CHAPTER 5

# Mass unemployment and the low-wage regime in South Africa

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That 'the economy', or 'South Africa', cannot afford wage increases 'way above inflation' is repeated endlessly at the beginning of the annual wage bargaining season. Commenting on the planned strikes in July 2011, Mike Schussler of the think tank 'economists.co.za' insisted that South African unions are living in the 'dark ages', 'stuck in thirty years ago' (Sapa 2011). In July 2012, Daan Groeneveldt, adviser to the National Employers Association of South Africa, supported the minister of public service and administration, Lindiwe Sisulu, against the wage demands of the public sector unions. He added: 'that salary increases for public servants higher than the rate of inflation (6.4 per cent) are not sustainable is also relevant for the private sector' (Groeneveldt 2012). In the 2012 South African Employment Report, which is sponsored by the trade union UASA and which was widely quoted in the media, Schussler maintained that 'South Africa cannot afford South Africans'. He argued: 'Starting and entry level salaries must be lowered in real terms. (That may mean lower increases – below inflation for a decade).' He continued: 'Higher level employees and senior skilled employees could be allowed to have above inflation increases but this would depend on skill levels and responsibility levels' (Schussler 2012). According to Schussler there must be larger wage gaps between skilled and unskilled labour as well as between workers and management in both the public and private sectors.

The annual media onslaught on union demands and industrial action is accompanied by 'expert' surveys and booklets from think tanks such as the Centre for Development and Enterprise (CDE 2011a; 2011b) and, of course, by statements from official business representatives such as the South African Chamber of Commerce and Industry (Sapa 2012b). A list of radio interviews, articles, columns and editorials, in the course of one year, that convey the message that wages are too high, profits too low and labour laws too protective and strict, would be almost endless.

In contrast to the yearly display of the fanaticisation of consensus (Johansson, 2004) around wage compression that 'the economy' allegedly needs, I shall argue for dramatic increases in workers' wages. The South African economy is characterised by a structural demand deficit, and the lack of domestic demand breeds mass unemployment. Higher wages for the majority must start to cut into the excessive profits harvested by the big private corporations within mining, car manufacturing, retail, construction and banking and the food industry – as well as the large farms and the big wineries. Progressive economic reforms in South Africa must be linked to the support of and strengthening of unions. Beyond providing telling examples and official statistics concerning consumption and credits, anecdotal evidence will be offered regarding the importance to employment of domestic demand. The logic of the argument will be to endorse the notion of a wage-led and sustainable growth path (for example, Ghosh 2010) and to refute some of the worst fallacies and incoherence that underpin the dominating anti-union discourse.

The exorbitant remuneration of executives and top managers is challenged internationally as one of the outcomes of neoliberalism, and has already been highlighted in the South African debate (for example, Crotty and Bonorchis 2006; and Southall, this volume). Similarly, another aspect of the neoliberal project has been tax cuts for corporations and the rich, with South Africa having duly followed international examples (SARS 2011: 25f). This chapter relates, however, to a third aspect of the neoliberal offensive, namely the growing international concern that the ever greater minority control over the national income fuels a crisis for economic demand. Wages comprise an ever smaller share of national income when unions everywhere are pushed back by changed legislation, the casualisation of labour and the pressure from growing unemployment. Growing consumer and government debt eventually 'financialises' the economy when credit increasingly underpins mass consumption and state expenditure. The growing indebtedness creates a worldwide situation in which finance (or, rather, the claims of creditors) set the agenda for industrial production, instead of the other way round.

In South Africa, the setting for a wages versus profits debate is different from that in the global North, but this strengthens rather than weakens the argument for higher worker wages. In South Africa, the typical fall of the wage share, which will be discussed and illustrated below, is superimposed on the general low-wage regime of super-exploitation inherited from colonialism and apartheid.

## INCOME DISTRIBUTION AND THE CORPORATE VIEW

'Consumption is the sole end and purpose of all production,' wrote Adam Smith in 1776 in *The Wealth of Nations*.[1] It is worth keeping this in mind when following an economic policy debate in South Africa that is dominated by 'the corporate view'. By 'corporate view' I am not referring to pro-capitalist or neoliberal opinions and moral values in general but to a specific point of view in the debate about economic policy and wage levels from which vantage point South Africa's gross domestic product (GDP) is thought of as 'gross domestic profits'. When the economy is viewed through the eye of the corporate beholder, wages and benefits paid to the mass of employees are 'costs to companies', and therefore, through ideological slippage, costs to the nation.

Even a country completely dominated by the capitalist system and corporate hunt for profits is not a privately owned company. In any strand of economics, the new income delivered to society by the capitalist or profit-maximising firm is conceptually divided into two basic parts, wages and profits. The purpose of production for the owners of such firms is of course to maximise profits. But beyond a certain limit, by themselves these private endeavours have no exclusive support in economic theory. On the contrary, even the neoclassical economic school (which theoretically underpins the neoliberal political movement) regards 'profits' as being bad for the economy as a whole: they represent a *loss* to society. Assuming conditions of 'perfect competition' in all markets, this school teaches that the two factors of production, capital and labour, produce two legitimate income streams, one for the owners of labour power and one for the owners of capital. The latter income stream is regarded as 'the cost of capital' and not as profits. 'Profits' is a term that neoclassical economic theory reserves for extra profits illegitimately earned by owners of firms that have monopoly power over the market (cf. Competition Commission 2010 and 2011).

We find the corporate view on the economy and economic policy either explicitly expressed or present in argument as an invisible assumption. In a debate with this author, labour broker Adcorp's chief economist, Loane Sharp, argued that 'the intention behind productivity enhancement is not higher wages for workers, but the increased profitability of the firm' (Sharp, 2011) as if this vested interest should also be the guiding norm for labour market policies. Defending profit levels at the expense of wage levels is to look 'through the prism of the common good', Sharp argues in a later article (Sharp 2012), through which prism and commercial lifestyle statistics he can see that '[t]he idea of the "working poor" in South Africa is a fabrication' invented by Cosatu. For instance, many articles in the media on the crisis-ridden South African textile industry indicate the percentage of minimum wages that employers pay at the different textile factories and whether they are complying with the legislation; whether they say they can afford the legislation, and so on. However, there is an absence of accounts relating to profits levels within the South African textile industry or to how large a share of the profits the owners are investing. In newspaper articles, thought leaders or press statements, quantifications or estimates of the profit part within the textile industry are simply missing.

Indeed, the rationale for supporting existing profit levels, and the *reservation profit* demanded by local and foreign investors in sectors such as mining, retail and construction, are not objects for critical scrutiny, or recognised as the subjects of a legitimate debate that ought to inform economic policy. In the article quoted above, Groeneveldt also argues that 'pay hikes must relate to value' and informs the reader that '[i]n the private sector, jobs will only be created and maintained if the cost of the job is covered by an income stream linked to the value created by the individual performing the job'. However, what appears a commonsensical statement is completely unrelated to the South African reality of super-exploitation, which has become worse since 1998, as will be shown below. Nor has the statement any clear meaning theoretically. Again, from the basic standpoint of different economic schools – with non-Marxist schools trying to take the point of view of 'society' (Myrdal 2007) and Marxist schools trying to take the majority point of view – wages are one of two basic income streams under capitalism. They comprise one part of the value Groeneveldt thinks is the same as profits: wages and profits together make up the total value added by an industry to the economy. In line with this – in South Africa's national accounts as in any national accounts – gross operating surplus ('profits') is one part and 'compensation to employees', or wages in the broad sense, is the other part of GDP. The basic formula is wages + profits = total value added, which becomes GDP at market prices after government intervention with value added tax (VAT) and subsidies, so that the sum of wages and profits roughly equals GDP (StatsSA 2011: P0441, any quarter).

