen to the lowest level since reliable records began 50 years ago.

Loane Sharp is labour economist at Adcorp

Reply by Dick Forslund to Loane Sharpe, December 19 2012:

The South African Reserve Bank (SARB) reported in its latest Quarterly Bulletin that labour productivity is going up, as it has since 1994. The increase was 1.1 percent to June 2010 to June 2011.

Real wages remained stagnant at 0.0 percent for the same period. If real wages grow slower than labour productivity, the wage share of the national income drops, and this has been the case since 1998. Labour broker economist Loane Sharp doesn't accept that basis for a critical discussion about wages, profits and unemployment (*Business Report* December 14 2012). He makes guesses about my ideological values when he should be attacking the Reserve Bank.

I wrote (13/12) that Adcorp, the Centre of Development and Enterprise (CDE) and other conservative debaters have been using statistics that has three large breaks in the data series. They are not used by the SARB for productivity measurements. Mr Sharp remains silent on the issue.

Mr Sharp says that "per unit of productivity", real wages have increased with "astonishing average rate of 7.6 percent a year" for 15 years. Yes, it would be truly astonishing if we could reconcile in the same proposition exorbitant real wage increases with a falling wage share of the national income. But the average yearly real wage increases the past decade are only 2%, according to SARB. The national income (GDP) grew much more. That the wage share is falling has indeed also been picked up in Adcorp's last press statements. Mr Sharp believes he can use this for his falling labour productivity thesis, arguing that the South African workers only get what they deserve, namely a smaller and smaller share of the country's ever growing produce, whilst profits brim over. This stands in total contradiction to all real wage fantasies. The Adcorp story is completely incoherent.

Mr Sharp slides to debate productivity in the most general sense, quoting the first sentence in the overview chapter of the 150 page manual of the Organisation for Economic Co-operation and Development (OECD). Labour productivity is about output per labour input. The Reserve Bank measures total value added per employee. OECD explains that "from a policy perspective, value-added based labour productivity is important as a reference statistic in wage bargaining". That is what the Reserve Bank does and what I discussed in my article.

Adcorp's media impact rests on the solid basis of non-investigative economic journalism. The concept "labour unique productivity" gets one hit on internet, namely Adcorp's bizarre press statement from November. What the US Bureau of Labour Statistics (BLS) prefers is multifactor productivity, not "marginal productivity" as Mr Sharp writes. Key words are "combined" and "joint". Measures of multifactor productivity "do not measure the specific contributions of labor, capital, or any other factor of production", but "the joint influences" of a range of factors "allowing for the effects of capital and labor" (BLS, May 2011, News Release). In contrast to this, it is the idiosyncratic measurement of labour productivity in complete isolation that the Adcorp research unit desires.

Finally, Mr Sharp repeats his attacks on labour laws. Adcorp's propaganda-book The New Divide takes that campaign to its horrifying limit: "The most effective economic approach is to dismantle labour laws and rules"; "Exploitation is a function of the morality of the employer. It is not possible to legislate morality". If that were true, we wouldn't need laws against theft, rape or murder either, would we?

Dick Forslund

Reply by Loane Sharp to Dick Forslund, *Business Report*, December 22 2012:

Excessive wage escalations a recipe for disaster

Dick Forslund makes so many errors that it is hard to know where to begin a response ("Labour productivity is up, with real wages stagnant"). Forslund seems to think that workers bundle together in little cooperatives, dreaming up projects to increase firm productivity, and that the resultant profitability accrues entirely to those workers in the form of higher wages. No business operates that way. Not even Karl Marx, who famously did not enter a factory in his lifetime, suggested that workers were entitled to all of the value created by a firm.

Firms undertake all sorts of productivity-enhancing measures, aimed at obtaining greater value from available resources. Profitability, in this sense, is the organizing principle of economic life: it signals to firms to scale-up some activities and scale-down others, and in so doing they maximize the value of the firm for its shareholders. For example, newspaper editors take incremental, calculated risks in terms of daily content, journalistic perspective, distribution medium, and so on; and they respond to various signals in terms of circulation, advertising, industry awards, and so on; in order to produce outcomes - news currency, variety and depth, in addition to newspaper profitability - which were not usually (at least knowingly) their daily intention.

