

Topic: Labour-market policy and employment: Lessons from the low-clothing industry

Nicoli Natrass

(with Jeremy Seekings)

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Focussed Research Questions, Gaps Data and Methods:

South Africa's labour-market and industrial policy appears to rest on the theory that raising minimum wages will help move firms 'up the value-chain' onto a more dynamic growth path. Any short-term employment consequences are implicitly assumed either to be worth it in the longer-run, or unlikely to happen in the presence of government support for firms making the transition.

In the South African case, the extent to which high wages have been the cause as opposed to the consequences of this high-productivity strategy remains unclear. There are too few cases of low wage formal employment in labour-intensive production. The clothing industry is one of the few such cases. In the 1990s, minimum wages varied considerably between different parts of South Africa. Some variation has persisted until recently through incomplete compliance with rising minimum wages and declining differentials.

Current developments in the clothing industry allow for close examination of the possibilities for low-wage, labour-intensive production, and the role of government policy in limiting these possibilities. The government has increased minimum wages in the industry by extending to non-parties (mostly in non-metropolitan areas) the agreements reached in the National Bargaining Council (NBC) for the clothing Industry, and by enforcing aggressively these new higher wages. These wages are being resisted in court by 5 firms in Newcastle and a new employers association. The Department of Trade and Industry (DTI) has also entered the fray, facilitating a phase-in approach to the minimum wage and injecting R1 billion of subsidies into the clothing sector to assist compliant firms move up the value-chain. Yet employment continues to haemorrhage at both the top end of the clothing industry (high wage, high productivity production of fashionable items) and at the bottom end (lower wage,

labour intensive production of basic items). By exploring why this is the case, we hope to draw lessons not only for the clothing industry, but for South Africa's labour-market and industrial policies. It is also a useful lens for revisiting the old debate about the impact of bargaining councils on employment. We envisage a set of linked papers which we envisage forming the basis of a book.

A key focus will be an analytical history of the low-wage labour-intensive clothing production in Newcastle, placing it within the context of the broader history of employment and labour-market regulation in the South African clothing industry. Local information on employment trends will be collected from local and published sources and these trends will be analysed and contrasted with national and regional employment trends obtained from the QLFS and the NBC (which inter alia will enable us to explore the extent of informalisation and whether it is growing). We will draw on published and unpublished sources, interviews and firm-based studies to construct a picture of key lines of differentiation in the clothing industry, concentrating on the particular production processes, employment practices and value chains operating in the low-wage, labour-intensive industry. We will then examine the extent of non-compliance with the collective agreement – and estimate the number of jobs threatened by the NBC's compliance drive.

We also intend to engage at the more micro level with the issue of why some firms in Newcastle are able to pay higher wages that comply with the NBC agreement, some pay a little less than this, and some pay very much less. What firm-level factors are involved in determining wages at the bottom end of the formal labour market? We wish to explore how much skill is involved in production systems of this kind, what room for productivity gains exist, and whether it makes sense for firms to pay efficiency wages or to move towards incentive based systems such as piece work or profit sharing arrangements. Both piece work and profit sharing (through the formation of worker co-operatives) have been tried in Newcastle and we believe there is a rich vein of firm history that needs to be tapped. We intend to document this experience and reflect on the implications for labour market and industrial policy. We also wish to interview workers about their employment histories, job experiences, attitudes to different production systems etc. We are particularly interested in their attitudes towards and experience of co-operatives.

This research project addresses various ‘gaps’ outlined in the call for proposals, especially with regard to improved multi-dimensional and contextual understandings of labour regulation and the demand for employment. Our project also has implications for economic growth and for drawing more informed conclusions based on micro economic studies about the growth path, labour-market policy and economic policy more generally. It is a mixed methods study that will draw on a range of data sources and on interviews with workers, employers and other stakeholders.

Expected outputs

We expect to produce several journal articles and eventually a book. After considering the feedback from our first proposal, we expect to produce the following papers for the project: a paper on the economics of low wage employment in the clothing sector; a paper on different production models and payment systems in the low wage clothing industry in Newcastle; and a paper on different production models in the low-wage clothing industry.

Time frame

We expect to spend the rest of 2012 and all of 2013 involved in research and writing. We expect to be submitting journal articles in late 2013 and early 2014 and to have a book manuscript by the end of 2014.

Other

There is no particular sequencing and prioritisation in this project although we have made good progress on the economics of the low-wage clothing industry (we started the project because it was topical and important, and in the expectation that it would be funded). There is no other funding for this project.

We were hoping to get a masters student to assist with this project, but right now there are no suitable candidates. We are still hoping to find a masters student to work with us on this project.