

## **The Importance of Social Dialogue in times of Economic Downturn.**

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CCMA Annual Indaba

Kopanong Conference Centre, Gauteng, 10 December 2009

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Friends

Today's appearance at the CCMS Indaba brings me full circle: I was involved in the design of the institution and as a member of the Governing Body representing organised labour; I was called to the CCMA by organisers that my trade union fired in my capacity as an employer and today I come representing government.

Complex moments require societies to dig deeply into their resources to be able to find solutions. The recession is a particularly complex moment for democracy – it is the first recession since the democratic transition in 1994 – and we have elected to use our social capital, namely the social dialogue of business, organised labour, the community constituency and government, to fashion a response.

I want to share with you some of the measures we have developed and reflect on the importance of social dialogue.

But first, a context:

The global economic downturn is the most serious economic crisis that the world economy has faced in the last 70 years.

Some fourteen months ago, the pressures that had built up in the global economy over a number of years, led to a dramatic meltdown on Wall Street, the collapse of large companies in the financial sector and an enormous reduction in the asset-values of companies and stock-markets across the world.

The causes of the crisis included gross imbalances and inequities in the global economic system, the impact of financialisation of economies, ineffectual regulation in several of the major economies and poor business practices on governance, risk management and executive pay. But a fundamental element has been the gap between increasing global output and aggregate demand that was sustained with asset bubbles instead of sustainable and rising earnings.

What started as a financial crisis rapidly spread to the real economy and impacted on jobs. In the United States alone, 7.9 million jobs have been lost since December 2007. Globally, it has been estimated that unemployment in a sample of 51 countries has risen by about 20 million people in the past year as a result of the crisis.

Global economic integration meant that a crisis in the United States was rapidly spread to the rest of the world, through a number of transmission belts. The very strengths of trade integration and cross-border capital flows amplified the speed and scope of the transmission.

The impact on SA was initially delayed but the impact has subsequently been severe, with three quarters of GDP contraction, real retail sales down by 6.5% compared to a year ago, 965 000 jobs lost, and the volume of manufacturing output back to where it was in early 2004.

By late last year however, the officially-released economic data had not yet registered the impact of the global crisis on the SA economy. Many economists in fact argued that African economies were decoupled from the global economy

and that the recession would not have a serious impact locally. As we have seen, the impact of the recession has had deep and damaging consequences for South Africa.

The first example I wish to highlight of the role of social dialogue is that it served as an early-warning signal. In a meeting held by the President with business and labour in December last year, unions and employers shared their experiences of retrenchments and a business slowdown and COSATU called for the development of a country response to the international economic crisis. The evidence from their real economy experience was available to us before the Stats SA figures confirmed those trends.

The second example of the role of social dialogue was that it developed that common response. Over the holiday period, constituencies developed proposals and in a four week period of discussion and social dialogue, they agreed some basic principles and a set of measures. By February this year, they laid a document before the President and Cabinet members and so the Framework for SA's response to the international economic crisis was born.

Over the next few months, the country was focussed on the elections, and some low intensity work was done on the Framework.

After the election, that work was speeded up. By late May, the economic data confirmed the country was in a recession. In June President Zuma gave his inaugural state of the nation address and endorsed the Framework as the basis of the new government's response to the recession.

During June, the ideas in the Framework helped to shape discussions at the annual meeting of the International Labour Organisation, and a Global Jobs Pact was developed that matched some measures that were contained in the South African Framework.

By July, government restarted the discussions on the Framework, and Leadership team was convened, which I chaired.

In the third example of social dialogue that I want to cite, we looked at the action plans that were required to give effect to the Framework, we used social dialogue to design many of the actions that government is now implementing.

This work took place through a number of phases. Last week, the social partners tabled a progress report with the President. It contained some 18 and actions and covered a wide range of issues. In addition to that, two days ago, labour leader Zwelinzima Vavi and business leader Bobby Godsell released a joint statement on retrenchment.

The agreements covered measures to save jobs, deal with the impact of the recession on the poor and address the circumstances of companies in distress.

I wish to highlight a few areas of that progress report to illustrate the depth of social dialogue and the results of the work to date.

A training layoff scheme was developed, to provide a training facility as an alternative to retrenchment of workers. Commissioners will be very familiar with the terms of the training layoff, so I wish only to make the following observations. First, the scheme was developed rapidly, and it now has R2,9 billion available to it through both the resources of the NSF and the UIF but also an additional half a billion rand ring-fenced by a number of SETAs.