In the age of managerial capitalism, where shareholders no longer personally direct the activities of the firm, the means to attain increased worker productivity lie with managers, who innovate in the ways that workers are managed and organized. For example, if some managerial innovation leads to factory throughput of 110 rather than 100 units per hour, it is the production line as a whole - not the workers - that is more "productive" (i.e. more profitable). The intention behind the productivity enhancement is not higher wages for workers, but the increased profitability of the firm. Naturally, if the workers acquire additional skills in the process, they become more valuable to other firms, who will bid up their wages, and in this way, managerial capitalism transmits to workers higher incomes and living standards that were not directly its initial aim.

Profits are a reward for value-enhancing innovation. We can get a good sense of how South African firms are performing against this mandate by looking at profits' share of national income, which has increased from 39.9% in 1995 to 47.2% in 2011 - an average annual (nominal) increase of 12.1%. We can also get a sense of how workers' incomes have improved over this period: after-inflation remuneration in the non-agricultural formal sector has increased from R9,378 per month to R12,564 per month - an average annual (nominal) increase of 9.8%. As these figures show, the strength of capitalism is that it is not a zero-sum game: gains for shareholders do not occur at the expense of workers, for in fact it usually occurs that profits and wages rise in tandem.

Problems arise when laws and regulations affect the way that managers and workers operate. For example, dismissal protections for non-performing workers reduce managers' ability to adopt productivity-improving initiatives. Enforced collective bargaining drives wages above their productivity-related level. The net effect of these laws is to reduce labour productivity and raise labour costs, leading firms to seek alternatives to labour, mostly in the form of capital equipment and technology. Workers' share of national income in South Africa has fallen not because, as Forslund claims, workers' wages have been falling relative to productivity, but because employment has been falling relative to wages.

There are, unfortunately, several statistical measures of productivity. Labour's marginal productivity (which I favour) strips out what is rightly attributable to other input factors, attributing to labour what is uniquely labour's. The conventional measure of labour productivity goes further, attributing the sum of all input factors' productivity to labour alone. And total productivity goes even further, attributing to labour not only the individual but also the conjoint effects of the various input factors. Forslund is determined to embrace the most expansive definition of labour productivity, in order to argue that trade unions should be pushing for yet higher wage escalations. This is a case of hammering a round stick into a bottomless pit. Paying over to workers what is rightly attributable to shareholders, managers, landlords, the other providers of capital, and other input factors is a recipe for economic catastrophe.

Loane Sharp

Wages, profits and labour productivity in SA: A reply

Dick Forslund |

24 January 2012

Dick Forslund says the wage restraint lobby have based their arguments on dodgy data

In this final reply, I will correct an error, account for a new finding and try to give a principled answer to the replies Brian Kantor and Loane Sharp, whilst explaining some of the basics that underpin my argument that in South Africa, wages are too low, profits too high and labour legislation must be defended (see original debate here).

First of all I find myself with the unpleasant but necessary task of pointing out that in my *Business Report* article (13/12), I made a calculation error that led to an impossibly high figure for the total increase in SA labour productivity for the period 1990-2011, ten times the true figure. According to the data used by the Reserve Bank, the total increase in labour productivity from 1990-2011 in SA is about 65 percent. I sincerely apologise for this, also to my critics who did not mention the error in their responding articles (14/12, 22/12).

Labour productivity - measured by the Reserve Bank as total value added, or as gross domestic product (GDP), per formal employee - fell during 1990-1993, but has increased from the start of democracy at a little more than 3% on the average, year on year. From 1998 and until today, on average, annual real wage increases have been one percentage point lower than the increase in labour productivity.

