Improving Industrial Relations in South Africa

There are no easy answers when trying to improve industrial relations in South Africa. The country is one of great injustices and slow solutions. The recent rise of popular protest movements - such as service delivery protests and the FeesMustFall movement - indicate growing impatience with the slow rate of change. New factions in the labour movement, most notably the Association of Mineworkers and Construction Union (AMCU), are similarly more militant and unwilling to compromise. With labour relations at a low point, and protests elsewhere suggesting things might get worse, the question is: how can industrial relations break this trend, and become more productive?

Understanding how industrial relations got so bad is essential to improving them. No party - labour, business, or government - is to blame, rather all are part of a broken system, and all must be part of the solution.

Labour Outlook

South Africa lost an average of 206 hours of work per 1000 workers between 1999 and 2008, making it the fifth most strike-prone country in the world.[1] Removing strikes that were likely caused by political factors (in Lithuania and Israel) and one small country (New Caledonia), South Africa ranks second behind Argentina. Other data, however, suggests that South African workers lose fewer days per year than leading economies like Brazil and India, and that fewer workers are involved in the average strike than in countries like Spain and Italy.[2]

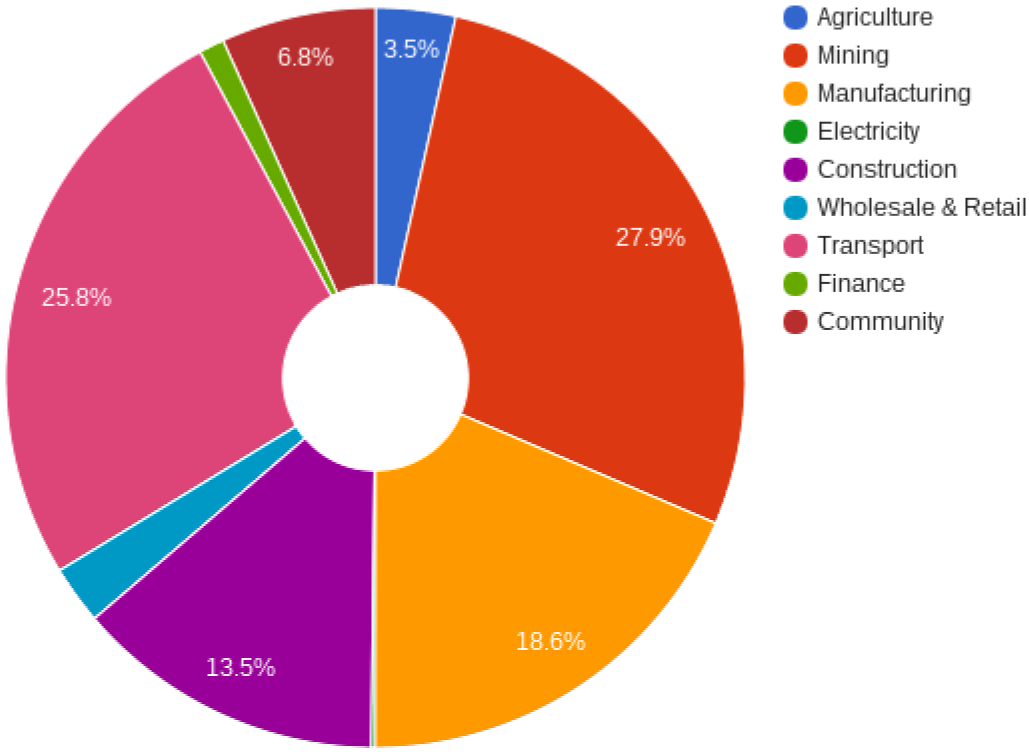
This seemingly contradictory picture - in which South African loses many hours to strikes but doesn't seem to suffer from serious strikers on average - is possible because strikes are much worse in some sectors than in others. Figure 1[3] shows the number of working days lost per industry in 2013, with mining and transport leading the way. This picture differs considerably across years, and in 2012, the year of the platinum strike, 92% of all lost working hours were in the mining sector. Nevertheless, there are consistent differences between sectors: finance almost never strikes, mining almost always does.

---

[1] Bhorat, H. & Tseng, D. 2014. "South Africa's Strike Data Revisited." Washington, DC: Brookings. http://www.brookings.edu/blogs/africa-in-focus/posts/2014/03/31-south-africa-strikes-bhorat

[2] Ibid.

[3] Department of Labour. 2013. "Annual Industrial Action Report 2013". Pretoria: Department of Labour.



While it is easy to dismiss the tendency to protest as driven by out-of-control unions or a 'strike culture', most industrial action is underpinned by very real complaints and concerns.

Protests tend to be clustered in industries that employ many unskilled and semi-skilled workers - such as mining. The public sector is the one exception, featuring strikes amongst semi-skilled workers (such as the police and jail wardens) and amongst low-paid skilled workers (notably teachers and healthcare professionals). The core unifying feature is that these groups are low-paid and vulnerable and, with limited career options, often see strikes as their primary means of social advancement.

While this vulnerability underpins labour unrest, most strike action also has quite specific triggers. Work in the mining sector, for example, remains structured as a system of migrant labour, and the additional cost of supporting two homes (one at work, and one family home) puts incredible pressure on workers - which, in cases like Marikana, can boil over.[4] In the case of the public sector, instability in the leadership of the Department of Public Service undermined efforts to reach a wage deal the 2015 negotiations, and contributed to the subsequent strikes.

[4] Harvey, R. 2014. "Minefield of Marikana: Prospects for Forging a New Social Compact." *Occasional Paper 183.* Johannesburg: South African Institute of International Affairs.

