

Chapter two

The labour market

“While declines in employment have not generated historically high levels of unemployment, even conservative estimates of the economic downturn’s impact show that long-term consequences for the labour market could emerge.”

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overview

Dieter von Fintel and Rulof Burger contend that the economic downturn's implications for the labour market stretch far beyond the immediate losses of the past year. At the time of writing, job destruction continues apace, while job creation remains negligible. For recovery and reversal of the country's historically high unemployment levels, the economy will have to create space for new entrants to the labour market, while reabsorbing retrenched workers shed from the workforce during this period. Von Fintel and Burger suggest that interventions, such as the R2.4 billion National Job Fund, may have an important role to play in slowing down the pace at which dismissals have been taking place. However, they express concern that longer-term unemployment may continue to grow if the reabsorption of those who have lost their jobs does not accelerate. The writers caution against increased marginalisation of those unskilled workers who find themselves outside the labour market because of economic sluggishness, combined with the high wage demands of trade unions over the past year. For as long as this continues, the country will have to rely on non-labour market solutions, such as pensions and social grants, to alleviate poverty.

Anna McCord and Charles Meth's contribution investigates the significance of the role of the Expanded Public Works Programme (EPWP), one of the government's flagship projects, in its stated objective of halving poverty by 2014. They present recent modelling of the labour market to inform an assessment as to whether there is any likelihood of this materialising within the allocated time frame. Their calculations suggest that it is highly improbable, and that the EPWP will not make a significant contribution towards

improving prospects in this regard. Should Phase 2 of the EPWP deliver on its promise in terms of the numbers of work opportunities, it will provide temporary relief but, according to McCord and Meth, for a project of this nature to be successful it needs to be underpinned by a large-scale employment guarantee scheme. The authors see the Presidency's recently launched Community Work Programme (CWP), which has been billed as complementary to the EPWP, as a positive development in this regard. The CWP has been piloted successfully at community level and, if scaled up to national level, could make a significant dent in unemployment and poverty. Its cost and the practical implications of implementation, however, may be controversial and its national roll-out should be the subject of further debate.

In the final contribution to this chapter, **Sakhela Buhlungu** looks at the strength and influence of the Congress of South African Trade Unions (COSATU) during a period in which slow and negative growth has had a detrimental impact on its membership. While its political influence has grown significantly since the ANC's Polokwane conference, Buhlungu argues that the federation will have to deal with longer-term structural challenges that may diminish such influence over time. He points to the rapid expansion of COSATU's membership over the years, and suggests that while numbers may have bolstered its influence within the tripartite alliance, this growth has had a detrimental impact on the federation's organisational cohesiveness. The economic downturn and concurrent declines in union membership, therefore, may provide a compelling case for a review of COSATU's organisational strength.

Labour market performance scorecard

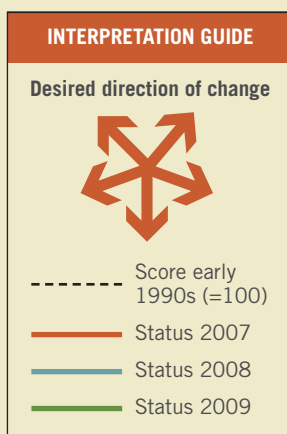
Transformation goal						
Consistent employment growth in excess of new entrants to the labour market						
Desired outcome	Indicator	Status 1990–1994	Status 2007	Status 2008	Status 2009	Positive development
Adequate employment growth	Employment ^{1, 2}	9.6 million (1995)	12.3 million (2006)	12.9 million (2007)	13.7 million (2008)	↑
	Private non-agricultural employment ²	6.7 million (1995)	10.0 million (2006)	10.4 million (2007)	11.2 million (2008)	↑
	Unemployment (expanded definition) ³	27.8% 4 million (1995)	37.5% 7.6 million (2006)	35.6% 7.3 million (2007)	28.1% 5.2 million (2008)	↑
Absorption of first-time entrants	Youth unemployment ³	41.5% 2.9 million (1995)	48.6% 5.5 million (2006)	46.6% 5.3 million (2007)	45.4% 4.9 million (2008)	↑
Broad-based employment	Differential between male and female unemployment ³	1.58 (1995)	1.47 (2006)	1.45 (2007)	1.46 (2008)	↓

1. Excluding small-scale farmers

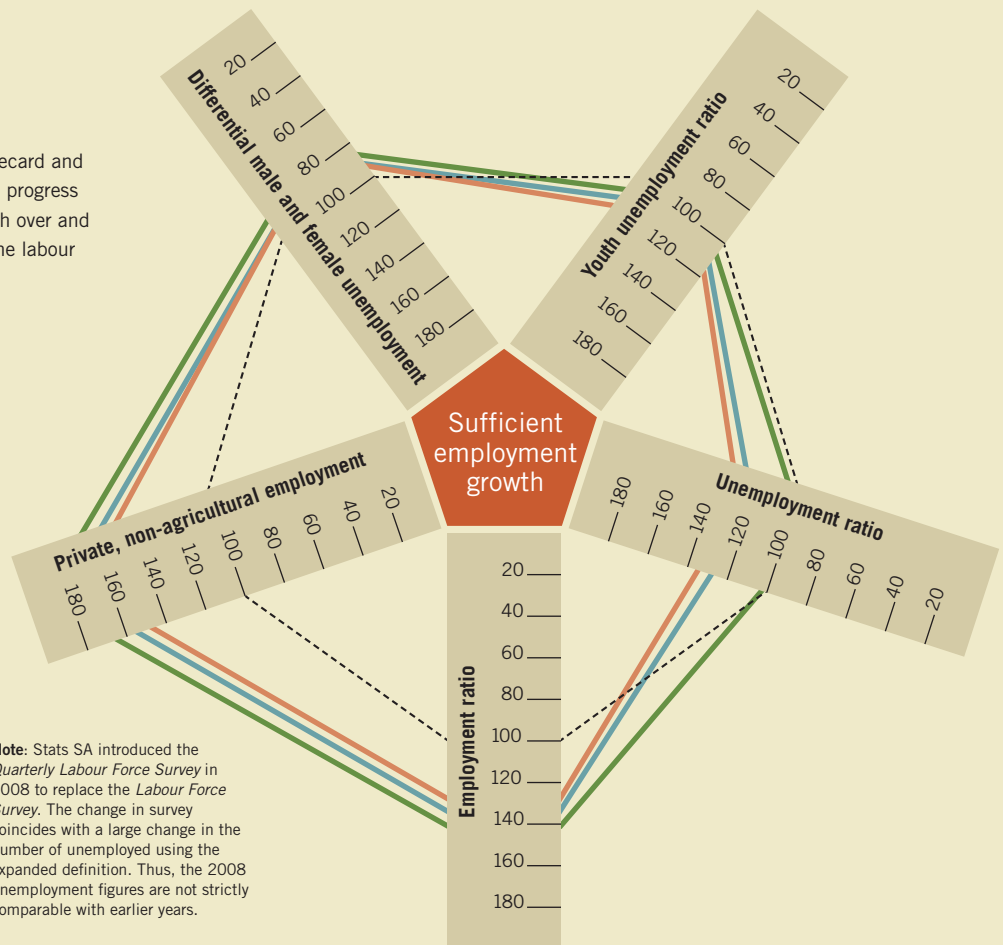
2. Sources: Stats SA, *October Household Survey* 1995 to 1999; *Labour Force Survey*, September 2006, September 2007, September 2008

3. Sources: Stats SA, *October Household Survey* 1995; *Labour Force Survey*, September 2006, September 2007, September 2008

The Labour Market Performance Scorecard and Star provide a snapshot impression of progress towards consistent employment growth over and above each year's new entrants into the labour market.



Note: Stats SA introduced the *Quarterly Labour Force Survey* in 2008 to replace the *Labour Force Survey*. The change in survey coincides with a large change in the number of unemployed using the expanded definition. Thus, the 2008 unemployment figures are not strictly comparable with earlier years.



review

THE SOUTH AFRICAN LABOUR MARKET IN THE GLOBAL FINANCIAL CRISIS: RECOVERING LOST GAINS

Dieter von Fintel and Rulof Burger

THE END OF AN UPSWING

The recent financial crisis has not only affected global economic growth, but has pushed unemployment rates to their highest levels in recent decades in many developed nations. South Africa has not escaped the impacts of this crisis, and is likely to register negative annual growth by the end of 2009. This will not leave the South African labour market unscathed. Since the onset of the downturn, firms have cut jobs on a large scale and have created fewer vacancies in comparison to previous periods, leaving many workers (who had benefited from the gains in employment just before the crisis) in a vulnerable position.

Revisiting a previous economic turning point assists in understanding prospects from the current position. The South African Reserve Bank identified the third quarter of 1999 as the beginning of one of the longest upswings in the country's economic history. This was good news for an economy that has suffered one of the highest unemployment rates internationally. Indeed, the macroeconomic policy of the time, the Growth, Employment and Redistribution (GEAR) strategy, envisaged that economic growth (targeted at 6 per cent annually) would be one of the keys to alleviating this fundamental shortcoming. However, despite the positive change in overall economic fortunes, the labour market did not immediately follow suit. Until 2003, four years after the start of the upswing, the official unemployment rate continued to rise to beyond 30 per cent. This trend has been well documented, and the drivers analysed (see, for instance, Banerjee et al. 2006; Burger & Von Fintel 2009). The main cause was that the number of labour force participants (those looking for work) consistently exceeded those finding work, with the gap widening (see Figure 2.1.1). Following 2003, however, a reversal did occur, with absorption outpacing growth in new entrants to the labour market. The unemployment rate reached its minimum for the decade at 21.9 per cent by the fourth quarter of 2008, illustrating the

gains that the long spell of economic growth had eventually brought to the labour market.

This period signified a climax that was to be reversed. The rest of the world slumped into one of the largest financial crises of this generation, which started with the sub-prime mortgage fiasco in 2007 in the United States. South Africa and other emerging markets were insulated against its widespread effects until the last quarter of 2008, when the instability of the global crisis also impacted severely on emerging markets (Blanchard 2008). This period signalled an about-turn for South Africa, with GDP contracting by 1.8 per cent and again by 6.4 per cent in the first quarter of 2009 to send the economy into recession.

Figure 2.1.1 shows that the unemployment rate increased marginally to 23.5 per cent in the first quarter of 2009. This was driven by a decline in employment of 208 000 individuals compared to the previous quarter. Although a large shift for the labour market over one quarter, the change represented only 16 000 job losses since the third quarter of 2008. The recent job losses were, therefore, a reversal of the previous gains that economic growth had brought to the South African labour market. Indeed, the unemployment rate was still lower than it had been two years before. However, given the existence of lags in transmission from overall economic activity to the labour market, the full impact of the recession has probably not yet fully filtered through to the labour market. Even though the country emerged from recession during the second half of 2009, economic growth is unlikely to proceed at levels projected before the crisis. Could this possible (muted) turnaround transmit as slowly to employment gains as at the beginning of the last upswing? The important features of the labour market that influence the rate of job creation are considered here, in order to understand whether previous gains might be recovered after the crisis.