The basic division between wages and profits in the national accounts – and in the capitalist firm – is in its essence a juridical and political division. In a setting of general or common ownership, as in a cooperative enterprise, the balance between profits and wages represents a choice between consumption and investment that ideally is up for debate and decision by the employees and 'all concerned parties'. In a non-capitalist economy, we must discuss the wage issue in terms of what should or must be left over for investments. In the capitalist firm, in the capitalist economy as a whole (and as in mainstream theory), the balance between wages and profits is a matter of class control over different parts of the total value added to the economy. How large a part of the profits is to be reinvested in the ongoing project (the firm) is for the owners of the firm, a minority of all directly affected by such a decision, to decide.

Against this theoretical backdrop, we should make a first reading of what the proponents of the corporate view propose as the remedy for South African mass unemployment. They defend the size of the profit share of GDP and offer new arguments for increasing it further. Seen from a distributional point of view, they are arguing for increased minority control over the national income. It is an interesting paradox that the arguments for increasing profits at the expense of wages, and the anti-unionism this position necessitates, are promoted as a neutral and objective standpoint: the 'scientific' one, so to speak. A distinctly juridical and class political point of view on economic policy and labour market issues assumes the status of common sense based on 'science'. This testifies to the ideological supremacy of the corporate elite in South African economic policy discussions.

## THE INCOME DISTRIBUTION APPROACH

In what follows, economic exploitation of labour power and minority economic control will be analysed from the distribution side of the economy. The national accounts of most countries lend themselves well to such a distribution of income approach.

The French economist Michel Husson is one of the anti-capitalist economists whose crucial questions about the global crisis are based on studies of the changes in the division of the national income or GDP (Husson 2008, 2009, 2011 and 2012). He shows, as do many radical critics of capitalism, that international capitalism is more than ever enriching a few, that real investments are in relative decline and that the global destruction of our environment seems unstoppable, despite general agreement on the seriousness of resource depletion and climate change. Defending collective consumption of welfare services and social rights – introduced in Europe after the Second World War, but declared 'unaffordable' in the wake of the so-called sovereign debt crisis – Husson (2012) argues for socialism across national borders in the European Union (EU).

Some readers might object in the belief that when we analyse exploitation of labour we should start from the production side of the capitalist economy, as did Karl Marx (1976: Ch 1). But Marxian economics fits well with the distributional approach. In the last volume of *Capital* we find cautious but positive comments on cooperative firms in England, which were common at that time. His remarks connect to a distributional view on exploitation by implicitly defining it as exclusive minority control over a surplus. Ideally, a cooperative enterprise practises economic democracy. The usual 'antithesis between capital and labour is overcome within them' (Marx 1992: Ch 27). In theory, at least, there is an inclusive control by all members of the cooperative over all new income generated (Satgar and Williams 2011). As suggested above, in such an untypical social setting of economic democracy it becomes obvious that there are practical, political, moral and ethical choices to be made, between individual consumption today (wages) and investments for tomorrow (the part of the surplus left over when the wages are paid, the part called 'profits' in the capitalist firm). This is so whether the choice is about investing to increase production or to improve its quality, to reduce or eradicate environmental pollution, or to improve the work environment. In the model of the democratic firm it is true to say that investment equals the surplus remaining after paying compensation to ourselves.

In the ordinary capitalist company, on the other hand, the minority of owners and their allies at the top of the hierarchy stand against the majority of employees. The wage costs are to be minimised. Consequently, in the propaganda war, when mobilising for industrial action or when sitting at the negotiation table, worker representatives are well prepared if they know how much of the profit was ploughed back into the betterment of the enterprise and how much was transferred as income to owners, and their social and political allies, in the form of top salaries, bribes, remuneration 'packages' or dividends to shareholders. In today's world of globalisation and 'financialisation' it becomes imperative to know how much of the profit is used for financial speculation, hoarded in bank accounts, or simply siphoned off abroad, legally and illegally (Ashman, Fine and Newman 2011).

## UNREASONABLE MINEWORKERS?

One part of the wage backlog in South Africa is historical or structural. It is the imprint on wage levels left by colonialism and apartheid. The other part of the wage backlog is conjunctural and created after 1994. Let me first exemplify the conjunctural element.

In July 2011, the National Union of Mineworkers (NUM) had turned down a wage bid of 5 to 5.5 per cent from the employers in the gold mining industry. A press statement called the offer pitiful and infested with racism. With about 300 000 members at that time, the NUM was the biggest union in South Africa (the number is uncertain at the end of 2012, after the massacre in Marikana, and two months of strikes rocking the union). The union demanded wage increases of 14 to 15 per cent. As a comparison, during 2010 wage demands within mining were settled at an average of 8.2 per cent (Naledi 2011: 34), a typical settlement now proved to be insufficient and politically destabilising when repeated every year.

According to Labour Research Services (LRS), the *average* minimum wage agreed within 'low-wage employment' in mining was R3 773 per month in 2010, increasing to R4 243 in 2011. The higher *median* reveals a concentration of lower minimum wages in sections of the industry (Table 1 includes cases of low wages, outside bargaining councils). The actual low wages average around 15 per cent above minimum agreements.[2]

**Table 1.** Low-Wage Employment in Mining in South Africa 2010/2011

| | *Minimum Wages 2010* | *Minimum Wages 2011* | *Percentage change* | *Median settlement level in 2011* |
|---|---|---|---|---|
| *average* | 3 773 | 4 243 | 12.4 | n/a |
| *median* | 3 919 | 4 311 | 10.0 | 10.0 |
| *sample* | 105 | 78 | n/a | 98 |

(Source: Labour Research Services database)

According to the StatsSA study 'Monthly Earnings of South Africans 2010' (2010: P0211.2), half of about 8.6 million formal employees earned R3 683 or less in 2010. Some 686 000 employers who paid salaries to themselves, 1.2 million generally lower-paid own-account workers, 570 000 agricultural workers and 1.1 million domestic workers (some of whom are also formally employed) are excluded from that R3 683 median.

The built-up frustration and despair over impoverishment and growing inequality (Leibbrandt et al. 2010) is an explosive cocktail, as demonstrated by the strike wave in the mining industry. The mining revolt started in January 2012 after a provocative wage increase of 18 per cent for front-line supervisors ('miners') at Impala Platinum Mining in Rustenburg (Hartford 2012). In a six-week-long and bitter strike, 17 200 workers demanded R9 000 per month after personal income tax (Sapa 2012a). That would more than double the wage for many of them. This was before the demand for R12 500 in net minimum per month was raised in August at Lonmin in Marikana and taken up by tens of thousands of other workers.