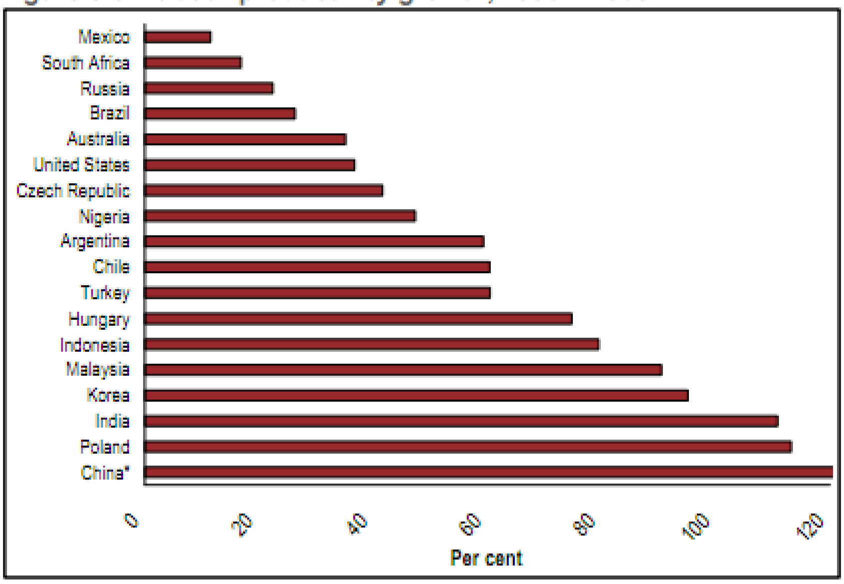
A 3% annual increase of GDP per employee - labour productivity - is above increases in labour productivity in many industrialised high income countries. "Compared to other middle-income countries, South Africa has relatively strong average labour productivity", writes Organisation for Economic Co-operation and Development (OECD) in a July 2008 Policy Brief.

Indeed, a diagram that compares labour productivity development in 18 countries in the 2011 Budget Review from the Treasury (page 45) shows that for a developing country, a 65% labour productivity increase over two decades would lie between normal and very good.

Strangely however, that Treasury diagram (see below) reports that SA productivity growth 1990-2008 was only about 1% per year, or about 20% for that whole period! A worried Treasury comments: "Over the past two decades, real wage growth has outpaced growth in labour productivity, which has been relatively slow." This completely contradicts both the Reserve Bank and the 2008 OECD Policy Brief. How can this be?

Treasury diagram using incorrect data for SA:

Figure 3.3 Labour productivity growth, 1990 – 2008



**China's labour productivity growth was 305 per cent over this period*
Source: International Labour Organisation

As I explained in my first article (13/12) the original labour statistics from Stats SA (called QES) have been revised by the Reserve Bank. The Bank instead uses the revised data for its discussions on productivity in the Quarterly Bulletins. Stats SA has also made an internal revision of the original data series.

In total, about one million persons suddenly appear in the old data during the 2000s in three upward jumps - so called "structural breaks". This has no resemblance to actual reality. When the unrevised data is used, it creates an absurd drop in labour productivity of minus 23% from 2000 to 2007. This defunct statistic still continues to be published giving rise to a great deal of confusion.

The Treasury cites the International Labour Organisation (ILO) as its source for its 2011 Budget Review diagram, not the Reserve Bank. The responsible officer at Stats SA says:

"Both the ILO and OECD use the ‘official data'. The series with the breaks", because this is the data the Stats SA supplies them with.

The OECD officer responsible for the 2008 report, quoted from earlier, says however: Of course, the OECD staff did not use the data series with the "structural breaks" when they wrote that labour productivity development in SA is relatively strong (and that employment is the main problem for SA, not productivity).

The only explanation for the Treasury's mistaken assessment of trends in SA labour productivity is that its source was the ILO which, in turn, relies on the faulty data series from Stats SA. Through this circuitous route this flawed data has found its way into one of the most important policy documents of the government. In other words, in the 2011 Budget Review Treasury's argument for a quasi wage freeze in SA is underpinned by a crazy data series.

It is in this context that AIDC in September was forced to issue a press statement responding to Adcorp and the Centre for Development and Enterprise (CDE). They too have been using the wrong and unrevised data in their debate about productivity. This they have yet to dispute in this debate. Labour broker economist Loane Sharp has remained silent on this crucial issue in his two contributions.

Having dispensed with the issue of the use of the defunct statistics, we can now turn to the more substantial issues underpinning the debate around labour productivity.