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LABOUR MARKETS AND THE BUSINESS CYCLE

First, we consider factors that relate labour markets to fluctuations in economic growth. This aids us in understanding whether the current crisis will be short-lived in the labour market or whether it will continue for a much longer period, despite a slight improvement in the *overall* economic climate.

Figure 2.1.1: Labour market status (official definition), 1999–2009



Source: Authors' calculations from Stats SA (2009) *October Household Survey (OHS)*; Stats SA (2001a–2007b) *Labour Force Survey (LFS)*; Stats SA (2008Q1–2009Q1) *Quarterly Labour Force Survey (QLFS)*

Workers are employed to produce the goods and services that are sold by firms to consumers. During recessions, consumers temporarily cut back on their purchases, so that typical firms face lower turnover and are forced to cut costs to maintain viable business operations. Some workers lose their jobs, whereas others are forced to accept wage reductions in order to remain in their current positions. In most countries, aggregate wages and employment levels decline during recessions (Basu & Taylor 1999); however, employment usually drops before wages do.

Many reasons exist to explain why wages may not decrease (or do so slowly) rather than jobs being lost during periods of poor economic performance. Two are of relevance here. Firstly, there is an inherent asymmetry between the desires of the currently employed (labour market 'insiders') and the unemployed ('outsiders'). Insiders prefer wage levels to remain high, while outsiders are willing to accept lower wages at which it becomes viable for firms to start rehiring workers. Since the views of the outsiders are not represented when trade unions and employers negotiate over worker remuneration, wages are slow to fall during times of low labour demand. This point was first developed by Lindbeck and Snower (1984) and Blanchard and Summers (1986). Since then, several empirical studies have found that unemployment is higher and more persistent in countries

with institutional features that increase the bargaining power of insiders, such as greater trade union presence or higher unemployment benefits (see Nickell & Layard 1999; Booth et al. 2000). This is an important consideration for South Africa, where many wages have been bargained *upwards* during the current crisis. The likely impact is that those outside the workforce will stay there for longer, and intensify the duration of the unemployment impact of the recession.

Secondly, many of the skills acquired during employment are job-specific and, therefore, are worth little to the worker after retrenchment. During a prolonged period of unemployment, workers are likely to suffer a 'depreciation of human capital', as new technologies or production techniques make aspects of their education and skills obsolete. Some employers interpret protracted periods of unemployment as a negative signal of a person's productivity, which reduces the likelihood of such a person being rehired. The implication is that the probability of finding work is a negative function of the duration of a person's period of unemployment. Thus, it is imperative that retrenched workers are returned to the workplace as fast as possible to minimise the long-term impact of negative economic shocks. This consideration is important in evaluating the South African government's current training lay-off policy, which

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has precisely these aspects in mind.

When combined with a large, negative demand shock, the effect of real wage rigidities can be substantial. Blanchard and Wolfers (2000) explain that the high current unemployment rates in Europe originated from an interaction between the negative economic shocks of the 1970s and the above-mentioned rigidities. Clearly, then, the decreased product demand that accompanies the financial crisis can have profound implications for the South African labour market well into the future, despite a recovery in economic growth. This is particularly true in the context of wage *increases* (and not simply rigidity), which will not only prevent outsiders from finding employment, but could fuel job destruction.

JOB DESTRUCTION AND CREATION

Job creation and job destruction are simultaneous features of every labour market, both in good times and in bad. The lower levels of employment during a recession may result from one of two possibilities: either the speed of job losses may increase, or the rate at which new vacancies are created may decline. If existing jobs are lost at a faster rate than new ones are created, then employment levels decline. Bhorat (2009a, 2009b) documents the highly worrying acceleration in retrenchments leading up to the country's entry into recession. However, this evidence does not consider the role of declining job creation. Cahuc and Zylberberg (2001) discuss the features of these job flows over the business cycle: usually, job creation is only mildly responsive to good economic times and slows down moderately in downswings. Job destruction is strongly related to downswings, but slows down quickly in good times. Usually, therefore, the higher share of unemployed workers observed during recessions is the result of a large increase in the number of workers exiting employment, compared to the relatively minor contribution of slower absorption of the unemployed. Pissarides (2000) demonstrates that the observed equilibrium unemployment rate is simply a function of the rates of job generation and destruction. Which of the two – job losses or declining job creation – has resulted in the lower employment levels

in the current South African recession? Both possibilities have different implications for policy decisions and require separate analysis.

In the case of large-scale job losses, the focus should fall on retaining existing jobs. The South African government embarked on such a response, with the introduction of a training lay-off scheme (RSA 2009). President Zuma announced the creation of a R2.4 billion National Jobs Fund to avert job losses. Employees facing retrenchment are offered 50 per cent of their wage while being trained in new skills, pending a return to their positions in the workplace when the effects of the recession have eased and companies are able to take on workers again. The intended impact is manifold: the lay-off remains temporary, workers are equipped with better basic skills and the burden does not lie on companies to carry excess workers on their payrolls during the slump.

However, this policy is sterile in addressing the concerns of outsiders. When declining levels of job creation dominate the rising unemployment trend, the skills development of insiders does not make provision for outsiders or skills development at large. Admittedly, this is a long-term issue that has been highlighted by the Accelerated and Shared Growth Initiative for South Africa (ASGISA). However, the recession may have exacerbated the problem, so that those outside of the workplace have an even smaller chance of finding a job, and become more marginalised. Several factors, of which wage rigidity is primary, could inhibit the rate of job creation. The large numbers of new entrants looking for their first jobs during a time of recession are at particular risk (Bhorat, 2009a). Indeed, this group already displays a large risk of ongoing unemployment and finds it difficult to break into the labour market (Burger & Von Fintel 2009). Hence, the impact of unemployment insurance and the Jobs Fund is limited for this group, with job creation rather than job protection still demanding attention.

Bhorat (2009b) indicates that 36 per cent more firms retrenched workers in 2007–2008 than was the case in 2006–2007. Given that most of these lay-offs occurred in small firms, it is evident that the Job Fund is a well-timed and well-targeted intervention. This section of the paper explores the dimensions of both job creation and job destruction since the start of the crisis. The ability to follow individuals over time in the *Quarterly Labour Force Survey* allows for the analysis of worker transitions, both from unemployment into employment (job creation) and from employment into unemployment (involuntary job destruction).¹ Here, movements in labour market status from one quarter to the next are considered. Movements from the first to the second

quarter of 2008 are compared to transitions registered from the last quarter of 2008 to the first quarter of 2009. The first is a pre-recession period, albeit in the middle of the international crisis. The second period marks the beginning of the official recession in South Africa.

It is apparent from Figure 2.1.2 that the overall proportion of individuals who retained their jobs increased from 90.5 per cent to 92.3 per cent, while a lower proportion of individuals who had been employed moved into unemployment (from 4.3 per cent to 3.9 per cent). These are high rates of job destruction; however, it is evident that at the start of the recession they already had started to decline marginally, or, at most, did not accelerate. Given the large increase in job losses up to the beginning of 2008 (Bhorat 2009a), it appears that this impact was most severe in the period just prior to the official start of the recession, but that job shedding may stabilise tentatively from this point on if all else remains the same.

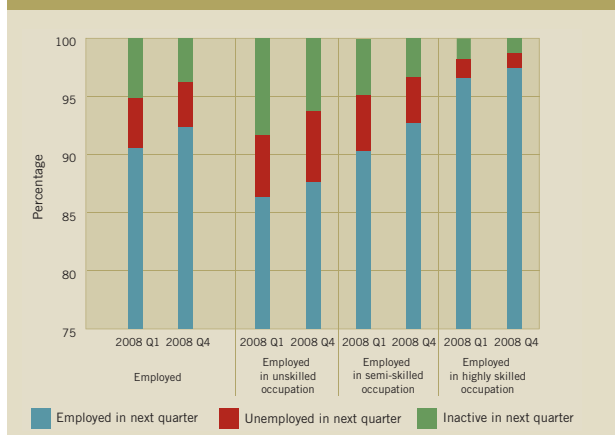
Which industries were most affected? Bhorat (2009b) indicates that mining, manufacturing and construction registered the highest increases in retrenchments since 2006, while retail and finance showed moderate increases. It is evident, therefore, that the primary and secondary sectors are most prone to job destruction in the downturn. The important aspect, however, is that the ability of the unemployed to enter particular industries has become more difficult. At the beginning of 2008, 2.6 per cent of the unemployed were able to find jobs in manufacturing, while this figure declined to 1.2 per cent at the end of 2008

(see Figure 2.1.4). This is the result of declining export performance in the face of poor international demand during the crisis. For retail, a similar picture emerges: this industry was the quickest ‘absorber’ of the unemployed (at 4.3 per cent) at the beginning of the period, while the pace slowed down to 2.9 per cent by the start of the recession.

To understand the target of the Job Fund, it is necessary to consider which occupational skills categories are more prone to job destruction. The demand for labour has changed over the long term from unskilled to skilled workers, in accordance with the evolving production structure of the economy (Bhorat & Hodge 1999). This indicates that job creation for the unskilled has declined over the long term, but it may also have had implications for unskilled job destruction at the onset of a recession. Figure 2.1.3 illustrates that, even during the crisis, the proportion of the employed in highly skilled occupations continued to rise, reaching a high of 24.6 per cent in the first quarter of 2009. From the start of the upswing in 1999, the number of unskilled jobs increased, constituting close to 30 per cent of the employed since 2001. The combination of economic growth and the influence of labour unions shielded the employment share of the unskilled.

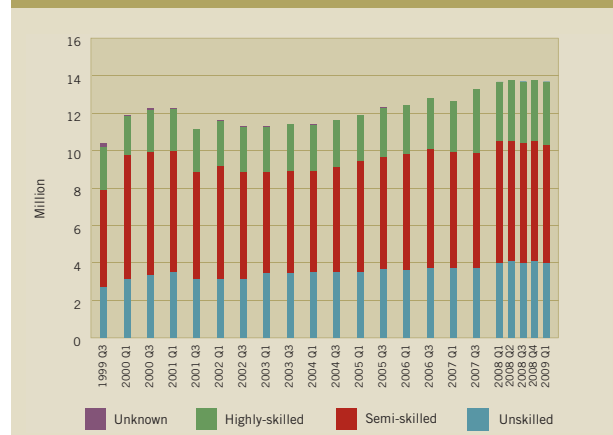
However, in the first quarter of 2009, when the recession started, approximately 80 per cent of jobs that were lost were registered amongst unskilled occupations. This contrasts with the marginal increase in the number of skilled jobs in the same period. Evidently, highly skilled occupations remained protected, while the relative security of unskilled jobs disappeared once the recession hit. Are these developments

Figure 2.1.2: Job destruction, overall and by skills level



Source: Authors' calculations based on Stats SA QLFS (2008Q1–2009Q2)

Figure 2.1.3: The skills composition of the employed, 1997–2009



Source: Authors' calculations from Stats SA (1999) OHS; Stats SA (2001a–2007b) LFS; Stats SA (2008Q1–2009Q1) QLFS

dominated by greater destruction of unskilled jobs or more sluggish creation of new unskilled vacancies?