Are such wage levels outrageously high for doing one of the most dangerous jobs in the country in a central export industry? Consider what has taken place within South African mining during the 2000s according to the national accounts (Table 2).

Table 2: Profits and Wages in the South African Mining Industry, 2000-2011

R89 billion rand in accumulated wage loss in current prices within mining 2001-2011(Source: StatsSA (P0441, 4th Quarter 2011) and own calculations).[3]

| *Year* | *Value added in millions of rands (profits + wages)* | *Profits in millions of rands* | *Wages in millions of rands* | *Wage share of value added* | *Rm wage loss in relation to year 2000 wage share* |
|---|---|---|---|---|---|
| 2000 | 66 391 | 35 133 | 28 258 | 42.6 per cent | (n.a.) |
| 2001 | 77 214 | 45 932 | 31 282 | 40.5 per cent | -1 583 |
| 2002 | 92 730 | 58 275 | 34 454 | 37.2 per cent | -5 015 |
| 2003 | 85 770 | 50 577 | 35 193 | 41.0 per cent | -1 313 |
| 2004 | 91 198 | 53 293 | 37 905 | 41.6 per cent | -912 |
| 2005 | 105 992 | 65 115 | 40 877 | 38.6 per cent | -4 236 |
| 2006 | 132 301 | 83 970 | 48 331 | 36.5 per cent | -7 980 |
| 2007 | 156 970 | 99 954 | 57 015 | 36.3 per cent | -9 796 |
| 2008 | 196 525 | 128 087 | 68 438 | 34.8 per cent | -15 209 |
| 2009 | 196 521 | 123 002 | 73 519 | 37.4 per cent | -10 126 |
| 2010 | 227 117 | 144 507 | 82 610 | 36.4 per cent | -14 058 |
| 2011 | 260 381 | 168 218 | 92 163 | 35.4 per cent | -18 663 |
| | | | | SUM | **R -88 891** |

Over the past decade, the wage share within the entire mining industry fell by seven percentage points, according to StatsSA (Table 2). In the 1990s, the average wage share in mining was above 50 per cent. The political centre of the strike wave has notably been the platinum mines where the wage share of value added hovered, in fact, above 60 per cent during the first half of the 1990s. From 1996 the wage share then fell, reaching below 30 per cent in 2001, and has stayed there ever since.[4]

In 2011, when the unions were allegedly demanding too much but did not get it, the wage share in the mining industry fell one percentage point from the 2010 benchmark. This drop of one percentage point represents over R2.5 billion rands in forfeited wages in one year. With a constant wage share at 42.6 per cent of value added over the whole period (we could say 'at the same relation of strength between capital and labour as in the year 2000'), the employees in the mining sector would have received R89 billion more in wages between 2001 and 2011.

Official inflation was heading towards 6 per cent during the spring of 2011. In demanding 14 to 15 per cent, NUM was roughly asking for real wage increases of 8 to 9 per cent.[5] Would that have been bad for investment?

During the period 1994-2010, about 40 per cent of the profits within mining were, on average, reinvested every year.[6] But let us refer to the year 2009 (for which about 95 per cent of the tax forms from the mining industry had been assessed at the time of writing). This was a year in which real investments in mining as a share of profits reached their highest since 1970: half (52 per cent) of the profits before taxes. To invest about half of the profits made in mining is a new record.

As for corporate income tax (CIT) in 2009, R45.3 billion, or a little more than one third of the R123 billion in profits, was regarded as *taxable* income in the minority of mining companies that reported a positive result to the tax authority. Out of those *taxable* profits of R45.3 billion, R12.8 billion, or 28 per cent, was required to be paid in CIT (SARS 2011: 93) – in effect a tax of a little more than 10 per cent on the R123 billion in profits (gross operating surplus). The tax statistics show that this is a normal state of affairs.

When subtracting R12.8 billion in taxes from R123 billion, R110.2 billion is left at the political disposal of the owners with majority shares.[7] They reinvested R64.1 billion in the mining business during 2009 (SARB 2011: S-114). This leaves R46.1 billion not ploughed back into production in 2009.[8]

We can conclude that an additional R8 billion paid out, on average, in higher wages each and every year between 2001 and 2011 should not have had any *objective* impact on mining investments, and we abstract from this proposition the 'subjective factor' of the business community, in the same manner as the effects on productivity and labour relations are, as a rule, not taken into consideration when proposing wage compression. By means of a sketchy but illustrative calculation, we use the principle of an equal rise for all in rands. This is usually not demanded by the unions although increases in percentages widen the inequality among their members.

An additional R2.604 billion in wages paid in 2011 – wages forfeited relative to the 2010 wage share – would have added an extra R420 per month across the board to the average 8.2 per cent 2010 agreement cited above, or close to 10 per cent extra to the mine worker earning R4 243 per month in 2011. We can repeat this procedure going back to 2001, adding the yearly forfeited compensation to employees from 2001 to the total wage bill for each year (Table 2). We divide the new sum by the average number of employees in mining that year. In 2011, the average monthly compensation to a mining employee would be R17 885 instead of R 14 873, or a R3 000 higher wage level across the board.[9]

Is that 'possible'? There is not anything *intrinsically* impossible about it. Neither is the minimum demand of R12 500 after taxes and deductions for rock drill operators (RDOs), RDO assistants and other underground workers 'objectively too expensive'. The demand has also been expressed as R16 000 to R17 000 before deductions by worker committees. To lift the wage share in mining to 50 per cent of value added at factor prices – 2 to 5 percentage points short of the prevailing wage share within mining in 1998 and earlier in that decade – would in fact increase the average 'compensation of employee' to about R21 000, or by between R6 200 to R7 000 per month across the board, depending on how the average labour cost is calculated (using the average wage reported by StatsSA in the Quarterly Employment Survey (QES) survey, or dividing 'compensation of employees' in the StatsSA GDP reports by the number of employees in mining reported in the QES, or by the Reserve Bank (SARB), which uses seasonally adjusted numbers). This is not to say that top and senior management should take part in this scheme, their wage levels lifting the average. The true labour cost for an RDO in the platinum industry has been mired in confusion, but if in August it was between R9 500 and R10 500 for a permanent employee, all inclusive (Lonmin 2012), the demand for an increase by R6 000 to R7 000 per month is on track.