I wrote that Sharp's methods are completely idiosyncratic (13/12) and that his references to OECD or the US Bureau of Labour Statistics were irrelevant or wrong (19/12). None of this he is able to refute. In his reply, titled "Excessive wage hikes a recipe for disaster" (22/12), he introduces new issues and writes that "the intention behind productivity enhancement is not higher wages for workers, but the increased profitability of the firm".

No economist, regardless of the economic school they belong to or their political sympathies, can agree with such a narrow framing concerning the question of productivity.

The benevolent purpose of supporting productivity increases is to increase the total income of society; more precisely, the *growth of gross domestic product* (GDP) *per capita*. This means: the amount of goods and services that on the average would be available for every inhabitant, should the national income be divided equally. The starting point for discussions regarding distribution of this national income (GDP) is: "How much do we have per person in this country every year, no matter if we are children, in working age or pensioners?"

For example in *The Wealth of Nations* (1776) Adam Smith wrote: "Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer".

The book is regarded by many as the beginning of Economics. Smith's concern is not focused primarily on the naked interest of the capitalist firm (unlike Mr Sharp), but society in general, i.e. all consumers.

GDP is not the same as company profits. It is a much broader measure. In the national accounts of a country, GDP is more or less equal to profits *plus* wages. The wages and profits of a firm *together* comprise the value added by that firm to the economy, i.e. to GDP.

Stripped from juridical and political restraints, this basic wages-profit division of the value a firm contributes to GDP - and the same division of the whole national income - is often seen as a choice between consumption and investment.

Profits, or the surplus after paying wages, are the part designed to be reinvested. Ironically, Mr Sharp mentions the cooperative. But in organisations with general ownership, as opposed to privileged minority ownership, the reality of that basic choice is self evident. Society has a choice to make with new value created. Shall the new income be used for consumption or for investment? Who shall control how much of it?

In the case of a large private company, the debate at end of the day must become quite similar. The less the profits under the exclusive control of private owners, are reinvested, the less they can be taxed and finance public services - or, the more ruthlessly owners try to increase them, the more indefensibly profits are maximized without concern for environment or employees, the more profits are expatriated legally and illegally, hoarded on bank accounts or supporting an extreme upper class lifestyle - the less weighs the argument that profits are too small and the heavier weighs the arguments for increasing wages and supporting other goals. As Adam Smith observed: "What improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable".

In his reply "Job protection leads to shrinking workforce" (22/12), Mr Kantor believes that "the Left" thinks it is an arithmetic impossibility for average wages to rise when the wage share of the gross domestic product (GDP) is falling. He has misunderstood the issue. Nobody argues this.

Mr Sharp's example of the average real wage increase 1995-2011 in fact illustrates what this is about. If we take his figures for granted, then there has been an average and after-inflation (i.e. real) wage increase from "R9 378 a month to R12 564" over the 16 year period 1995-2011. This is a total increase of 34%. The average real wage increase per year then becomes about 1.8% (the nominal increase is irrelevant here).

The first point to note is that the 1.8% per year increase in real wages, as stated by Sharpe, is more than 1% below the average yearly growth in labour productivity during the period. That is, real wage growth has increased less than labour productivity. By the law of arithmetic, this is why the wage share of the national income is decreasing in SA.

Mr Sharp's explanation that this is wrong and the wage share instead falls because "employment has been falling relative to wages" is only an unclear acceptance of the same mechanism. Unclear, because we must keep track of what is produced per employee before we look at the wages. I shall explain this step-by-step.

If employment falls a lot and production falls a little, or remains the same or even increases, then those who remain employed produce more per person. This means that labour productivity has increased, according to any statistical bureau, methods manual or economic research institution in the world.

If the remaining workers in the example above are paid lower wages, the same wages, or even get real wage increases, but which are lower than the increase in labour productivity, then the wage share of the national income must fall. It's a simple and incontestable fact. Full stop.

Secondly, the 1.8% annual increase derived from Mr Sharp's example is an average for the whole labour market, including top executives and board members of companies. No doubt, tens of thousands of ordinary workers get real wage cuts today in a labour market that different sources claim is 30 percent controlled by labour brokers.