For those who were initially in highly skilled occupations, the movement into unemployment remained low and stable across the period (see Figure 2.1.2). More semi-skilled jobs were retained in the deeper end of the crisis, with marginally fewer moves into unemployment (from 4.8 per cent to 3.9 per cent of those in semi-skilled occupations). This picture suggests that skilled and semi-skilled jobs were less likely to be destroyed as the downsizing played itself out. For unskilled workers, however, the risks appear to be more severe, with high rates of job losses. While more unskilled jobs were retained at the start of the recession than before, a higher percentage of the unskilled moved into unemployment (6.1 per cent in the later period as opposed to 5.4 per cent in the earlier period), which suggests that for this group there is slightly more volatility. It is not clear whether the full impact of the crisis has been registered for this group. In the light of this, it is evident that insulating the unskilled group with temporary training lay-offs has distinct merits.

Turning to job creation, Figure 2.1.4 shows the proportion of unemployed individuals who found a job in various occupations and sectors in the following quarter (2008Q2 and 2009Q1, respectively). Overall, it is evident that flows into the workplace slowed down dramatically from the beginning to the end of 2008, with only 13.5 per cent of the unemployed finding jobs in the subsequent quarter (compared to 18.5 per cent at the start of the period). The

Highly skilled occupations remained protected, while the relative security of unskilled jobs disappeared once the recession hit.

proportion of individuals who remained unemployed rose from 58 per cent to 62 per cent over the period, showing that the recession has hit those without jobs hard, offering little prospect of entry into the workforce.

It is evident, furthermore, that the decline in job creation differs by the skill level of the occupation. A marginally lower proportion of the unemployed enter highly skilled occupations. However, the rate of semi-skilled and unskilled job creation declines substantially as the recession unfolds. The percentage of the unemployed able to enter unskilled positions declined from 8.3 per cent to 5.9 per cent (8.6 per cent to 6.3 per cent for the semi-skilled). Thus, it is evident that unskilled individuals are likely to leave the labour market faster, and are slower to return. What is of importance, however, is that policies such as the Job Fund were unlikely to insulate the unskilled outside the workplace from the recession, and that alternative possibilities should be investigated to draw unskilled workers back into the workforce. If job creation does not accelerate, the impact of the recession could prove prolonged and severe for this group. High wage bargains during the recession have been a pertinent constraint to the creation of new vacancies.

Figure 2.1.4: Job creation by occupational skill level and selected industries



Source: Authors' calculations from Stats SA (2008Q1, 2008Q2, 2008Q4, 2009Q1) QLFS

Indeed, reports indicate that public sector job creation has been frozen in the light of an 11.5 per cent average nominal increase, which beats inflation (Mkhabela 2009). In the private sector, wage increases have been lower – the average for the entire economy until September was 9.4 per cent (Mboweni 2009). Many workers in this sector have accepted cuts in the number of hours worked in order to preserve their jobs. Nevertheless, job creation has been stifled during the recession, and real increases in wages threaten the outlook for job creation.

THE PROJECTED IMPACT OF THE FINANCIAL CRISIS ON OVERALL SOUTH AFRICAN EMPLOYMENT LEVELS

The preceding sections reveal that job creation is a key constraint to the reintegration of outsiders into the labour market. Given that the creation of new vacancies has slowed dramatically, coupled with high wage demands, it is evident that the economic downturn could have a long-lasting effect. We now turn to estimating the potential impact that this period could have on future employment levels. To do this, economic growth projections using the pre-crisis trajectory are compared with those adjusted for the impact of the crisis. Economic growth is converted to employment growth. The difference between the two projections indicates the likely long-term impact that current events will have.

One of the few empirical regularities of international income dynamics is exploited here: the share of total income that accrues to workers is more or less constant over the medium to long run. This was the main motivation behind the development of the production function popularised by Cobb and Douglas (1928). Kaldor (1961) included it as one of his six stylised facts of economic growth. More recently, Gollin (2002) demonstrated that labour income shares across countries are very similar once certain measurement issues are addressed.

If labour's share of income is constant, then any change in total income leads to a change in the wage bill in the same proportion. Since the wage bill is just the product of total employment and the average real wage, a 10 per cent decrease in real GDP, therefore, coincides with some combination of wage cuts and falling employment that results in a 10 per cent decrease in the wage bill. For example, if labour market insiders can stop wages from decreasing at all, then the full burden of adjustment falls on employment, which would need to be reduced by 10 per cent. If workers are willing to accept wage cuts of 5 per cent, then only approximately 5 per cent of workers will be retrenched. It is not possible to know exactly how much insiders will be

willing to sacrifice during the downswing, but we can use recent trends as a benchmark for our projections.

Several studies have estimated employment elasticity of production for South Africa:² Van der Berg (2007) and Oosthuizen (2006) estimate it at 0.83 and 0.75, respectively, for the years between 1995 and 2004, whereas Altman (2007) implements an estimate of 0.5. Bhorat (2009a) finds that the output-employment elasticity increased from 0.16 between 1990 and 1995 to the high level of 0.8 between 1996 and 2005. He also finds that since 2000 the elasticity appears to be around 0.6, which is fairly but not excessively high by middle-income country standards.

The employment elasticity of output can be combined with output projections to obtain employment forecasts. The International Monetary Fund (IMF) undertakes rolling forecasts as part of its annual Article IV consultation with South Africa. The forecasts for real GDP growth from 2007 (representing the view without any knowledge of the crisis) and 2009 (projections taking the impact of the crisis into account) staff reports are compared in Figure 2.1.5 (IMF 2007, 2009). Clearly, the South African growth forecast was adjusted sharply downwards for the years 2008–2011 once knowledge of the crisis was incorporated. However, this is expected to return to close to pre-crisis projections by 2012. These forecasts are similar to those of recent consensus economic forecaster polls.

Combining the predicted income path with an employment-output elasticity of 0.75, it is possible to derive alternative forecasts for total employment – taking the crisis into account and considering a scenario for the crisis not having happened. The results are compared to actual employment as measured by the 1995–1999 *October Household Surveys* and the 2000–2007 *Labour Force Surveys* (Figure 2.1.6). The projection suggests that employment will decrease by 200 000 (or 1.5 per cent of total employment) during 2009, after which it will gradually start to increase again once the crisis subsides.

At first glance, the decrease in employment associated with the financial crisis seems to be relatively unimportant. A better gauge of the employment cost of the crisis is to compare expected total employment to what it would have been in the absence of the crisis. Figure 2.1.6 shows that by 2012 employment will be almost 1 000 000 lower than in the 'no-crisis benchmark', which is the result of decreasing production in 2009 and the impact that the crisis has on future growth. This picture suggests that while employment may grow soon after the recovery, the crisis will have a long-term effect.

There are a few reasons why the actual employment

Figure 2.1.5: Actual and projected GDP growth, 1993–2014

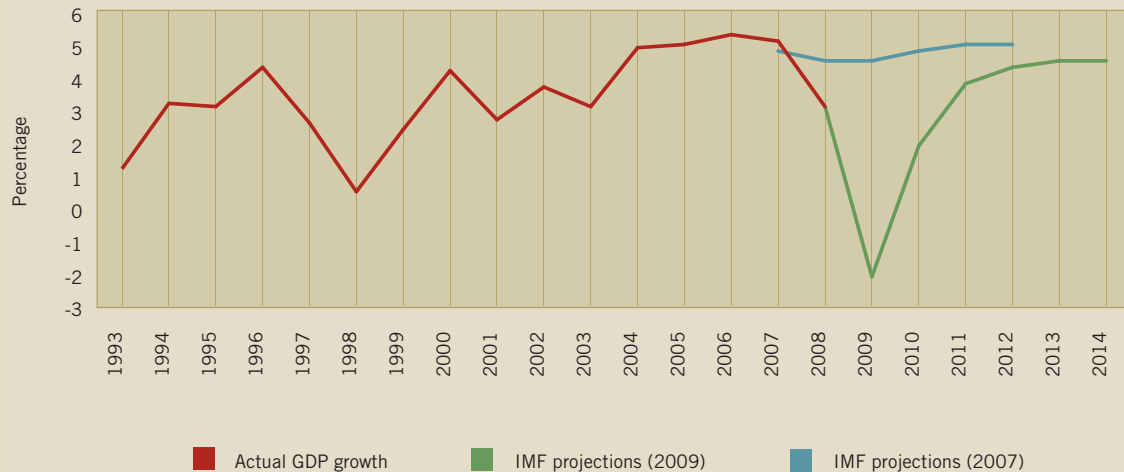


Figure 2.1.6: Actual and projected total employment, 1995–2014



trajectory could deviate from this projection. Firstly, the labour share of income may be trendless in the medium run, but could fluctuate over the business cycle. In fact, the cyclical variation in this variable is an integral part of the New Keynesian approach to estimating the Phillips Curve (for a South African application, see Du Plessis & Burger

2006). Furthermore, even if South African employers expect economic growth in line with the forecasts used above, risk-averse employers may choose to hold off on new hires until they have more certainty that economic growth will indeed recover in the way that they expect it to. This scenario is especially likely if the hiring and firing of workers is expensive,

and if the uncertainty around the expectation is particularly high.³ Furthermore, given the concerns with currently high wage levels, the willingness of firms to create new vacancies could be further inhibited. Under these conditions, one could expect that the increase in unemployment would be driven mainly by slower job creation once the economy recovers, rather than increased job destruction, as indicated above. In this case, employment may decrease by more than 200 000 in the short run but also rebound more quickly than indicated here when economic growth starts to accelerate. However, all of these scenarios are dependent on the swift recovery proposed by the IMF, which has been questioned by a number of economists. In summary, then, these estimates of employment reduction represent a lower bound. The most recent data released suggests that well in excess of 480 000 jobs have already been lost in 2009.