This is the truth of back-of-the-envelope calculations, assuming an increase in wages at the expense of profits that are not reinvested. The size of wages is a matter of contestation between opposing blocks of interests; a matter of changing multifaceted relations of strength. Persuasion and propaganda are part of these relations. If we could argue for a tidal wave of wage increases for ordinary employees by turning inside out the usual business press discourse on wages and profits, it would, perhaps, read like this in a never-to-be *Business Day* editorial: *The political group behaviour of irrational investors and emotional objections to necessary change – from stockbrokers, decision makers in the multinational corporations, the global business elites and their South African comrades – is an obstacle to economic liberation, but an obstacle that can be moved. It is the absolute duty of a government in South Africa to support this collective endeavour from below. We must counter and temper the narrow economic demands of this wealthy and powerful minority. We must handle its conservatism and inflexibility. We must set limits for what economic blackmail and defiance of labour legislation, decreasing the income from labour, is possible.*

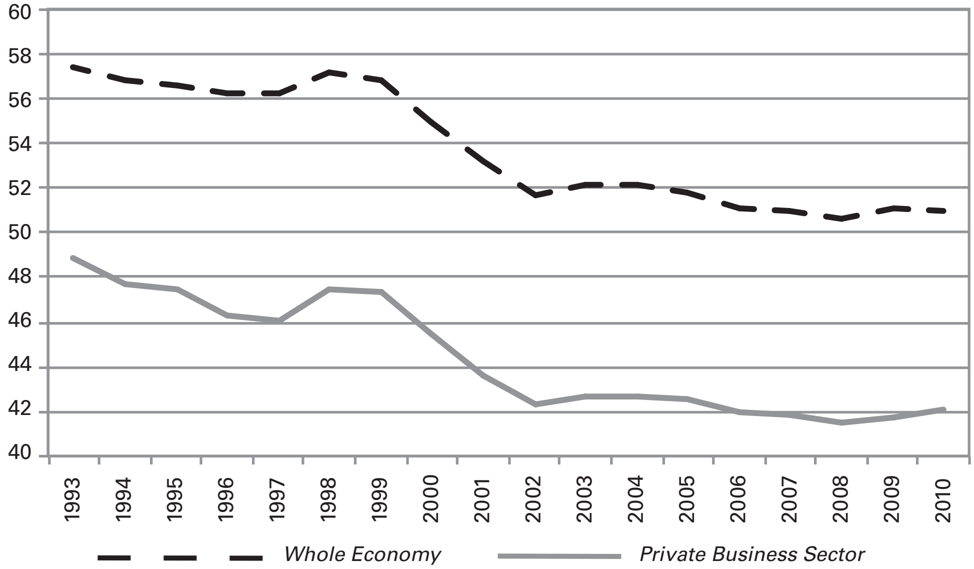
## PROFITS AND INVESTMENTS

With some exceptions, the national accounts show the same development in the other branches of industry: the wage shares of the total value they add to GDP also fall within transport, construction, wholesale and so on, as may be ascertained from Tables 5, 6 and 7 in the quarterly GDP reports from StatsSA (P0441).

The extreme development in the 2000s within the monopolised and price-colluding construction industry (Competition Commission 2011) led by the 'top five' JSE-listed companies should be mentioned in this context. According to the Quantec database, the industry employed 691 000 workers in 2011, 423 000 of them formally (StatsSA, QES

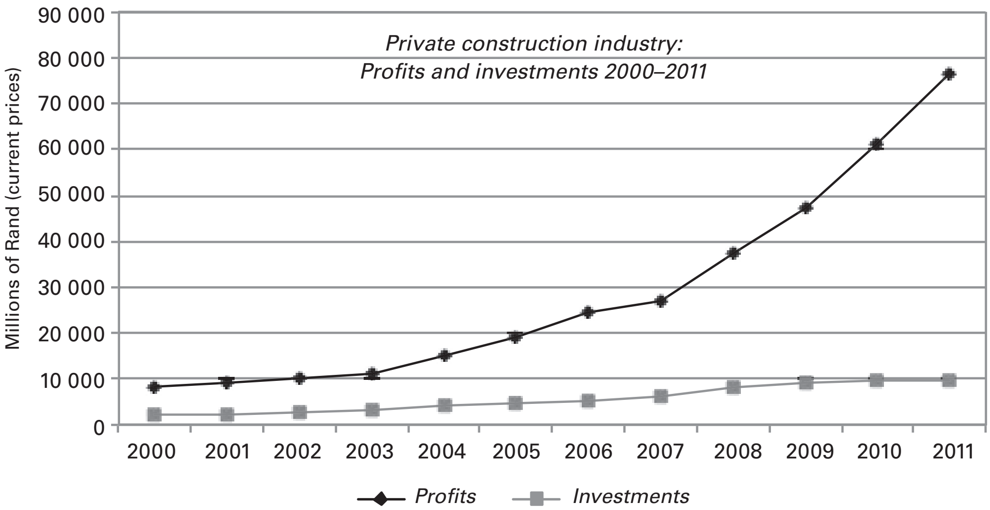
**Figure 1:** The wage share of GDP in South Africa 1993-2010

*The falling wage share of South African GDP (at factor prices): For the private business and industrial sector (SIC 1-8), agriculture is included. For 'Whole Economy', the public sector, community, personal services and 'other' (informal) are added*




(Source: StatsSA, 'Detailed GVA data 2010')

**Figure 2:** Gross Operating Surplus compared with Gross Capital Formation in the South African private construction industry




(Source: StatsSA, 2011: P0441 and SARB 2011: S-114) survey Q42011). During the building decade marked by the 2010 World Cup (Cottle 2012), the wage share of the value the private building industry added to GDP each year fell from 60.6 per cent to 36.6 per cent, a staggering 24 percentage points.

Were the super-profits harvested during the period by the construction industry capitalists 'good for investment'? The category 'construction' (contractors) represents the whole private construction industry, and in Figure 2 the gross operating surplus (profits) in the GDP reports (StatsSA P0441) is compared with gross capital formation (investments) reported by the South African Reserve Bank in the national accounts (SARB 2011). The 2000s saw extreme growth in the profit share of GDP and in profits within the private construction industry. The investment share of profits fell from 24.6 to 12 per cent. Corporate income taxation (CIT) comprised, as usual, around 10 per cent of the gross operating surplus (SARS 2011).

## THE COLONIAL-APARTHEID WAGE SHARE GAP

A falling wage share of value added means that real wages are developing at a slower pace than value output per worker, or 'labour productivity' (see explanatory box). This is so whether labour productivity is measured according to the recommendations issued by the Organisation for Economic Cooperation and Development (OECD 2001: 15) – as output per working hour input – or as measured by Statistics SA and the Reserve Bank, as value added (output) per formally employed worker, in the absence of more detailed data.

**The logical connection between wage share and labour productivity**

In a country with one worker, this worker produces a gross domestic product that is equal to 100 in Year One. She gets 50 in wages. The wage share of GDP is 50 out of 100, that is, 50 per cent.

If she increases production to 105 in Year Two and gets 51 in real wages, the wage share drops to 48.6 per cent (51 out of 105 is 48.6 per cent: 51/105 = 0.486).

Her labour productivity has increased from 100 to 105, that is, by 5 per cent. Her wages have only increased from 50 to 51, or by 2 per cent (1/50 = 0.02). The wage share of GDP must therefore drop.