The scheme has been launched in a pilot phase. The Merseta customised version of the scheme now has about 7 000 workers who have been enrolled on a training facility financed by the Seta. The take-up via the CCMA has been more modest. Some valuable insights have been gained in the pilot period, including

on the fears of workers and the concerns expressed by employers. We are now able to roll the scheme out beyond the pilot phase and an information campaign has been started by the DoL.

The training layoff is intended to use the period of industrial slack to enskill workers, not only in company specific skill but also through addressing literacy, numeracy, communication and soft skills and exposure of production workers to information and communication technologies. The recession may well be the spur to a factory worker getting to know what a computer is.

A series of measures were agreed to assist companies and sectors in distress. These resulted in the IDC setting up a R6,1 billion fund to help companies with working capital and loans. To date, 19 companies have been assisted and an estimated 7 700 jobs have been saved.

This measure was complemented by targeted support for the automobile, clothing & textile and capital equipment sectors.

In the clothing industry, by way of example, business and labour in the sector approached the trade regulator and asked for tariffs to be adjusted, with a few textile product tariffs reduced and a number of clothing tariffs increased to the levels permitted by World Trade Organisation agreements.

In the auto sector, government support was made conditional on a moratorium on retrenchments.

What these measures did was to bring business and labour delegates at sector level into the discussions.

There is scope to bring the dti into the discussions at company level in the conversation about avoiding retrenchment, to hook together what we do on

training with the industrial incentives that are available so that the full range of tools in our toolbox is deployed to save jobs. It will require a training programme for Commissioners and CCMA staff as we create coherent in public institutional delivery.

These measures are also coupled with an agreement reached on conditionalities for state support. These include limitations on executive pay, a moratorium on retrenchments except under certain conditions, a requirement of local procurement and a commitment to labour standards.

Let me illustrate some measures that were designed to address the challenge that poor and vulnerable communities face.

One example of this is the focus on food prices. During a recession, pressures on family incomes together with high food prices can deepen poverty. The Competition Commission was tasked to investigate allegations of price-fixing and collusive behaviour in the food supply chain. It is now investigating 10 areas in this supply-chain. They include inputs into food production such as fertilisers, inputs into cooking such as cooking oil and wheat flour, food items such as bread, dairy products and mealie meal and supermarkets and grain silos.

A number of companies have been fined and penalties of R394 million have already been paid.

In addition to this intervention, four food banks have been set up and a reported 1,2 million meals are distributed per month.

The social grant programme was extended through increasing the qualifying age for children from January next year, to offer relief to poor communities at a time when the number of jobs in the economy has seriously contracted.

A significant outcome of our endeavours has been that through working together, we have been able to accelerate the setting up of systems and implementation of actions which may have ordinarily taken much longer to find effect. An example of this is the work that has been done in combating customs & excise fraud and the acceleration of loans been granted by the IDC to companies in distress.

It is through social dialogue that we have been able to identify problems and target responses more efficiently.

What I have tried to show with these examples are the practical benefits of social dialogue.

The processes have not been without some challenges: from the time required to build consensus on rules, to the need to move beyond positional bargaining on aspects of the training layoff. There were instances where constituencies were under pressure to take narrow short-term positions but they summonsed the necessary boldness to find solutions that were not simply based on parochial interests.

In the period ahead, we will confront big challenges, not only to expand the number of measures we develop to deal with the recession but to implement each of the measures effectively. The take-up rate in the training layoff scheme for example needs to be increased significantly beyond the pilot phase numbers. The competition measures in the food supply and the construction sectors need to feed through to lower prices. The local procurement commitments need to impact on sourcing decisions and thus create local jobs.

But we can look further, be bolder about the capacity of social dialogue.

I want to return briefly to a theme I raised in my opening remarks. The key drivers of economic progress is generally recognised to include the level of investment, the human capital and natural resource utilisation. Many economists over the past decade have worked on what are called institutional drivers of growth. More recently, policy makers have started to recognise what is called social capital – the relations between the partners in production, the processes for mediating industrial conflicts, the capacity to develop a common vision. Social dialogue, by which I refer to the organised engagement by parties to forge this common vision, is an area in which South Africa has comparative advantage, and one we need to use more actively.