CONCLUSION

While declines in employment have not generated historically high levels of unemployment (as has happened in many other economies), even conservative estimates of the economic downturn's impact show that long-term consequences for the labour market could emerge. The key factor is the ability of the economy to re-absorb retrenched workers, and then to continue to create jobs for the long-term unemployed. It is evident that job destruction remains high, but increases have possibly levelled off (with most of the impact already having been registered in the run-up to the recession). However, sluggish job creation has not yet turned the corner. A distinct possibility exists that this could continue to deteriorate in the face of high wage demands and rigidity within the labour market, so that employers could remain hesitant to create vacancies even after their production levels have recovered. This suggests that while South Africa's Job Fund has a role to play in slowing down the trend of high dismissals, a longer-term unemployment impact could emerge if the re-absorption of those that have already suffered job losses does not accelerate. This relies on factors other than implementing training lay-offs for the current workforce. However, the recession appears to have increased the marginalisation of those who are outside the labour market. The vulnerability of unskilled outsiders

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suggests that high wage demands in occupations that usually absorb these individuals could continue to exclude them from the workplace, and that training outside of the labour market must maintain its emphasis. It is clear, therefore, that policy that tackles the more fundamental issues facing the labour market (such as skills development of outsiders) should address simultaneously the additional risks induced by the recession. However, given that these interventions are long-term in impact and that employment creation tends to follow economic growth with a considerable lag (Burger & Von Fintel 2009), it is evident that non-labour market solutions are required to alleviate the immediate impacts of the recession on the unemployed. This includes the current safety net of social grants that have effectively alleviated poverty. While the immediate policy response (the Job Fund) is suitable, it has no power to influence the growing group of outsiders that is being excluded from the labour market. Rigidities are preventing what could be the quicker recovery in employment growth that is dearly needed to counter the labour market's long-term deficiencies.

NOTES

1. The QLFS has a rotating panel design, which allows for specific households to be followed in four consecutive surveys before being replaced by other households. Here, we are interested in tracking individuals' (and not households') experiences. Given that the individuals in each household could be different in time and that individuals are not explicitly tracked, we run the risk of not connecting the same individuals in concurrent waves of the survey. However, we apply certain criteria here to ensure that the data remain clean. We check that individuals are of the same gender and race, and that they do not age more than two years over the time period. This entails that we exclude approximately 20 per cent of the sample in each period. Given that we lose similar proportions of individuals in each period, bias in the transition probabilities is proposed to be minimal.
2. This is a measure of responsiveness of employment generation to economic growth. A figure of 0.75 indicates that as GDP increases by 1 per cent, employment will grow by 0.75 per cent.
3. In effect, this will mean that the employment-output elasticity may be far lower than 0.75, so that possible economic growth will not translate into as many gains in employment to counter past job losses.



analysis

DRAFT EXPANDED PUBLIC WORKS PROGRAMME: A MAJOR ROLE IN REDUCING UNEMPLOYMENT AND POVERTY?

Anna McCord and Charles Meth

INTRODUCTION

The Presidency's draft anti-poverty strategy places strong emphasis on public employment programmes as an important supplement to efforts to create jobs in the formal economy. Drawing on two recent articles by Meth (2009a, 2009b) and recent work by McCord, this paper assesses the contribution that the Expanded Public Works Programme (EPWP) would make to achieving the overall goal, with particular reference to the objective of halving poverty and unemployment by 2014.

For many years, it has been asserted by senior politicians that both unemployment and poverty will be halved by 2014 (the twentieth anniversary of democracy). Recognising the limits of the labour market's ability to foster significant increases in new job creation, the task of supplementing labour market growth, and sustaining it over time, has fallen to the EPWP, Phase 2 of which was announced recently by the Department of Public Works (DPW). In the struggle to achieve the 2014 goals, a key role is envisaged for the EPWP. The fact that the country is not able to shield itself (entirely) from the effects of the global financial crisis, and the rising unemployment reported in the *Quarterly Labour Force Survey (QLFS)* for the first and second quarters of 2009, however, challenges the assertion that unemployment (and, therefore, also poverty) can still be halved by the target date, even with employment creation supplemented by the efforts of the EPWP.

Recent work modelling the labour market is presented in this paper to inform an assessment as to whether there is any likelihood that the unemployment-halving goal can be achieved by 2014, and what the contribution of the EPWP might be in reaching this goal. The paper also questions what achieving the 2014 objectives would mean in terms of poverty and unemployment from a socio-economic, rather than an exclusively macroeconomic, perspective.

GOVERNMENT OBJECTIVES

Exuberant government statements relating to the potential of achieving the goal of halving unemployment have been tempered in recent months by less sanguine comments, questioning whether this will be possible by the target date of 2014. More ambitious pronouncements have included the assertion that:

Our second decade of freedom will be the decade in which we radically reduce inequality and virtually eliminate poverty. We know now that we can do it, working together around an initiative which has the support of the nation. (Presidency 2006: 16)

Given that inequality and poverty reduction in South Africa depends very heavily on the reduction of unemployment, major strides in reducing unemployment would have to be achieved rapidly in the coming years. The claim above contrasts with the more sober sentiments expressed in the recently published Green Paper on National Strategic Planning:

Over the past fifteen years, government has made significant progress, most critically in establishing sound and credible institutions and in extending basic services to millions deprived too long of these necessities. A stable economic platform has enabled rising investment, rising employment and a steady reduction in the proportion of people living in poverty. Nevertheless, the challenges remain monumental. Unemployment remains unacceptably high, poverty is rife and opportunities are still skewed. Two striking weaknesses in government are the lack of a coherent plan and poor coordination. (Presidency 2009a: 4)

These two statements exemplify the cognitive dissonance at the heart of the debate in South Africa, which is manifested

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in the co-existence of an awareness of the severity of the problems of unemployment, poverty and inequality, and the apparent belief that halving unemployment and poverty by 2014 (one of the government's highest profile domestic endeavours) is possible.

IMPACT OF THE FINANCIAL CRISIS

Over the past year, the economic crisis that has engulfed the world has destroyed the growth spurt essential to any hope of achieving the unemployment- and poverty-halving goals. In mid-April 2009, for example, a statement in the Accelerated and Shared Growth Initiative for South Africa (ASGISA) Annual Report for the year 2008 informed readers that:

the original AsgiSA target of growing at an average rate of 6% between 2010 and 2014 now may appear implausible. In turn, the target of reducing poverty [sic] by half to 14% or less in 2010 [sic] may appear to be endangered, and possibly also the target of halving poverty between 2004 and 2014. (Presidency 2009b: 4)

Despite this, the government holds fast to the 'halving unemployment and poverty' stance. The Minister of Public Works oozed optimism at the unveiling in April 2009 of Phase 2 of the EPWP, when he reportedly said of the government's halving unemployment goal that: 'It's going to take a lot of work, it needs a lot of dedication and energy but I think it's achievable by 2014, I'm confident...'¹

This was followed in July 2009 by the slightly more tentative statement by Trevor Manuel (now Minister for National Planning in the Presidency), in the briefing on the Medium-term Strategic Framework (MTSF), to the effect that: 'In this MTSF period, we aim to meet our target of halving poverty and unemployment by 2014.'²

THE EPWP AND THE ADEQUACY OF SOCIAL PROTECTION FOR THE WORKING-AGE POOR

Despite the continued official optimism regarding the attainment of the 2014 goals in the current financial climate, a more fundamental challenge to their realisation was sounded in the Green Paper on National Strategic Planning prepared by the newly created Ministry for Planning in the Presidency. The opening paragraphs of the preface, written by Minister Manuel, have this to say:

Lack of a coherent long term plan has weakened our

ability to provide clear and consistent policies. It has limited our capacity to mobilise all of society in pursuit of our developmental objectives. It has hampered our efforts to prioritise resource allocations and to drive the implementation of government's objectives and priorities. In addition, weaknesses in coordination of government have led to policy inconsistencies and, in several cases, poor service delivery outcomes. (Presidency 2009a: 1)

It could be argued that the ambition of halving unemployment and poverty by 2014 is one of the victims of the 'lack of a coherent long term plan'.

Under the heading of 'A long term vision for development', the Green Paper spells out a list of desirable features for the country of the future. Referring to the MTSF, it says that:

in broad terms, South Africa Vision 2025 could project a society in which: Able-bodied citizens and all work-seekers have access to decent jobs, workers' rights are protected and social security measures are comprehensive enough to cover all citizens in need. (Presidency 2009a: 18)

This statement regarding 'citizens in need', especially the able-bodied among them, points to the single most refractory social protection problem in South Africa (and everywhere else in the world). The inadequacy of provision for the able-bodied poor of working age is the hole that has to be filled if a truly comprehensive social protection system is to be created.

It will be decades before access to decent jobs, or indeed any jobs, becomes universal in South Africa. In the meanwhile, millions of people will require social protection, since they are unable to find employment in the labour market. Thus far, the government has failed in its attempts to address this problem; antipathy towards social grants for the able-bodied unemployed (one of the only feasible means of alleviating their poverty as they wait for economic growth to rescue them) has meant that support for this group is limited essentially to participation in the EPWP. Even in its much-expanded form, the EPWP, if successfully implemented, will reach only a small minority of those in need, offering a single episode of employment (of three or four months, on average) for most participants. There is, however, a new initiative tacked onto Phase 2 of the EPWP, the Community Work Programme (CWP), which could make a significant dent in unemployment and poverty. Before discussing this venture, we say a little more about the ANC's approach to social protection for the working-age poor, in terms of its policy of choice, the EPWP.

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In no other country facing similar challenges of mass unemployment and chronic poverty has a programme such as the EPWP, offering short-term employment for a small fraction of those seeking work, been adopted as the national policy response to the needs of the working-age poor. In stark contrast to the EPWP, the Indian national public works programme, the National Rural Employment Guarantee Act (NREGA), guarantees employment (of 100 days) on an annual basis to *all* citizens who seek it, in terms of a legislative commitment confirming the *right* to employment and the state's obligation to provide it for all in need, rather than an arbitrary subset of those in need (as in South Africa). Under the NREGA, the state is legislatively bound to provide employment or, failing that, financial compensation, ensuring that those eligible receive some form of support, with the state acknowledging its responsibility to provide support to the working-age poor.

While the EPWP and the NREGA are both public works programmes, nominally sharing common social protection objectives, they represent conceptually divergent approaches. The South African programme confounds any notion of the *right* to social protection for the able-bodied poor, implicitly excluding the majority of this group from support. This is at odds with the 'comprehensive social protection system' to the creation of which the South African government regularly commits itself, and which it is bound to provide in terms of the Bill of Rights in the Constitution.

The brief spell of employment offered under the EPWP is akin to the short-term employment opportunities provided after natural disasters in other parts of Africa and Asia, offering income during a period of temporary labour market disruption, until things return to normal. It is not the kind of programme that conventionally would be implemented in response to chronic unemployment. Drawing on cross-country experience, World Bank experts stress the linkage of public works programmes to transient rather than chronic poverty, arguing that 'public works are essentially a temporary safety net and should never be used as a permanent escape route from poverty' (Subbarao et al. 1997: 168).

The implication of this statement is that EPWP-style programmes are appropriate only where poverty is transient

and a temporary safety net is required, the underlying assumption being that the benefit period is limited to the period of the wage transfer.