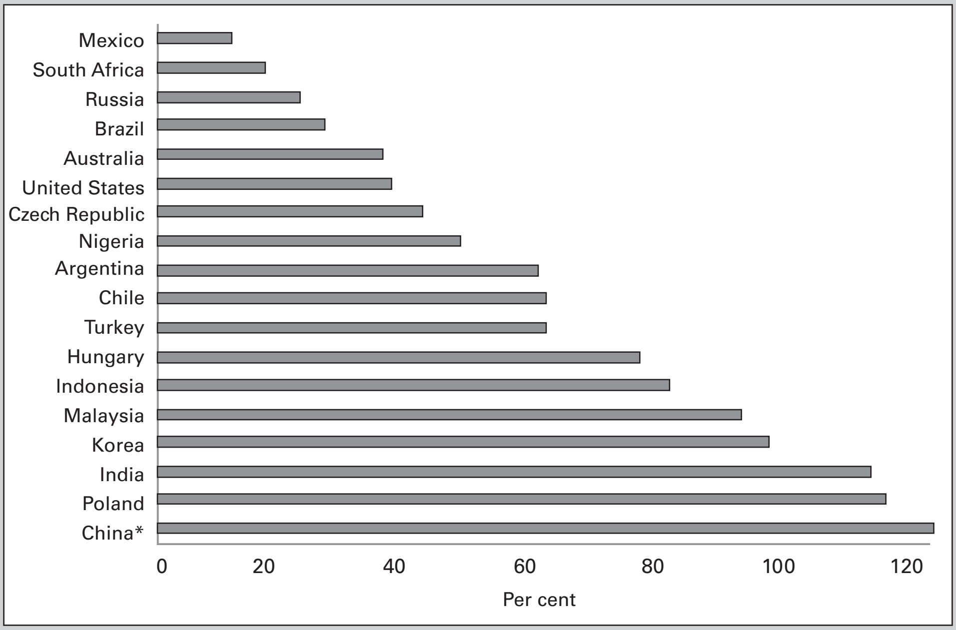
If her wages had increased from 50 to 52.5, that is, by 2.5 units or 5 per cent, the wage share would have remained constant at 50 per cent: 52.5 is half of 105.

In the wake of the campaign against worker wages and the trade unions, perhaps triggered by some successful wage bargaining in 2009 and 2010, much confusion has been spread about labour productivity data and the very concept of labour productivity. In the 2011 Budget Review (National Treasury 2011: 45), the Treasury contributed to the empirical confusion when arguing for wage restraint, saying that for two decades real wages have been growing at a faster rate than labour productivity. This is a fallacy. Its origin is employment data from StatsSA containing so-called 'structural breaks' in the data series, jumps upwards in the number of employees resulting from previously informally employed workers who have been recorded for the first time (SARB, 2011: S-132f). This time, the data had been used by the International Labour Organisation (ILO) before ending up in the 2011 Budget Review. To make sense of the productivity development from 1990 onwards, the SARB has revised the data. According to the SARB, South Africa places itself comfortably alongside Argentina, Chile or Turkey (see Figure 3): at about a 60 per cent increase in labour productivity from 1990 to 2008, not at about 20 per cent (SARB July 2012).

**Figure 3:** Quoting data from the ILO, which had used unrevised data from StatsSA, the Treasury goes completely wrong about SA productivity growth in the 2011 Budget Review

To compete in world markets, South African businesses need to increase their productivity. Unit labour costs are an important indicator of competitiveness. Over the past two decades, real wage growth in South Africa has outpaced growth in labour productivity which has been relatively slow.

**Figure 3.3:** Labour productivity growth 1990-2008




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

(Source: National Treasury 2011: 45)

Meanwhile, the labour broker Adcorp's research department adds conceptual confusion by regularly publishing reports, quoted in the media, that labour productivity has fallen to the lowest levels in 46 years (Adcorp 2012). The basic idea underpinning Adcorp's analysis is that if we use more machines and tools, labour productivity falls! From the corporate point of view, the tools and machines are the contribution of capitalists to productivity, and it is the capitalists, not the workers, who should be rewarded for such improvements in productivity with a growing profit share of the gross domestic product: the income stream coming from the improved machinery, which we allegedly can separate mathematically from the total income stream, is of their making and rightfully theirs.

But at its foundation economic theory on productivity must recognise production as a physical process, not primarily as a juridical or political one. The bottom line in any analysis is that machines are silent without labour. Humans started to use tools tens of thousands of years ago. Machines and tools are invented, produced, used, improved and repaired by human beings. In essence and physically, it is workers who supply the machines to the factories. The basic elements of production are labour, tools and raw material, not the money amassed by a minority – even if the production of commodities and commoditised services in a capitalist system stops without money.

Vertical integration (or the building of new machines, inventions or improvements of some kind by the employees of the factory where they are used) reveals the fallacy of the corporate view of productivity, and that it is in essence political: it is obsessed with dividing society into two classes with separate entitlements. When production per employee increases at one production site – because they are using improved machines, made by workers at another site and designed by engineers on the basis of the research work of scientists – there is always a time lag before there is a general awareness that wealth creation per person has increased. But as democracy and popular pressure for justice and a better life develop, the ownership argument is defeated over time. It is telling that this historical fact also makes sense in theory: it is the increase in output per every *person* ('per capita') in a country that is the basic motive for measuring productivity in the first place.

Historically, growing capital intensity often contributes to a fall in the wage share in the short-term. Such a fall is rooted in a cultural wage lag that reflects the majority's lack of economic control (there is a lag before the mass of employees starts to notice what is happening, as it were). There have been more than 250 years of technological development in the old capitalist countries. If we take the long view, this has not reduced the wage share of the national income in Germany, France or the UK. Despite the fall of the wage share since 1980 that was provoked by the neoliberal offensive in the North, and despite their having much more equipment per employee, the wage share of the national income in the capital-intensive and highly industrialised countries is still 10 to 20 percentage points higher than in South Africa (see Figure 4). This is what democratic development can and should do. A general sense of *ubuntu* wins, in an ever growing economy where new technologies and knowledge are constantly spread and eventually belong to everyone.

**Figure 4:** The wage share of the national income in the industrialised countries, to be compared with the wage share in South Africa pictured in Figure 1


Source: European Commission, Ameco Database

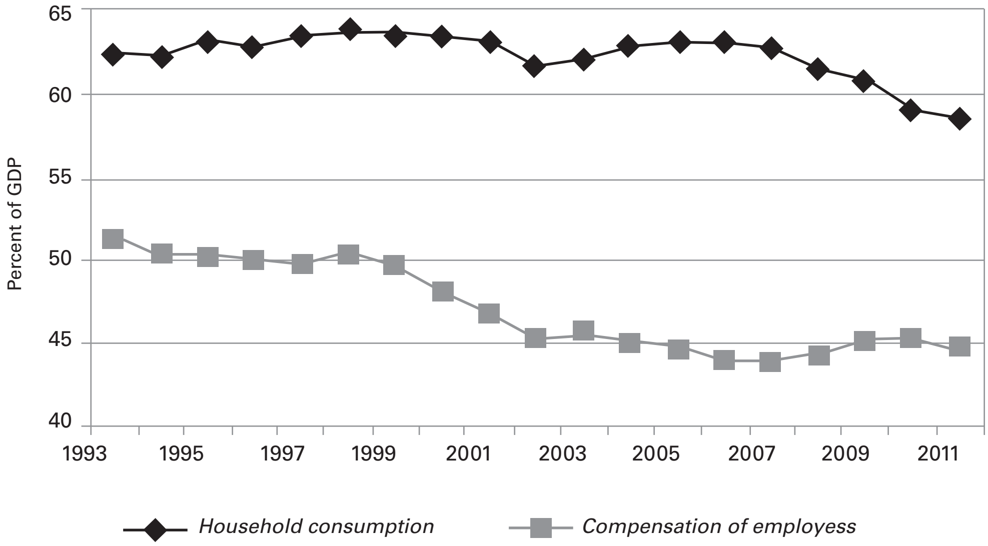
(Source: Diagram in Husson (2011))

Before the Second World War, the wage share of GDP in countries such as the United States and Britain lay at the same levels as in many industries in South Africa today, hovering on average at under 40 per cent of GDP (Kalecki 2009). After the war came a trade union push in Europe, supported by labour governments – or at least led by large labour parties, as in Italy. Real wages increased more than labour productivity, and the wage share of the national income in the OECD countries increased drastically after the Second World War. The capitalist firms responded to the growth in mass consumer demand with investments in production, and not primarily with price increases (that is, with inflation).

