

Institutions, Wage Differentiation and the Structure of Employment in South Africa

Institutions matter. More specifically, Bargaining Councils matter in contemporary South Africa in terms of their effects on the differentiation of wages and the structure of employment. Institutions established more than eighty years ago continue today, even after the abandonment of their original rationale in terms of perpetuating a racist hierarchy, to exclude non-privileged workers from regulated employment. Then, the excluded were confined to unregulated, lower-wage unskilled work. Today, the excluded are confined to unemployment or informal work. The consequences are most pronounced in tradable, labour-intensive sectors such as the clothing industry, when national bargaining councils reduce inter-regional wage differentiation through setting national minimum wages. This pushes some employers to restructure production in more capital- and skill-intensive directions, whilst some lower-wage, labour-intensive producers are forced out of business. The result is job destruction, especially among less skilled occupations. Because it is low-wage jobs and wage differentiation that are affected, the effects may be obscured in analyses of wages generally (and hence total employment). Bargaining Councils can provide for better-organised employers and workers to pursue self-interest, even at the expense of less-organised employers and workers, whilst providing also an ideological umbrella that justifies the procedures and outcomes as just and necessary. The effects are compounded when wage effects mesh with industrial policy in pushing firms towards more capital- and skill-intensive production.

Differentiation within the South African Clothing Industry: Implications for Wage Setting and Employment

The South African clothing industry is the most labour-intensive segment of South Africa's manufacturing industry, but it is far from monolithic, encompassing a set of different sub-sectors with different market niches and production technologies. These encompass a higher-wage, less labour-intensive, mostly metro-based sector producing relatively high value-added top quality garments for upper income niche markets; and a lower-wage, more labour-intensive sector, mostly in KwaZulu-Natal and parts of the Free State, producing standardised basic clothing items for middle- and low-income consumers in a highly competitive international market. The more labour-intensive bottom end of the industry has been competing successfully against imports from low-wage countries – thus confounding the prevalent policy view that South Africa simply cannot compete with China – but it does so only by paying wages below the legal minima. The different segments of the clothing industry co-exist at different wage rates (i.e. there has been no single 'race to the bottom') because they cater to different product markets. Forcing all producers to pay the bargained minimum wage will result in the migration of low-wage jobs from South Africa to China, Lesotho and other lower-wage areas, without any gain to producers or workers in other parts of the South African clothing industry, or to South African consumers.

Job Destruction in the South African Clothing Industry: How an unholy alliance of capital, organised labour and the state is driving structural adjustment and undermining labour-intensive growth

For ten years, the National Bargaining Council for the Clothing Manufacturing Industry (NBC) has been used by the South African Clothing and Textile Workers Union (Sactwu) and largely Cape Town-based employers in an effort to impose higher labour costs on 'Chinese' employers in Newcastle, in northern KwaZulu-Natal. Many of the Newcastle employers have failed to comply with the rising minimum wages and levies imposed by the Council. The struggle intensified in 2010-11 when the NBC used the labour courts to put pressure on and close down targeted non-compliant firms, and some of the employers initiated legal action against the Council. The struggle is of broader importance because this is the labour-intensive rump of the last remaining labour-intensive manufacturing sector in South Africa, and its fate draws our attention to the role of labour market policies (especially with respect to minimum wage-setting through bargaining councils), trade liberalisation and industrial policy in determining the viability of labour-intensive manufacturing. The Newcastle case shows how an unholy coalition of a trade union, some employers and the state can, under the guise of promoting 'decent work' and a level playing field for producers, initiate and drive a process of structural adjustment in an industry that undermines labour-intensive employment and exports South African jobs to lower-wage countries such as Lesotho and China.