I have called for a national jobs pact between the constituents, using the Framework as the basis. In this context therefore, the joint statement by Zwelinzima Vavi and Bobby Godsell raises a number of measures that parties should consider before resorting to retrenchment.

Our challenge is to go beyond the national social dialogue and to build effective partnerships at sector and workplace levels, to complement the work of Nedlac.

When President Zuma spoke during his first SONA in June this year, he stated that

The creation of decent work will be at the centre of our economic policies and will influence our investment attraction and job-creation initiatives.

In line with our undertakings, we have to forge ahead to promote a more inclusive economy.

The fundamental departure point of this mandate is that employment should not simply be the residual outcome of other policies but the overarching and explicit goal of economic policies.

To achieve government's decent work outcomes, the labour-absorption rate, the composition of growth, the quality of employment, the spatial dimension of economic growth particularly the rural development component, and the sustainability of the growth path are as important as the growth rate.

We need more jobs, we need better jobs and we need to ensure the growth of jobs in the green economy to help to repair the damage to the environment.

The role of innovation, technology and skills development – and on the back of this, rising productivity - is important, as we seek to strengthen our economy.

The infrastructure development I spoke of is a platform on which growth can take place, for it is pumping significant levels of public investment into the economy, creating tens of thousands of jobs in construction, maintenance and supplier industries, and securing a modern energy, rail, road and social infrastructure for the country. The Medupi power station that is being built in Limpopo has been described as one of the largest construction sites in the southern hemisphere.

Regional development is a further component of our vision, finding ways to build and integrate the economies of countries on the African continent particularly neighbouring countries, and seeing economic development opportunities for local companies in the process.

In other words, we are talking about a new employment-led and developmental growth-path.

This growth path will be promoted through carefully-considered policy initiatives as well as better implementation of economic programmes.

Some countries were able to build their industrialisation in conditions where democracy was absent. It gave those governments enormous power to direct the flow of capital, the cost of labour and the price of goods and services.

Our industrialisation takes place in a democracy, one in which in addition we have well-organised interests. How then do we go forward and avoid that we paralyse ourselves in short-term adversarialism?

We need an even stronger national partnership between business, organised labour and government that develops a shared vision and a set of common commitments that will be our driver of development.

It requires a strong, effective, responsive and democratic developmental state that works closely with both business and organised labour, drawing the resources and talents of our people into a national consensus, actively using our social capital.

The entrepreneurial energy of the business community is a vital component of our vision and a key source for jobs in our economy. So too is the important contribution of workers and their trade unions to the development vision of the nation.

[Black empowerment companies have asked government to do more to promote both empowerment and transformation. We ask now too, how can all companies, including empowered companies, give more back to the society.]

[It may well be asked whether we should not postpone that question until after the recovery from the recession. We think not, for it is precisely through socially responsible business practices, avoiding retrenchments, buying more from local suppliers, showing restraint on executive pay and dividend payouts and

increasing the rate of investment in labour-absorbing sectors of the economy, that we will recover more rapidly from the effects of the recession.]

The world last faced a crisis of this severity during the Great Depression. It took very determined actions to deal with that crisis but also to address some of the underlying causes, and that crisis of the 1930s led to new and enlightened social policies in the United States and after the Second World War, in Europe that was the foundation of their social consensus for a number of decades.

And it is to the Great Depression that we can fruitfully return as I conclude and recall US President Franklin Roosevelt's observation in his inaugural address in 1937 when he said:

“Our progress out of the depression is obvious. But that is not all that you and I mean by the new order of things. Our pledge was not to do a patchwork job with second-hand materials. By using the new materials of social justice we have undertaken to erect on the old foundations a more enduring structure for the better use of future generations.

“In that purpose we have been helped by achievements of mind and spirit. Old truths have been relearned; untruths have been unlearned. We have always known that heedless self-interest was bad morals; we know now that it is bad economics. “

Our challenge is to build, in our conditions and for our times, an economy that fosters good social outcomes, that makes a difference to the lives of the poor, the vulnerable, the rural dweller and the resident living in a shack- that draws them into decent work opportunities rather than welfare as the sustainable way out of poverty; that reserves the growing inequality and that truly promotes economic and social development.

There is much work to be done and your efforts can contribute very significantly,  
dear friends.

Thank you.