In South Africa, we have, since 1998, instead seen a move in the other direction, to the income and power advantage of capital. On average, real wages have been increasing less than labour productivity, at about 2 per cent per year, with labour productivity averaging about 3 per cent in annual increases since 1994 (SARB July 2012). The wage share of GDP has therefore been falling, further exacerbating the lack of effective domestic demand.

**Figure 5:** Falling wage share and growing credits

*The fall of household consumption and wages as shares of GDP (at market prices) in South Africa. Credit grows in the area between the two curves, stepping in to rescue the system from collapse*




(Source: StatsSA (2011: P0441), SARB (2012) and own calculations)

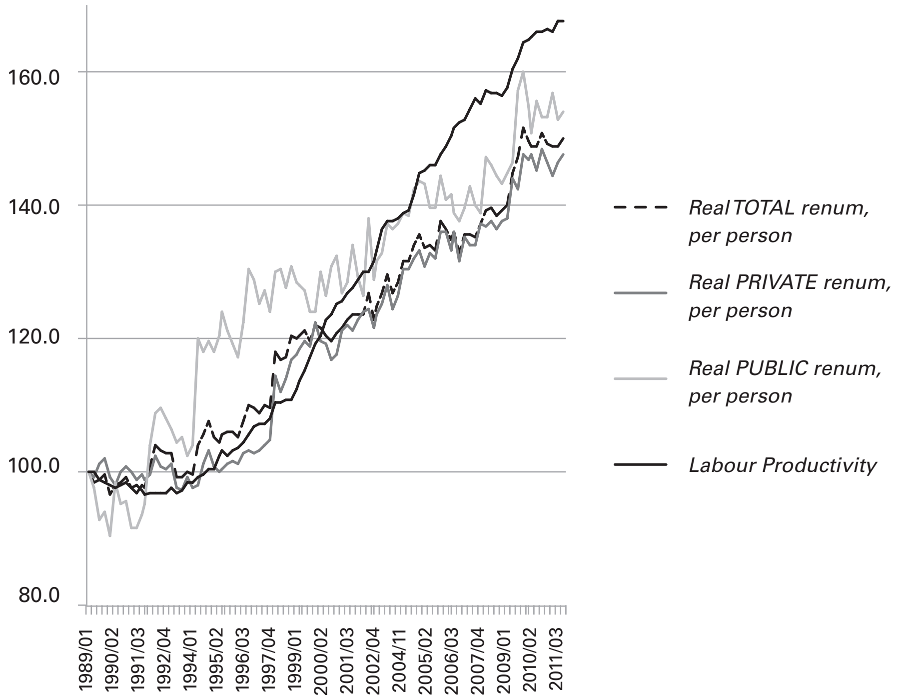
In 1995, the wage share to GDP at market prices was 50.1 per cent.[10] In 2010, it had fallen to 44.5 per cent. It is in the area between the two curves in Figure 5 that we find credit and the space where the finance industry grows, lately including a rapidly expanding market for 'unsecured loans' (*Cape Times*, 26 March 2012). Consequently, the household debt to net disposable income has increased from 59 to 76 per cent from 1995 to 2011 (SARB 2011). In March 2010, the number of consumers with 'impaired credit records' increased year on year by 915 000 to 8 370 000 individuals, comprising 46 per cent of 18 210 000 credit active persons (NCR 2011).

This growth of household debt has not yet stopped household consumption from absorbing less and less of GDP. In 2012, goods and services will be produced in South Africa to an estimated value of about R3 300 billion (National Treasury 2012). Using the same methodology as above for the mining industry, we can conclude that the 5.5 percentage point drop in the wage share of GDP between 1994 and 2011 corresponds to R180 billion not paid out in wages to ordinary employees in 2012 alone – billions of rands that cannot boost demand for everyday goods and services.

## THE WAGE HIKE MYTH

A falling wage share of a steadily increasing GDP does not by itself mean that real wages are decreasing. But it does by definition mean that average real wages and salaries are developing more slowly than labour productivity, whether measured as GDP per employee or per hour worked. That this has long been the case in South Africa is confirmed by the SARB (Figure 6). In the language of the OECD, far more labour is supplied than is demanded in South Africa: 'It does not however seem to have been the case that this disequilibrium situation was caused by an economy-wide *rise* in real wages' (OECD 2010: 102).

**Figure 6:** Labour productivity and real wage development in South Africa (private, public and total) 1989-2012. Year 1989 = Index 100

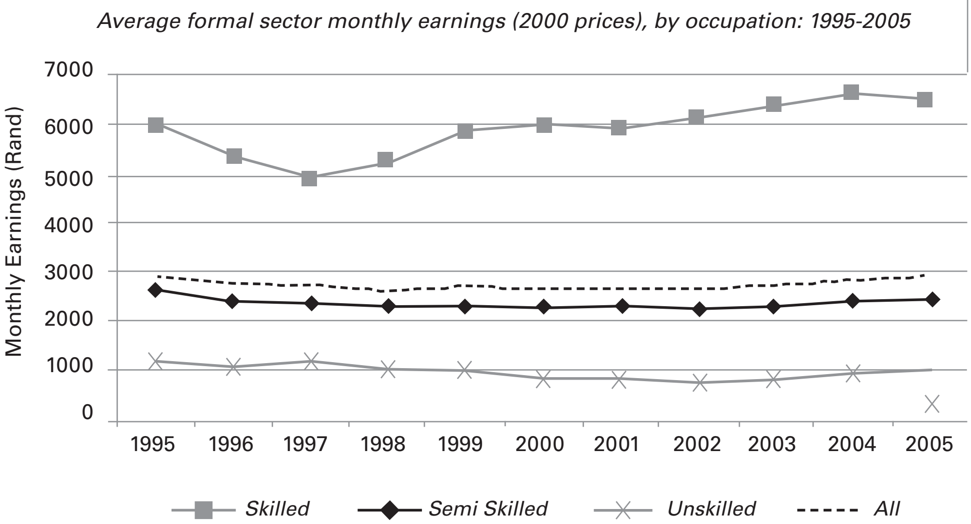



(Source: SARB (July 2012))

There is instead reason to believe that the real wages for the majority of wage earners have been stagnant since 1994 and perhaps even falling since 2005. Half of all employed people earned less than R2 500 per month in 2008 according to the National Planning Commission (NPC 2011: 13). StatsSA now reports (2010: P0211.2) that, of slightly more than 11 million employed persons, half earned R2 800 or less in 2010 (excluding salaried employers who usually have much higher incomes, and so-called 'own account' workers, who usually have very low incomes). This means either that there has been no change in the median real wage for ordinary workers after inflation (over 11 per cent between 2008 and 2010), or that the median real wage has actually fallen, if the true inflation rate affecting the majority of households that spend more of their incomes on food, electricity and transport (households belonging to Quintile 1 to 4 in the monthly Consumer Price Index reports from Stats SA) is taken into account.