Given the ruling party's antipathy to social grants for the working-age poor, the government is pressing ahead with its version of what is good for them, as the following statement, drawn from the policy discussion document produced for the ANC's 2007 National Conference, makes clear:

To respond to the plight of the poor who do not qualify for social assistance, government has set up Public Works Programmes to draw the unemployed into productive and gainful employment while also delivering training to increase the capacity of participants to earn an income once they leave the programme. (ANC 2007: 4)

The bland assumption that this will suffice to keep the wolf from the door of the poor, until economic growth can rescue them, takes no account either of the ability of growth to do so or of the limitations of the EPWP to 'respond to the plight of the poor who do not qualify for social assistance'. Although

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not saying so in as many words, the EPWP management, by contrast, seems all too aware of the limits of the programme. On the EPWP web site, for example, one finds the following acknowledgement:

The EPWP will not solve the structural unemployment problem. It is merely one element within a broader government strategy to reduce poverty through the alleviation and reduction of unemployment.³

Warming to the topic, the EPWP's *Five Year Report* calls for the EPWP to be evaluated against the backdrop of mass structural unemployment, none of the causes of which the programme was intended to address:

Critically, while it provided an important avenue for labour absorption and income payment to poor households in the short to medium term, the EPWP was not designed to be a policy instrument to address the structural

nature of the unemployment crisis. Stated differently, the objective was not to create sustainable employment opportunities. Rather, PWP were viewed as a means of creating a high volume of employment in the short term. (DPW 2009a: 59)

Further on in the *Five Year Report*, the limited reach of Phase 1 of the EPWP is offered as a rationale for the enlargement proposed for Phase 2:

While the EPWP reached its goal of creating one million work opportunities, this effort only reached 11% of unemployed people in the 2007/08 financial year.⁴ And while there has been a general decline in the rate of unemployment during the first years of the EPWP's existence, the scale of the programme needs to be expanded significantly in order for it to make its contribution to the government goal of halving unemployment by 2014. (DWP 2009a: 137)

The claim above about 'delivering training to increase the capacity of participants to earn an income' is made to substantiate the assertion that the EPWP is not merely an employment-creation programme, but, like successful active labour market policies (ALMPs) elsewhere, gives workers experience and skills that will enable them to take up employment in the open labour market once they 'exit' the programme. Yet at least 70 per cent of participants in Phase 1 of the EPWP received either no training at all, or training of such a trivial nature that it made little or no difference to their income-earning capacity. This is in line with international experience. Having reviewed almost two hundred evaluations of ALMPs, Betcherman, Olivas & Dar (2004: ii) conclude that public works programmes could be 'an effective short-term safety net, but public works do not improve participants' future labour market prospects'.

These findings have been reflected in other international studies (see, for example, Martin & Grubb 2001). Several studies in South Africa relating to EPWP projects, including Working for Wetlands and the Gundo Lashu and Zibambele programmes (Ndoto & Macun 2005; McCord 2004) have found that limited and poor quality training, combined with lack of employment opportunities in the formal and informal sectors, have meant that the 'activation' component of the EPWP has been marginal at best. This implies that the only significant labour market impact of the EPWP is the direct employment component.

One of the outcomes of an internal review of Phase 1 of the EPWP is that Phase 2 will be 'structured with stronger

focus on employment (less emphasis on training, exit strategies and enterprise development)' and 'training [will be] provided [only] by EPWP where important to maintaining service standards/enables people to do work' (Lieuw-Kie-Song 2009: 17).

As a result of persistent criticism of Phase 1 of the EPWP (see McCord 2007), and engagement with the international debate around employment guarantee schemes (EGSs),⁵ the Presidency has initiated a 'complement' to the EPWP, in the form of a CWP. Field-tested in four very poor communities, the CWP has shown some promise. Although it does not have an official budgetary allocation, in the period June–December 2009 it is expected to grow from three or four sites with 1 000 participants in each to 50 sites each involving 1 000 participants. Growth thereafter is expected to be exponential, setting in place 'the institutional architecture required to deliver a minimum employment guarantee [100 day's paid work per annum] in SA' (Philip 2009: 13).

The programme represents a major new departure. It represents the first step on a road that could lead to a national EGS, which, reduced to its essentials, is a promise by the state to act as employer of last resort.

Laying aside the implications of the pilot CPW programmes outlined above, and the ethical challenge represented by the adoption of the mainstream form of EPWP in terms the effective exclusion of the majority of the working-age poor, the aggregate impacts of the direct employment component of the EPWP and the CWP are now examined.

EMPLOYMENT TARGETS AND THE EPWP

To set the scene, let us spend a few moments looking in a little detail at the impact of the financial crisis on South Africa's labour market, as depicted in the most recent *QLFSs*. Although some controversy surrounds the recently instituted *QLFS* (see Meth 2009b), it has the official unemployment rate for the first quarter of 2009 climbing to 23.5 per cent from 21.9 per cent in October–December 2008,⁶ and remaining at this level in the second quarter of 2009.⁷ After the first-quarter *QLFS* figures were published, the quarterly GDP figures appeared, indicating a substantial quarter-to-quarter fall, and the National Treasury concluded that this year's growth target (1.2 per cent per annum) was 'unlikely' to be achieved.⁸ There never was agreement on just how much growth was required for the government's poverty- and unemployment-halving goals to be reached (a figure of 5–6 per cent per annum, sustained year after year, enjoyed a certain popularity). The current negative economic environment offers little hope that such a rate could be attained before

2012. In short, the economic crisis has put paid to what little chance there ever was of achieving the goal.

The EPWP Phase 2

Phase 2 of the EPWP aims to provide over 500 000 'work opportunities' in 2009/10, rising to over 1.5 million for the year 2013/14. Given the short-term, temporary nature of EPWP job opportunities, this translates into 210 000 and 600 000 'full time equivalent' jobs (FTEs) respectively per annum. As in Phase 1 of the programme, these 'work opportunities' are to be created across four sectors, social, economic, infrastructure and environment, with the majority of the jobs (72 per cent) being in the first two sectors. Employment duration in the former averages four months, and in the latter, three months. Under Phase 1 of the EPWP, the creation of 300 000 'work opportunities' during the six months from April to September 2008 was reported (DPW 2009b: 7). The rate at which the programme has created 'work opportunities' has increased over time. However, this does not necessarily imply that the ambitious targets planned for the later years of Phase 2 of the EPWP can be met.

Not much more than the crude aggregate numbers reproduced above is available for review, although some detail about proposed employment targets for EPWP Phase 2 was given in the ASGISA annual report for 2007/08 (published in mid-April 2009). The report states that:

From 2009 to 2012, R4.2 billion has been allocated to Phase Two of the EPWP. This will include a new EPWP grant incentive for municipalities aimed at providing them with incentives to increase the number of employment opportunities on infrastructure projects. During EPWP Phase One, municipalities did not significantly adopt labour-intensive approaches to infrastructure implementation.

The extension of this programme targets 400 000 full-time equivalent longer-term jobs in the social and municipal services sectors, home-based and community care, as well as project-based employment in infrastructure and environmental protection, in adult literacy initiatives and in programmes delivered through non-governmental organisations. A new modality for delivery will be the Community Work Programme in which unemployed poor people will be employed for two days a week on communal projects developed and agreed to by poor communities. (Presidency 2009b: 57, emphasis added)

The first of these paragraphs implies the introduction of a substantial employment subsidy over the Medium Term Expenditure Framework (MTEF) period 2009–2012. Such an allocation is to be found in the expenditure estimates in the 2009 Budget for the National Public Works Programme, which have R353 million in 2009/10, R954 million in 2010/11 and R1.9 billion in 2011/12 set aside for 'transfers and subsidies to provinces and municipalities'. In addition, over the period 2009–2012, about R730 million will be transferred to 'non-profit institutions' (National Treasury 2009: 13).⁹ These large sums mark another new departure in the life of the EPWP, with an implied employment subsidy component, in an attempt to create incentives for labour intensification and to provide resources to cover any cost premium this may imply (although, critically, there is no evidence of any technical work to estimate the cost of such a premium, or the implications for the fiscus of any efficiency losses that may accrue from such a shift).

The introduction of such an incentive represents, in part, an attempt to overcome the resistance experienced at provincial level under Phase 1 among technical staff whose scepticism about the feasibility and desirability of shifting from capital- to labour-intensive methods resulted, in many cases, in a passive resistance to labour intensification (Mabulo 2003; McCord 2006; Karuri, McCord & Hemson 2007).

The first phase of the EPWP aimed at providing one million job opportunities over five years, and arguably delivered about 1.4 million, although concerns regarding the nature of EPWP 'jobs' were highlighted in the EPWP mid-term review, which questioned the extent to which practices of 'renaming' existing activities as 'EPWP' projects and worker substitution might be exaggerating the actual number of new jobs created under the programme (Karuri et al. 2007).¹⁰ Phase 2 is much more ambitious.

Unclear origins of the employment targets

The basis for the estimates of employment included in EPWP Phase 2 are not explicit, and may be founded on an extrapolation of Phase 1 into the future, with relatively slow growth between year 1 and year 2 giving way to faster growth in succeeding years. What little information there is in the public domain does not allow one to ascertain whether or not the EPWP employment targets are linked with the major infrastructural investment programme under which projects have already been identified, despite the fact that these programmes are central to the achievement of EPWP employment targets. There are limits to the extent to which unskilled labour may be substituted for skilled labour and/or machinery. It is not evident that the changes that could

feasibly be made to factor proportions in a variety of projects have been calculated, and whether the employment estimates included in the EPWP projections are consistent with the planned activities.¹¹

Research into factor intensity is key to assessing the feasibility and cost of the programme – it should have been carried out before Phase 2 was launched. When further details on Phase 2 become available, efforts should be made to ascertain whether or not this has been done. Until it is forthcoming, judgement on the likelihood of the programme meeting its ambitious goals should be suspended, and questions regarding fiscal implications and potential efficiency losses of shifting to labour intensification should be raised. This is to ensure accountability and transparency. The cost and efficiency of this approach to social protection for the working-age poor should be assessed, and compared to that of alternative approaches, to promote appropriate policy selection in future years. In the absence of such calculations, the EPWP remains a fiscal leap in the dark, with uncertain impacts and unknown costs, rendering any attempt at cost effectiveness assessments largely impossible.

HOW MUCH CAN EPWP PHASE 2 CONTRIBUTE TO THE 'HALVING' GOALS?

It is clear from the statement made by the Minister of Public Works upon announcing the inception of Phase 2 of the EPWP (see above) that there is an expectation that the programme will make a substantial contribution to the government's goal of halving unemployment by 2014, a goal which implies an unemployment rate of 14 per cent. Two sets of effects of the pursuit of this goal may be distinguished. The first of these is the macro-picture generated by survey instruments such as the *QLFS* (changes in numbers unemployed and in rates of unemployment). The second, and more important, is the socio-economic impact of the implementation of the EPWP. These two questions are discussed below.

WHAT CHANCE FOR A HALVING OF UNEMPLOYMENT?