On top of these issues are added political and union factors, including increasing competition between various unions, and the complexity of some union's close relationship with government.

While industrial relations may be a problem for the whole country, each sector is different. Fixing industrial relations will require improving communication between labour and employers, and making sure that employers respond to the unique problems facing their workers.

Business and Government Outlook

While the motivations behind striking workers are often understandable, the capacity of employers to respond to demands is increasingly tight.

Weak economic growth erodes the capacity of companies and government to afford higher wages. Huge recent changes in certain sectors make this even worse, with this problem most seriously in mining. The widespread collapse of commodity prices - in core areas such as platinum, gold, and coal - means the once hugely profitable industry is struggling. While this is normal in mining, where companies plan for prices that swing up and down, the scale of this price collapse is exceptionally large. The Bloomberg Commodity Index, which tracks the price of 22 commodities, has lost more than half its value since 2011, reaching the lowest level since 2002.[5] With prices still going lower, the mining industry will struggle to agree to high wage increases.

Similarly, the public sector faces decreasing capacity to respond to wage demands. The government has been running a budget deficit since 2009, which has grown to R152 billion in 2014/15, and has seen total government debt grow rapidly.[6] Above-inflation wage increases have seen the wage bill play an important role in this debt growth. In response, the National Treasury has committed to pull in the budget, and will offer huge resistance to further above-inflation wage increases. Treasury is immense pressure, both internally and from commentators who claim that without cuts South Africa could be heading for a crisis. If it is pushed too far, Treasury could be forced to stand behind a particularly low wage increase, that could threaten to pitch the public sector into crisis.

[5] Bloomberg Commodity Index, http://www.bloomberg.com/quote/BCOM:IND
[6] National Treasury. 2015. "Estimates of National Expenditure 2015." Pretoria: National Treasury.

Other sectors - most notably manufacturing - could still grow, and help take some of the pressure off mining and government. But the competitiveness of these sectors is very sensitive to strikes and wage agreements. Manufacturing firms have to compete with the likes of China, where wages are low and production is extremely reliable. Extensive industrial action in this field, or even in supporting industries like transport, could mean their business shrinks - and jobs are lost.

We therefore have increasing social protests and continued industrial action, alongside a government and private sector that cannot easily afford to do anything about it. These two trends make for a very uncertain future. Labour and employers seem to be on a collision course.

Possible Solutions

Possible solutions will need to cost less than simple wage increases, but have similar effects, improving the livelihood of workers and satisfying union demands. A number of steps could help create this mutually beneficial situation.

Focus on Growth, not just Inflation: The inflation rate plays an important role in labour negotiations. It is the base upon which offers are set, at rates like inflation plus 1% or inflation minus 1%. While inflation is important, and prevents workers making less real money in the coming year, it is inadequate. Inflation tells us nothing about the health of the economy or a specific sector or company. If inflation is at 6%, but a sector grew by 20% - then companies in that sector should give increases well above inflation. Similarly, if a sector is in crises and is shrinking rapidly, then accepting below inflation increases might be necessary to protect jobs. Either way, growth tells us more about the situation facing workers and firms, and protects both sides. It should play as important a role in negotiations as inflation.

Workplace Advancement: Many workers in sectors such as mining have little prospect of advancing from their current position. In many cases, they are placed in corporate structures with few opportunities for workers with limited education, even when those workers accrue lots of valuable skills and experience. For these workers, their only source of career advancement is for the terms of their current job to improve. Whereas skilled workers might accept lower wages because of the prospect of a high paid job in the future (just think of all the low-paid internships filled by university graduates), the lack of belief in future prospects drives unskilled workers to demand improvements in their current employment terms. Companies should work hard to instill a sense of possible advancement by investing in the education of these workers (opening up new, semi-skilled opportunities) and by removing unnecessary prerequisites on mid-level jobs that can keep smart, experienced but uneducated workers out of a job.

Improve Worker Ownership Schemes: Worker ownership plans have a poor history in South Africa, but they still are something to be explored more closely. A central problem in labour negotiations is that both sides value different things: labour values the wellbeing of workers, business values the wellbeing of the company. As one improves, the other is harmed - a classic win-lose scenario. If workers were granted part ownership in the company, making additional income in the form of dividends when the company does well, then their interests become more aligned with those of employers. In addition, changes to BBBEE requirements mean these initiatives might be necessary for companies to keep their rating. Now is the time to invest in new, more creative worker ownership schemes.

Negotiate Long-Term: Multi-year agreements are common in many industries, but they are too often ignored or renegotiated. This is a problem for both labour and employers, as has been perfectly demonstrated in the case of the platinum sector. If employers had planned long-term in 2008, they would have offered higher wages when they were making record profits, in exchange for more moderate increases in the uncertain future. Because they failed to do so, they must now face extremely high demands at the point in which they can’t afford them. Similarly, agricultural workers looking for increases during the current drought will struggle to get much out of management, but they might succeed in getting a long-term deal that offers a small increase now but bigger increases in the next few years. Longer-term deals allow workers and employers to ride out hard times, benefiting both.

Form Industry Lobby Groups with Business and Labour: When the two sides are always locked in wage disputes, it is easy to forget that workers and business have the same interests: if their company grows, both sides benefit. Business and labour should unite to tackle problems facing their sector, whether that be in a lack of electricity, barriers to trading, or lack of support from government. They can do so by forming industry lobby groups that aren’t simply represented by business, but that include an equal partnership with labour. Unifying labour and business would create a more influential lobbying group, and once that work towards more inclusive growth. But as importantly, having the two sides united will help develop trust, demonstrating that labour and business don’t always have to be enemies, that they can work together to the benefit of all