Rulof Burger and Derek Yu (2007) have convincingly reconstructed trends from the raw household survey data collected by StatsSA, after cleansing the latter of obvious mistakes. An *average* real wage increase of 2 per cent for *all* employees coincides with the data used and published by the SARB. But this average includes both high and very high wages, including the high levels of remuneration of top managers in the state and the private sectors. Burger and Yu omit all wages above R200 000 per year (in year 2000 prices) from their study.

**Figure 7:** Wage trends 1995-2005 for employees earning less than R200 000 per year




(Source: Statistics South Africa and own calculations) (Adapted from Burger and Yu (2007: 17))

For the vast majority of workers, real wages remained stagnant from 1995 to 2005 according to Burger and Yu. The 'skilled' workers reported a slight wage increase. But, again, this is 'on average'. The limit set by the researchers at R200 000 per year, or R16 660 per month (at 2000 prices), lies way above that of ordinary wages. Only 3 to 4 per cent of employees with the highest salaries are excluded (SARS 2011).

An anecdotal indication of what has happened since 2005, because of the growth of temporary employment services or labour broking, is given by the labour broker Adcorp. The corporation's chief economist, Loane Sharp, writes in a CDE booklet (2011b: 28) that 'over the past eight years an entry-level employee in our organisation has earned the same nominal wage. So an eighteen-year-old employed by us today earns the same as an eighteen-year-old with equivalent qualifications did eight years ago.' This is a decrease of at least 35 per cent in the real buying power of that entry wage, due to eight years of inflation.

## ABANDONING 'EXPORT-LED GROWTH'

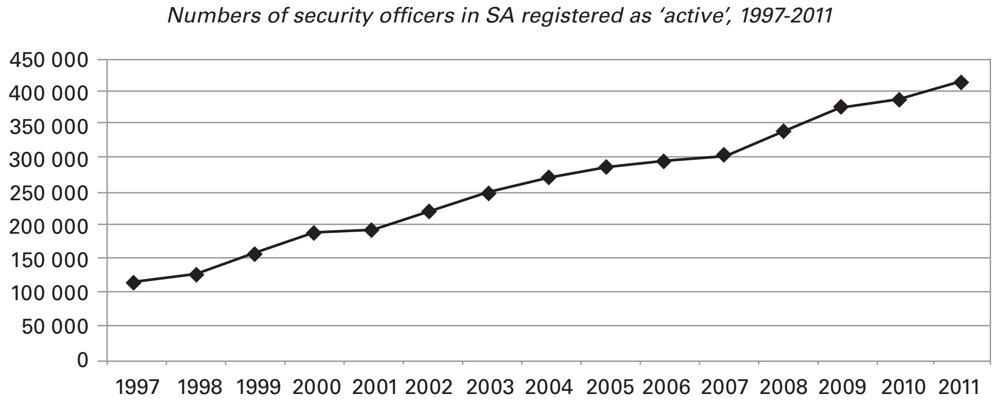
Conservatives argue for the simultaneous reduction of real wages and for casualising jobs, while pointing to the small local markets in South Africa as a problem. These local markets, they indicate, are one of the foundational themes for supporting a deepening of the 'export-led growth path' (CDE 2011a). In other words, too many firms are producing for an oversupplied domestic market! A key reason why overall growth was lagging, suggested a participant in a CDE seminar, 'is that too many firms were not producing goods for export. But the domestic market is too small to support more rapid economic growth, the more so in the absence of pro-cyclical government spending. Therefore, South African firms needed to concentrate on producing goods for export.'

This is simply not true, however, across the board. The growth of the South African security industry is one tragic example of what economic demand can do for employment. The numbers of actively registered security firms grew, from 2010 to 2011, from 7 496 to 8 828. There cannot be too many of them – and they create employment (Figure 8).

Another illustration is provided by a report from the Community Works Programme (CWP), which started in 2009 and which has provided work to 90 000 otherwise unemployed people in seventy towns in 2012. It provides anecdotal evidence for an alternative: useful local and public non-profit projects that create public assets instead of the for-profit struggle for global market shares. More rigorous case studies (Webster et al. 2011) point to the same. 'In Tjakastad, Mpumalanga, community safety patrols, food gardens, clean-ups, school maintenance and the creation of parks and public recreation facilities are among the CWP activities.' The change is evident, says the article (*Financial Mail*, 1 September 2011).

With small-scale public works comes small business. The mantra 'private business is a core driver of jobs and economic growth', repeated in the New Growth Path document (Department of Economic Development 2010: 28), seems either to be refuted or to require appropriate reformulation. The previously absent local market makes an appearance alongside public and non-profit CWP projects.

**Figure 8:** The growth of employment in the security industry




(Sources: (Julie Berg 2007) and Private Security Regulatory Authority (PSIRA) annual reports (www.psira.co.za))

The sense that things are somehow intangibly better in Tjakastad, though everyone remains poor, is perhaps best explained by the cash economy that has come with the arrival of the CWP. When about 2 000 people in the area get a wage, each earning and spending R480 per month on groceries and other consumer goods, nearly R1 million that was not there before flows into the local economy.

For retailers, and for Capitec Bank, business is booming (all CWP participants must have bank accounts and many choose Capitec). In Tjakastad, payday, the last working day of the month, causes a one- or two-day explosion of activity at 'the crossing', the crossroads where the main shops are clustered. 'Mr Jackpot … founded Jackpot Meat Market fifteen years ago,' says his business partner, Ricardo de Gouveia. 'We have a big business community and we are all surviving off this community. There is a lot more money here than there was some years ago.'

Local industry can grow if the buying power of the broad population is drastically increased. Otherwise it cannot. The CWP experience was scaled down by the government in the 2012 budget that combined austerity measures and mega plans centred on expansion of the mining industry and environmentally destructive coal power. Yet the small-scale CWP points to an alternative wage-led growth path that creates useful and sustainable jobs. Much higher wages in an expanded CWP of regulated and useful work in the rural areas would start to challenge wage levels and slave-like labour conditions that persist in many parts of South African agriculture. Competition from such public jobs is currently exerting upward pressure on low rural wages in India (Banerjee 2011). The recipe has been a job guarantee and a minimum wage, as stipulated in the National Rural Employment Guarantee Act.