The objective of Phase 2 of the EPWP is to create 500 000 'work opportunities' (about 210 000 full-time equivalent jobs) in the first year of operation. This notwithstanding, it is predicted that total employment (including the EPWP work opportunities) at the end of 2009 will almost certainly be lower, by several hundred thousand, than it was at the end of 2008. A key question is what the likely impact of the

creation of EPWP employment at the rate proposed will be in the years to 2013/14.

In 2004, a simple purpose-built model was created to calculate whether the goal of halving unemployment by 2014 could be met (Meth 2004). An updated version of that model has been used to calculate what unemployment rates and levels may be in 2014 (Meth 2009b), assuming that the planned 'work opportunities' for Phase 2 of the EPWP materialise.¹² Its key assumptions and findings are summarised below. To estimate unemployment rates, a range of assumptions, including possible rates of job creation in the wider economy and the rate of growth of the economically active population (EAP), had to be made, entailing the solution of a formidable set of data problems.¹³

The starting point for the analysis is the assumption that between 300 000 and 400 000 jobs are likely to be lost during the calendar year 2009; consequently, employment at the end of 2009/10 is assumed to be 13 336 000. The number of officially unemployed is currently 4 125 000, and participation rates are falling (from 57.5 per cent in the first quarter of 2009 to 56.3 per cent in the second), partly as the result of a significant increase in discouraged work-seekers.¹⁴

Of all the variables that together determine the number of jobs that have to be created to meet the halving goal, changes in the participation rate (the outcome of changes in the size of the working-age population, and the numbers of the economically active) have the largest impact. They are also the most volatile and difficult to predict. As far as changes in the number of the economically active are concerned, neither theory¹⁵ nor extrapolation of past experience, that old standby, allow for the prediction of outcomes (levels of economic activity) with any accuracy. Generally, when economic growth picks up, so too does the rate of growth of the labour force (i.e. there is a tendency for participation rates to rise during periods of rapid economic growth, and to stabilise or fall slightly during downturns or slowdowns). Increases in employment associated with rising economic growth can cause unemployment rates to rise, presumably because the perceptions of the probability of obtaining employment among those who were previously inactive or discouraged change.

The modelling used four possible scenarios, varying the rate of economic growth and associated employment growth, and changes in the participation rate. To this was added the EPWP employment forecast under Phase 2. Underlying the 'optimistic' job growth prediction is the assumption that economic growth will reach 5 per cent per annum by 2012/13, and speed up thereafter. In addition,

the probability of the rate of growth of the workforce or economically active population (EAP) being slow must be regarded as very slender indeed. During the moderate growth spurt (one million new jobs in total) between September 2004 and September 2007, the rate of change in the size of the working-age population was almost 3 per cent per annum. This caused the participation rate to rise by 2.7 percentage points, from 53.8 per cent to 56.5 per cent.¹⁶ Over the period September 2004–September 2006, the participation rate rose from 53.8 to 57.3 per cent (an increase of 3.5 percentage points).

Appendix 1 presents four scenarios based on different assumptions: a) possible rates of job creation – ‘optimistic’ or ‘pessimistic’, depending in the first instance on economic growth; b) the likelihood of the EPWP Phase 2 ‘work opportunity’ goals being met; c) the effect of introducing CWP to scale (assuming that there are 500 000 participants by 2012/13 and that, in any year, there is an attrition rate of 15 per cent of the previous year’s participants); and d) that growth rates of the EAP are responsive to perceptions among the unemployed (and many of the non-economically active) of the probability of obtaining employment (participation rates can rise rapidly during periods of fast economic growth).

In Scenario 1, even if economic growth (rising to 6 per cent by 2013/14) generates high employment growth, and the EPWP delivers its full complement of work opportunities, the goal of halving the official rate of unemployment (getting it down to 14 per cent) is not achieved, with the rate of unemployment remaining at around 18 per cent.

If significant CWP jobs are added, as in Scenario 2, the outcome is closer to the goal, resulting in an unemployment rate of 14.4 per cent. If the programme grows to the point where, by 2012/13, 500 000 people are drawn into the programme, and it continues growing, then, allowing for an attrition rate of 15 per cent, there may be 575 000 participants by 2013/14. If each is paid R60 per day, and all participants take up their full allowance of 100 day’s work for the year, then the wage cost would be about R3.5 billion for the year. Once administration and other costs are added, the full cost is unlikely to be below R4 billion for the CWP. If the programme succeeds in attracting more participants, that figure can be expected to rise, year by year.

Scenarios 3 and 4 give us a taste of what lies ahead if growth is less rapid, and if discouraged work-seekers are taken into account. Although these people are as much ‘out of work’ and desirous of a job as the ‘officially’ unemployed, the fact that they have not made attempts to seek work within the reference period (the past four weeks), means that

they are excluded from official estimates of unemployment (Scenarios 1 and 2). If economic growth is relatively slow, rising to 4 per cent by 2013/14 (‘pessimistic’ employment creation), and growth of the EAP is modest (Scenario 4), there will still be well over four million unemployed by 2013/14, and the unemployment rate would be in the region of 22 per cent, even with national implementation of the CPW complementing the work of the EPWP. Without the CPW, implementation of the EPWP alone would result in unemployment rates of over 25 per cent, leaving more than five million unemployed (Scenario 3).¹⁷

The state’s position on the introduction of a large-scale employment guarantee scheme along the lines of the NREGA is not known. It seems likely that once the CWP becomes more familiar at community level, demand for it will increase rapidly, but budgetary allocations have yet to be made. What will ensue then is anybody’s guess. Despite the potential of the CWP, it will not be able to absorb the poor in less than a decade, and the cost of introducing it will not be trivial. In the meantime, many among the poor will once more be called upon to be patient, in terms of waiting for support from the state. From an ethical point of view, such a request is problematic. Whether or not it is politically feasible is an open question.

WHAT WOULD HALVING UNEMPLOYMENT MEAN IN TERMS OF POVERTY?

In the unlikely event of the 2014 unemployment target being achieved, there would still be too many unemployed people (almost three million by the official measure). Paradoxically, the government’s commitment to halving unemployment (and poverty) appears simultaneously to be both too ambitious and too modest. In short, even if the halving goal were to be achieved, the remaining problem would be sufficiently large to make all efforts to address it seem almost futile.

Even for those employed, the single episode of short-term employment, the limited training opportunities, the questionable impact of the assets created in terms of community development and employment prospects, and

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the lack of integration with other developmental activities, render participation in the EPWP unlikely to have any significant or sustained social protection or poverty reducing impact. During the period of employment, it is probable that the depth of poverty of participating households will be reduced as a result of the additional income; interestingly, however, in a survey of households with PWP workers, the majority fell below the household poverty line even while participating in the programme (McCord 2004). There is no evidence to suggest that there will be sustained benefits, or any significant accumulation of monetary or other assets – when asked whether they had invested any of the capital received as wages from PWP employment, women workers in rural Limpopo laughed, saying ‘No...we have eaten our capital!’ (McCord 2004). This, in itself, is an excellent outcome, resulting in improved nutrition at household level. It argues, however, for increased modesty in terms of what can be expected of the provision of a single episode of employment to the working-age poor. The EPWP can deliver benefits, but the provision of support is inherently temporary, and coverage is extremely low.

For some of the poor, the CWP promises to change this – it remains to be seen, however, what will happen when attempts are made to scale up the programme to national level. The obstacles to be overcome, not least securing Treasury funding, are formidable.

FUTURE OPTIONS

As argued above, employment cannot grow fast enough to reduce poverty at an acceptable rate. Under such conditions, the only reasonable policy response is to seek out means other than a focus on job creation to alleviate poverty.

The preamble to the section ‘On Social Security and Broad Social Development’, tabled at the ANC’s 52nd National Conference in 2007, read as follows:

8. We are building a developmental state and not a welfare state given that in welfare state [sic], dependency is profound.
9. Our attack on poverty must seek to empower people to take themselves out of poverty, while creating adequate social nets to protect the most vulnerable in our society.
10. Beyond poverty alleviation, interventions must seek to develop exit programmes that capacitate households and communities to empower themselves. It is the duty of the developmental state to achieve this.

Employment cannot grow fast enough to reduce poverty at an acceptable rate. Under such conditions, the only reasonable policy response is to seek out means other than a focus on job creation to alleviate poverty.

The relevant resolutions on social grants appear to be the following:

14. That a comprehensive social security net provides a targeted and impeccable [sic] approach in eradicating poverty and unemployment...
17. Grants must not create dependency and thus must be linked to economic activity.

This approach to social protection, as noted above, saw participants at the 2007 ANC National Conference throw the following sop to the working-age poor:

To respond to the plight of the poor who do not qualify for social assistance, government has set up Public Works Programmes to draw the unemployed into productive and gainful employment while also delivering training to increase the capacity of participants to earn an income once they leave the programme. (ANC 2007a: 4)

Unless the ANC ‘in conference’ is totally cynical, it must imagine, collectively, that the EPWP can have a significant impact on unemployment and poverty. Although, on occasion, the EPWP’s management may exaggerate the positive effects of the programme, said management seems not to labour under the illusion that the programme can address the structural unemployment that is the major cause of poverty in South Africa.

It bears reiteration that a strategy relying on the EPWP to address the needs of the working-age poor is not in any sense ‘comprehensive’. The majority of the working-age poor are excluded from the EPWP, and for those included, the benefits are essentially transitory, an inadequate response to chronic, mass poverty and unemployment. The hope that the EPWP will promote ‘activation’ in the context of chronic unemployment, exacerbated by recent developments in the global economy, is unlikely to be fulfilled. Although the millions of ‘work opportunities’ promised by Phase 2 will bring some relief, unless fortified by a large-scale

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employment guarantee scheme, the EPWP looks as though it is still plagued by the structural weaknesses previously identified by critics.

CONCLUSION

Unemployment will not be halved by 2014, nor, in all likelihood, will poverty, unless a growth path can be engineered that combines rapid economic growth (and job creation) with slow growth in the participation rate (an unlikely marriage).

To achieve either would be an epic achievement, to achieve both requires little less than a miracle. Even if this happened, the residual poverty and unemployment would still be too high to be humanly or politically acceptable – there is an urgent need for policy review in these critical areas. With the CWP bolstering the EPWP, unemployment may get close to the target level for 2014. Even if it does, however, the many millions still excluded from adequate (or any) social protection constitute a rebuke to a government that has long claimed to put the interests of the poorest first.