Mr Sharp from Adcorp informs us in the CDE booklet Jobs for Young People that "over the past eight years an entry-level employee in our organisation has earned the same nominal wage. So an 18-year-old employed by us today earns the same as an 18-year-old with equivalent qualifications did eight years ago". This is a decrease with 35% in the real buying power of that entry wage, due to 8 years of inflation.

Thirdly, half of all employees in South Africa earned less than R2,500 per month and one third earned less than R1,000 per month in 2008, according to the National Planning Commission. If real wages really started to increase by 1.8% per year for millions of ordinary South Africans, it would take 40 years for their buying power to double from today's R1000 to R2000, or from R2500 to R5000.

Even R5000 per month is arguably not a living wage. The absence of measures to recover from the history of cheap wages (something that apartheid was designed to ensure) and to put our hopes in an extremely outdrawn process is not politically sustainable, or compatible with democracy.

Surely, faster change is needed. As for the unions, they should consider demanding wage increases in rand instead of percent. This would lead to rapid growth of the lowest wages and also address inequality. The broader solution is already known and coincides with the fastest and most sustained growth of the global economy.

Before World War 2, the wage share of GDP in countries like the USA and Britain was like it is in South Africa today. But after the war, real wages increased greater than labour productivity. The wage share of the national income increased drastically. The very foundations of inequality and imbalance, was addressed and the rapid growth of the world economy roughly between 1948 and 1975 is history, so to speak.

That example answers in passing Brian Kantor's objection (22/12), which is common, that it is the increase in capital intensity in SA that explains 15 years of falling wage share. [But] if democracy develops, the ownership argument is defeated as time passes. A general sense of *ubuntu*, in an ever growing economy, must win.

The obvious fact that technical progress of any kind, all machines, tools, are products of labour and human ingenuity; invented, manufactured and repaired by employees everywhere, inevitably wins over narrowly pointing to who it was that had money to buy all the gear that everybody is increasingly using. We have had 250 years of technological development in the industrialised countries.

If Mr Kantor is right, should not this by now have put the wage share of the national income in countries like Germany, France or UK close to zero? The absolute opposite is a fact: The wage share of the national income in the old, capital intensive and highly industrialised countries with much more equipment per employee is 15-20 percent higher than it is in South Africa. This is what democratic development does in a country and what it also should mean here.

The attacks on labour laws and regulation finally, are part of an international political movement driven by the employers and the ruling elites. Labour laws have become too worker friendly in India and in England, everywhere... in a race to the bottom provoked by competition: "We must do this, because others are doing this".

In China, the first companies are now starting to move to Cambodia and Vietnam. They have come under pressure from the emerging labour movement. Will this first sign of capital flight deter Chinese wage earners from demanding decent wages and human rights? Should it? To pose such questions is to answer them. The labour laws now under fire are a product of the fight for democracy, in South Africa and in the whole world. The solution to unemployment cannot be to erode them, abolish them and roll back history.

Page S-150 of the National Accounts, describes in numbers what I and others are pointing to. In 1994, the wage share to GDP was 55.9%. In 2010 it had fallen to 50.6%, or with 5 percentage points. This year, goods and services will be produced in South Africa to the value of about 3 000 billion rand. The drop in the wage share of the growing national income between 1994 and 2012 corresponds to R150bn not paid out this year to ordinary employees, and which therefore cannot boost demand, to the benefit of small businesses and industry.

When conservative economists argue for higher profits as a cure for unemployment they disregard that this has been tested in practice for well over a decade with disastrous results for the real economy. They argue for more of the same - as if there is no history.

To combat growing inequality at its source, and to curb unemployment, real wages must instead start to increase substantially. There can be no diversified local industry if not even the overwhelming majority of people with jobs have disposable incomes that pay for essentials, as well as provide basic improvement in the quality of life.

The extreme and growing income inequalities as well as the increasing profit share of the national income, together deprive South Africa of local markets and jobs. In conclusion, and in the political language of this remarkable country, a crucial ingredient in the fight against mass unemployment in South Africa is Broad Based Working Class Consumption, BBWCC.

Maxhalanga, ndityeni!

Dick Forslund

Alternative Information and Development Centre, AIDC.

www.aidc.org.za

www.amandla.org.za