## CONCLUSION

Much has been omitted from this discussion of economic policy, which is limited to arguing that low wages, as well as extreme and growing income inequality, deprives South Africa of local markets and jobs, suggesting a shift to a wage-led growth path that breaks with neoliberalism as one of its preconditions; this is a political break with the corporate elite in South Africa and the advice from organisations such as the World Bank and IMF. It may seem impossible. We know, however, from countries in Latin America, that it is possible.

Such drastic policy shifts, away from neoliberalism, the pressure from speculative finance and the corporate view, are even pointed to by organisations in the United Nations family. Under headlines such as 'Neglected role of domestic demand growth for employment creation', the export-led growth path is today under attack from the United Nations Conference on Trade and Development (UNCTAD 2010, 2011 and 2012), notably in regard to the economic policies pursued in so many developing countries. Everyone is doing the export-led shuffle. This is one of the reasons why it doesn't work.

> A strategy of export-led growth based on wage compression, which makes countries overly dependent on foreign demand growth, may not be sustainable for a large number of countries and over a long period of time. This is because not all countries can successfully pursue this strategy simultaneously, and because there are limits to how far the share of labour in total income can be reduced (UNCTAD 2010: ix).

In South Africa it is increasingly obvious that the rejection of what UNCTAD calls wage compression means support for the struggles of the workers and the poor, for their trade unions and social movements, for efforts to build such organisations where they do not exist (as in the rural areas), as well as the need to confront the labour broking business. It is a necessary policy ingredient when turning from the 'export-led growth path' based on the extraction of minerals.

From the point of view of economic theory, this transforms economics from the 'dismal science' of the anti-union economists into a lifesaving one. The inevitable and intrinsically human thrust towards escaping unbearable living conditions and economic insecurity is not 'bad for the economy'. The immediate fight against the low-wage regime and inequality does not stand in contradiction to the fight against unemployment. The pressure exerted on the system by the workers and the poor – and whatever small successes or bigger victories they can harvest as a result of this pressure – is, instead, a part of the solution. Similarly, a policy shift from 'extractivism' is also necessary to save the environment. The campaign 'One Million Climate Jobs' (www.climatejobs.org.za) is one of the initiatives that combine the fight for the environment with the fight for employment with decent wages.

The history of the welfare states in the global North will not repeat itself. But as a step towards economic democracy, and towards non- and anti-capitalist solutions to the multidimensional crisis we are in, the colonial-apartheid gap in the division of the national income between profits and wages should be drastically narrowed in South Africa. This gap is far too big to be narrowed only through the secondary redistribution of income that taxation provides. Furthermore, it is an income distribution gap between labour and capital that cannot be rationalised with a 'need for investment' argument.

The democratic revolution did not abolish the low-wage regime in South Africa. To abolish it and normalise the present abnormal situation that divides the country between rich and poor and systematically promotes endemic mass unemployment is now the task of an economic revolution.

## NOTES

1 The full paragraph in Smith (1776, Book IV, Chapter 8) reads: '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 maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.' It is clear from the full quote that the truth of consumption being the ultimate purpose of production is a normative truth for Smith. Marx and Keynes stand out as two economists for whom it is an unfortunate fact that a capitalist firm primarily produces today to achieve more money tomorrow rather than to 'satisfy consumer demand'.

2 In a telephone interview, 8 August 2012, with Trenton Elsley, deputy director at the Labour Research Service (LRS), this was clarified (any mistakes are mine). The *median* minimum wage is the minimum wage in the middle of the minimum wage agreements recorded; that is, it is the typical minimum wage. Half of the minimum wage agreements are lower and half are higher than the *median* minimum wage.

3 In earlier versions of the GDP reports the accumulated wage loss in mining could be calculated to R100 billion, 2001-2010. This table is built on the 2011 fourth-quarter report. StatsSA regularly revises its reports two to three years backwards. Value added is here given in so-called 'basic prices' as in the printed report, also to introduce the reader in sourcing this at the StatsSA website: www.statssa.gov.za. The basic prices measure includes the net of subsidies to, and taxes on, production.

4 According to 'Detailed GVA data 2010' available from StatsSA, all branches of the mining industry except gold mining currently have a wage share of value added (at factor prices) from 40 per cent and lower, down to below 30 per cent. As for gold mining statistics, this author is at the time of writing investigating the accuracy and/or the meaning of the gold mining data on wages and value added. The wage share in gold mining statistics influences the average wage share for all mining (which is 35-38 per cent 2008 to 2010) with 7-8 percentage points upwards.

5 Fifteen percentage points in wage demand minus 6 percentage points in inflation result in a 9 percentage point demand in real wage increase. The problem of the official inflation rate not reflecting how inflation hits ordinary households is not taken into account.

6 Quantec database for the data in this paragraph (courtesy of Productivity SA), using StatsSA and SARB data, plus own calculations for the percentages. Gross Operating Surplus in the national accounts is profits before corporate income tax (CIT) and depreciation of buildings, equipment and the like. In accounting, depreciation due to wear and tear is correctly regarded as an underlying cost to be subtracted from the profits. Worn-out machines must eventually be replaced. Their

ageing must be accounted for long before replacement takes place. Annual reports therefore state what the profits are before and after depreciation of fixed capital. See also endnote 7.

7 Gross Operating Surplus (GOS) 'is the capital available to financial and non-financial corporations which allows them to repay their creditors, to pay taxes and eventually to finance all or part of their investment'. It is *gross* because it makes no allowance for consumption of fixed capital (CFC). By deducting CFC from GOS one calculates net operating surplus (NOS), says Eurostat of the European Commission. In the same vain, gross fixed capital formation includes the replacement of fixed capital bought before and subjective to wear and tear (machines, buildings and other real investments). It is of course possible for the owners of the corporation to decide not to replace worn-out machines, or even to avoid paying creditors, who expect to get their share of the profit as a 'return on investments' (dividends from shares, interest from corporate bonds or interest from other loan agreements).

8 See also endnote 7. All numbers are in current prices. The obvious use of a different deflator for investment than for total value added in the national accounts makes a comparison in real prices cumbersome and problematic. The important thing here is the relationship between real investments and profits.

9 We divide the R2.6 billion in forfeited 'compensation to employees' (total labour cost) by the average number of mining employees in 2011, according to the StatsSA Quarterly Employment Survey (QES), but with the numbers seasonally adjusted by the SA Reserve Bank (SARB), which are provided by the SARB on request. The StatsSA QES reports R13 994 in November 2011 as average earnings in mining, inclusive of bonuses and overtime. When dividing 'compensation of employees' in the GDP reports from StatsSA by the numbers of employees as above we get the higher R14 873 as the monthly average earning in 2011. This is the reason for the span between R6 200 and R7 000 in the text when comparing a wage share of 50 per cent since 2001 with landing on R21 000 as the new average in 2011. The contra-factual account is, of course, not exact or without limitations. It is an argument in principle. The aim is to show what would be possible if it wasn't politically blocked.

10 In order to establish the relation to household consumption, and how large a part of the GDP that wages and salaries can buy without using credit, the wage share of GDP at market prices has been chosen. If compared with GDP at factor prices, the wage share falls from 56.6 to 50.1 per cent during the same period.

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