NOTES

1. See the article 'SA on track to halve unemployment by 2014' by Wendell Roelf in the *Mail & Guardian* online, 6 April 2009.
2. The full sentence from which this is drawn reads as follows: 'In this MTSF period, we aim to meet our target of halving poverty and unemployment by 2014 and, in conjunction with other priorities, to strengthen human capabilities, promote shared values and social solidarity and strive to reduce overall inequality.'
3. Statement downloaded on 12 July 2009 from the EPWP website home page: <http://www.epwp.gov.za/index.asp?c=Welcome>.
4. The figure of 11 per cent seems more than a little optimistic – by our reckoning, it is closer to 5 per cent (see Meth 2009a).
5. The NREGA programmes have been visited by South African officials working on the design of the EPWP.
6. See Statistical release P0210, 5 May 2009: v.
7. See Statistical release P0210, 28 July 2009: v-vi.
8. The National Treasury, putting on a brave face, offered the reassurance that 'the economy is expected to improve in the final two quarters of the year (press release available at: http://www.treasury.gov.za/comm_media/press/2009/2009052601.pdf). The press release was followed, the next day, by a statement from Lesetja Kganyago, Director-General in the National Treasury, to the effect that 'If we record zero growth this year, we would be doing very well.' Other commentators were less sanguine, one predicting a fall in GDP of 2.2 per cent in 2009 (see Mariam Isa in *Business Day*, 27 May 2009. In the comment section of that paper on the same day, a short piece appeared reminding readers that a large annualised quarter-to-quarter decline in GDP was a prediction, rather than an account of what actually happens to GDP over a year – thus, zero growth was still possible, despite the surprising first-quarter drop of 6.4 per cent (*Business Day*, 27 May 2009).
9. Note that the expenditure downloads of the expenditure estimates on the Treasury website are all in small files; thus, the page number given here will not be the same as the page number in the paper publication.
10. Detailed criticisms of Phase 1 of the EPWP are made in the mid-term review of the programme. These have not been published. Placing this document in the public domain would contribute to long-overdue public scrutiny of this controversial project.
11. Technical models to assess the amount of employment that can be generated through the labour intensification of government expenditure have been developed (see, for example, Phillips et al. 1995; McCutcheon 2001). Similar analysis of current infrastructure expenditure linked to the EPWP would be useful for assessing the feasibility of the proposed EPWP targets.
12. The recently published *EPWP Five Year Report* offers details about the number of 'work opportunities', and the number of full-time equivalent jobs (FTEs) that they represent, for each year of Phase 2 of the programme (DPW 2009a). Also provided are estimates of the distribution of 'work opportunities' (and FTEs) by sector for the 2009–2014 period (DPW 2009a). It is partly on the basis of these estimates that the simulations in the table in Appendix 1 below have been created.
13. For full details of the key assumptions used in the model, and how they were determined, see Meth (2009b).
14. Statistical release P0210, 28 July 2009, p.v.
15. The standard model for the theoretical centrepiece of labour economics, the work/leisure trade-off, is unable to say whether substitution effects dominate income effects, or *vice-versa*. Outcomes are, hence, indeterminate.
16. Estimated from Statistical Release P0210, 26 September 2005, p.2, and 27 March 2008, p.ii.
17. Interestingly, if the route to fast, job-creating economic growth could be found, the participation rate would be likely to rise rapidly in response – such a scenario would still leave many more than four million people wanting work in 2013/14, with an expanded unemployment rate of more than 21 per cent.

APPENDIX 1: UNEMPLOYMENT IN 2013/2014

Scenario 1 CWP jobs excluded						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (official)	Unemployment rate (%)
2009/2010	-300 000	210 000	0		4 173 000	23.8
2010/2011	300 000	260 000	0	1.0	3 998 000	22.6
2011/2012	400 000	360 000	0	2.0	3 852 000	21.4
2012/2013	500 000	500 000	0	2.5	3 663 000	19.8
2013/2014	600 000	680 000	0	2.5	3 345 000	17.7
Conditions: Optimistic economic and employment growth, moderately fast EAP growth						
Scenario 2 CWP jobs included						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (official)	Unemployment rate (%)
2009/2010	-300 000	210 000	22 000		4 151 000	23.7
2010/2011	300 000	260 000	84 000	1.0	3 893 000	22.0
2011/2012	400 000	360 000	139 000	2.0	3 607 000	20.0
2012/2013	500 000	500 000	195 000	2.5	3 223 000	17.4
2013/2014	600 000	680 000	250 000	3.0	2 748 000	14.4
Conditions: Optimistic economic and employment growth, fast EAP growth						
Scenario 3 CWP jobs excluded						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (expanded)	Unemployment rate (%)
2009/2010	-300 000	210 000	0		5 690 000	29.9
2010/2011	200 000	260 000	0	0.5	5 535 000	28.9
2011/2012	250 000	360 000	0	1.0	5 376 000	27.8
2012/2013	300 000	500 000	0	1.5	5 226 000	26.7
2013/2014	400 000	680 000	0	2.0	5 038 000	25.2
Conditions: Pessimistic economic and employment growth, slow EAP growth						
Scenario 4 CWP jobs included						
	Jobs created by economic growth	EPWP FTEs	CWP FTEs	EAP growth (% pa)	Unemployed (expanded)	Unemployment rate (%)
2009/2010	-300 000	210 000	22 000		5 668 000	29.8
2010/2011	200 000	260 000	84 000	0.5	5 430 000	28.4
2011/2012	250 000	360 000	139 000	1.0	5 132 000	26.6
2012/2013	300 000	500 000	195 000	1.5	4 787 000	24.4
2013/2014	400 000	680 000	250 000	2.0	4 349 000	21.8
Conditions: Pessimistic economic and employment growth, modest EAP growth						

Source: Authors' calculations from *Labour Force Surveys*; EPWP Phase 2 targets in DWP (2009); guesstimates in Philip (2009). For details, see Meth (2009)

review

POLITICAL INFLUENCE WITHOUT ORGANISATIONAL POWER: COSATU'S CONTESTED FUTURE

Sakhela Buhlungu

The recent 10th National Congress of the Congress of South African Trade Unions (COSATU) took place against the backdrop of the federation's recent successes on the political front and ongoing militant battles by its members for improved wages and working conditions. In a triumphalist assessment of its political role, the federation's *Secretariat political report* noted:

We will not speak of the political investment we have made since we stood up against the encroaching dictatorship and Zanufication of the ANC in the late 1990s and until the triumph of 2007 in Polokwane, where our ideological foes met their Waterloo. When the historians write honestly about the contributions the workers movement made in this period we are certain they will speak in glowing terms about COSATU. (COSATU 2009: 65)

The above assessment, however, tells only one side of the story about COSATU and the workers' movement, of which it is a major component. An appraisal of the federation's activities shows that the workers' movement, in general, and COSATU, in particular, are facing contradictory processes of increasing political power, on the one hand, and diminishing organisational power, on the other. Since the revival of black trade unionism in the early 1970s, the black labour movement has been spectacularly successful in building organisation and using that to extend its power and influence in the workplace and in broader society. At the height of the anti-apartheid struggle in the 1980s, black unions were the only internal oppositional force that had the legal space to organise and a formidable organisational infrastructure that could engage successfully with employers and the state. The unions also provided political and intellectual support to the liberation movement. They came up with the idea of a reconstruction and development programme, and later scores of unionists joined the new democratic parliament and became leading politicians.

However, since the beginning of the democratic transition,

unions have been losing organisational power as hundreds of leaders have left for politics and business, thousands of shop-floor activists and leaders have been promoted out of the union, and the vibrancy of the movement has been sapped by the effects of class formation and global economic restructuring. The global economic downturn that began in 2007 has exacerbated this decline, as unions continue to haemorrhage membership (Enlsin-Payne 2009), a phenomenon that raises questions about the long-term prospects of survival of this model of working-class organisation. This article considers the long-term effects of this loss of internal power and the theoretical implications of these contradictory trends in the South African labour movement. It begins by presenting what appears to be a paradox of the victory achieved by the South African unions, particularly COSATU, in the 1990s (see Buhlungu 2001a).

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A PARADOX OF VICTORY

The unions that eventually came together in COSATU were not the first attempt by black workers to unionise. Following the three previous abortive phases of unionisation by black workers – in the 1920s, in the 1940s, and in the 1950s and 1960s (Webster 1985) – the unionisation of black workers from the early 1970s onwards represents a major breakthrough in that, for the first time, unionists managed to build permanent organisations. All this was achieved despite the hostility of the state and employers in the 1970s and 1980s. The success in setting up permanent organisations set the scene for spectacular membership growth in existing unions, and for the establishment of unions in hitherto non-unionised sectors. Large plants in manufacturing and retail had been the main bases for the new unions and, from there, organisation spread to enterprises in smaller towns and rural

areas. Success in organising the mining sector was another milestone that strengthened the trend of unionisation beyond the industrial areas in the big economic hubs of the country. Another tremendous success was organising workers in state departments and state corporations, including those in the bantustan areas. Until the mid-1980s, the state had successfully resisted unions in the public sector and, when it felt challenged, it unleashed the most vicious forms of violence against such unions, as seen during the brutal response to the railways and harbours strike of 1987 and the bombing of COSATU House during the course of that strike.

However, state repression and the victimisation of workers by employers failed to stem the tide of union mobilisation. Emboldened by their successes, the unions began to forge alliances with community and liberation movements, and started making demands about issues beyond the shop floor. In this regard, COSATU's second national congress in 1987 represents a major shift, as the federation began to make demands about the need to restructure politics and the economy of the country and decided to openly explore links with the outlawed liberation movements. The congress also added its increasingly weighty voice to the call for the release of political prisoners and for the unbanning of liberation movements. In the following two years, the federation took the fight to employers and the state, not only by resisting an amendment the Labour Relations Act aimed at clamping down on unions, but also by calling for new legislation that granted full worker rights. Towards the end of 1989, COSATU threw its weight behind the defiance campaign spearheaded by the mass democratic movement. The campaign was a deliberate attempt to defy apartheid laws so as to make the apartheid order ungovernable. By this time, COSATU was the only visibly organised force that operated legally, as other formations of the mass democratic movement had been forced by repression to operate clandestinely and most of their leaders were in detention or on the run.

In this context, the year 1990 (and later, 1994) signified victory for all liberation forces in South Africa, including the unions. However, a paradoxical state of affairs arose; while unions, specifically those in COSATU, achieved a historic victory and saw their influence expand to virtually all areas of policy formulation and implementation, their organisational power began to decline visibly. It was through conscious mobilisation and the building of organisational power, with the workplace as a primary site, that unions came to achieve victory and exercise political influence. The incremental expansion of influence from the workplace began with union recognition and the granting of basic rights such as the right to elect shop-floor representatives,

access to the workplace for union officials and the right to bargain on behalf of members. The 1980s saw a rapid increase in the range of issues that unions could bargain over and those that they had to be consulted on. More importantly, formal agreements with employers came to cover a wider set of issues, including maternity and paternity leave, training leave for shop stewards, recognition of a growing number of 'struggle holidays' (for example, March 21 and June 16), and worker involvement in pension and provident funds and medical aid schemes.

The growth of influence and access to formal rights brought about an organisational stability that enabled unions to engage more confidently beyond the shop floor. It was this stability and confidence that earned unions the respect of communities and liberation organisations. Increasingly, members of community and other organisations sought the advice of union leaders, and the latter were called upon to serve and even take on leadership roles in community organisations, but the influence of the unions and their leaders did not end there. From the 1980s onwards, unionists were courted by the banned liberation movements and some were even recruited as members of underground structures, particularly of the ANC and the South African Communist Party (SACP), because they were seen to have access to a significant constituency that the movements could not reach easily.

However, it was the legalisation of the liberation movements, the return of imprisoned and exiled leaders of these movements, and the commencement of political negotiations that saw the influence of unions, in general, and those affiliated to COSATU, in particular, rise to its highest level ever. The unions provided the backbone of the resistance movement as it readied itself for taking over state power. In addition to making its resources and organisational power available to the ANC and the SACP, COSATU contributed its expertise in the politics of mass mobilisation and released some of its key leaders to share their negotiating experience with the political leadership of the liberation movements.

Paradoxically, however, as the political influence of COSATU grew, its organisational power began to decline. This decline in organisational structure was, in the main, a function of the convergence of three broad developments beginning in the early 1990s. Firstly, the phenomenal growth of unions had a centralising effect on the way they operated, with the result that local-level structures began to suffer from neglect arising from the difficulty of servicing a vastly expanded membership. Secondly, the expanded role and influence of COSATU left the federation overstretched. The first casualties of this process were local-level structures,

particularly at the workplace. Greater emphasis tended to be placed on servicing national initiatives and bargaining, thus leaving thousands of members alienated from the activities prioritised by the leadership of their unions. Referring to this phenomenon as a 'retreat from the workplace', the 2006 *Secretariat report* to the 9th COSATU Congress noted:

Outside of wage struggles, there is no coherent strategy to challenge management prerogatives and democratize the workplace. This emerges in weak work on skills and employment equity, amongst others. An unintended consequence of focusing on macro issues may be the abandonment of the shop floor. (COSATU 2006: 29)

Thirdly, the opening up of the South African economy to global markets had an extremely negative effect on union organisation, particularly at the workplace. For unions, this manifested itself as job loss, labour market flexibility and insecurity. More recently, the global economic crisis has accelerated these trends, with unions shedding thousands of jobs as employers resorted to cost-cutting as a survival strategy.

This paradox has played itself out over the last decade and a half, but it must be emphasised that the processes involved do not necessarily entail rupture. Indeed, some of the influence that the federation continues to exercise has the effect of ameliorating the processes of decline referred to here. For example, the clout that COSATU is able to exercise through its involvement in national statutory and other forums makes it difficult for certain kinds of legislative protection to be eroded by employers. In this way, even the weakest sections of the workforce that COSATU has patently failed to organise, such as domestic workers and farm workers, are able to benefit from institutions and rights conferred upon them by legislation such as the Labour Relations Act and the Basic Conditions of Employment Act, institutions such as the Commission for Conciliation, Mediation and Arbitration (CCMA) and wage determinations that are made by the Minister of Labour for those sectors with no collective bargaining arrangements. As a result, the effects of the decline are not necessarily felt immediately by individual unions and their federation.

MOBILISATION AND VICTORY

The organisational strength of the federation derived largely from the location of workers in the economy and their ability to disrupt it in support of their demands. Internal union education, which helped in leadership development, together

with the establishment of links with intellectuals, proved crucial for the growing power of the unions. This was assisted by the building of various forms of community linkage and support. The absence of meaningful avenues for black upward mobility also ensured that the ground was always fertile for the forging of black solidarity, something that generated public sympathy for workers' struggles and for COSATU, in particular.

Following the inauguration of democracy in 1994, the payback to COSATU for its support of the liberation was almost instantaneous. First, the policy dividends came in the form of favourable legislative and policy outcomes; in this regard, the adoption of the Reconstruction and Development Programme (RDP), first proposed by the unions, and the Labour Relations Act 66 of 1995 (LRA) stand out. A revised version of the RDP became the official election manifesto of the ANC and, as if to officially acknowledge the contribution of the unions, President Nelson Mandela appointed former COSATU General Secretary Jay Naidoo as Minister without Portfolio responsible for the RDP. A similar acknowledgement of labour's, and more specifically COSATU's, role in the transition was the passing of the LRA, a labour-friendly piece of legislation that incorporated nearly all of labour's demands in the period prior to 1994. Several other policy and legislative initiatives were passed or adopted in the post-1994 period, giving further credence to the view that COSATU was reaping the fruits of its labours.

Second, COSATU and the labour movement as a whole benefited from the creation of new labour market and industrial relations institutions through which workers and their unions could process their demands. Examples include the National Economic Development and Labour Council (NEDLAC), the Commission for Conciliation, Mediation and Arbitration (CCMA) and bargaining councils. These and other new institutions represented a phenomenal improvement to what prevailed before, as they had the potential to deliver positive outcomes for black workers.

The third benefit for unions was the liberalisation of the political system and the creation of spaces for democratic contestation. Contrary to the view held by some that COSATU was disarmed or incorporated into statist politics in the post-apartheid period (Neocosmos 1998; Ngwane 2003), the federation and its affiliated unions have retained the right to mobilise and embark on collective action independently of the state. This applies to workplace as well as broader political mobilisation. Not only have unions benefited through the extension of democratic rights such as freedom of association and free speech, they also have not been targeted or subjected to state repression such as prevailed under apartheid or in

other authoritarian systems. Furthermore, COSATU and other unions retain the right to engage in political activity in alliance with any political party they choose.

In the recent period following the election of Jacob Zuma as President of the country, the federation has sought to deepen and institutionalise some of its influence within the ruling political alliance. The deployment of Ebrahim Patel, former general secretary of COSATU's Southern African Clothing and Textile Workers' Union (SACTWU), as Minister of Economic Development in Zuma's Cabinet is a case in point. In the short term, Zuma's response to COSATU's insistence that Patel, rather than National Planning Minister Trevor Manuel or Finance Minister Pravin Gordhan, be in charge of overall economic policy development will be a test of the actual power it enjoys under the new Zuma government. In the meantime, the angry reaction of top ANC leaders to COSATU's attack on Manuel and the call by some leading ANC figures such as Billy Masethla to clip the wings of the federation is an indication that the political sway of the federation is not without limits.

The final benefit is the emergence of career opportunities for leading unionists (i.e. elected leaders and full-time officials). The processes of upward social mobility that we have witnessed since 1994 have been nothing short of momentous. In the broader society, there have been numerous 'rags-to-riches' stories, and the union movement provides countless examples of this. While under apartheid a union career carried serious repercussions such as police harassment, arrest, imprisonment and even death at the hands of state-sponsored death squads, the post-apartheid period offers myriad opportunities for unionists seeking avenues for upward mobility. The most popular arenas in which former unionists have moved are politics, the civil service and business; in the period since 1994, thousands of union activists have taken advantage of the opportunities in these and other fields.

COSATU's gains in the period since the achievement of democracy have no parallel in the contemporary world. Thus, it is not an exaggeration to argue that South Africa's is a phenomenal success story of labour mobilisation at the turn of the twenty-first century, a time when labour movements elsewhere in the world are facing a bleak future. Most of these other movements are finding it virtually impossible to halt the rolling back of gains achieved during the twentieth century. Indeed, many of them are barely succeeding in the struggle to survive the concerted effort by employers and free-market governments to emasculate all forms of worker organisation.

ACCOUNTING FOR COSATU'S LOSS OF ORGANISATIONAL POWER

In identifying the paradox facing COSATU and other unions earlier in this paper, three broad explanations for the federation's loss of organisational power were identified. In the discussion that follows, this loss of power will be addressed under three broad themes: the spectacular growth of union membership during the last two decades; the expanded political and representational role of COSATU in the context of the new democracy; and the opening up of the South African economy to global markets. It is necessary to preface the discussion with some important qualifications, so as not to create the incorrect impression that the federation and its unions are in a state of collapse.

One qualification that has to be made is that the state of organisation of COSATU unions is generally uneven, and the trends I discuss here affect these unions differentially; thus, the loss of organisational power varies from one union to the next. Similarly, within individual unions, the impact of some of these trends will vary by region, sub-sector and so on. A further qualification is that the loss of power is not necessarily of terminal proportions for the unions. Thus, the discussion that follows is by no means intended to convey a sense of doom about COSATU and its affiliates. Rather, it should be understood as pointing out some trends similar to those identified in classical debates on the trajectory of trade unions once they have gained recognition and acceptance in society (Mills 2001; Lester 1958; Michels 1959). It should be added, however, that unlike some of these classical scholarly contributions, this author does not subscribe to the notion of an immutable iron law that leads to loss of power and oligarchy; the tenor of my discussion points to contradictory processes more akin to those identified during the revitalisation initiatives in several countries across the world (Voss & Sherman 2000; Waddington & Hoffman 2000; Phelan 2007).

Membership growth

One of the major achievements of the new black unions in the 1980s and early 1990s was the phenomenal growth of their membership (Macun & Frost 1994; Naidoo 1999). This growth was due, in large measure, to the emergence of a democratic environment that provided ample rights and spaces for union mobilisation. However, the irony of rapid membership growth over a relatively short period of time is that it resulted in several unintended and negative consequences. First, the entry of large numbers of members made it virtually impossible to socialise these members into the ways of the unions through regular forms of

union education and training. For many unions, this was exacerbated by the shortage of resources to provide the infrastructure, employ full-time officials and make available the requisite and appropriate education and training materials. In the smaller and cash-strapped COSATU affiliates, education and training collapsed; only the large and well-resourced ones were able to sustain such services. Nevertheless, even the better-resourced unions often found themselves under pressure to move away from forms of education that provided empowerment in handling mundane but crucial organisational and representational problems to those forms that were geared towards familiarising workers and shop stewards with the imperatives of global competitiveness and how unions should adjust to these. As a result, the bigger unions often used their resources to obtain the services of management consultants, technikons and business schools for the provision of training to their shop stewards and senior leaders (Buhlungu 1996; Buhlungu 2000; Buhlungu 2001b).

The second unintended consequence has been a change in the orientation of members, from a solidaristic outlook that aimed to pursue the broad socio-economic interests of all workers to a narrow, inward-looking and instrumental one that prioritises the individual and workplace-specific interests of workers. To a large extent, this shift in orientation is attributable to the weakening of union education and training for new members, but it was also fuelled by the large-scale job losses of the 1990s and early 2000s, which engendered a narrow economism where union members focused on issues that affected their workplace, their industrial sector, their union and ultimately the diminishing layer of full-time workers with indefinite contracts of employment. The change also saw a marked decline in collective action undertaken by union members in solidarity with workers in other workplaces, sectors and unions within the federation. Even the organising policy approaches of the federation changed as the most vulnerable and difficult-to-organise sectors, which were previously organised – the unemployed workers' project, domestic workers, and farm and plantation workers – were abandoned or disbanded. On a related note, COSATU's failure to develop strong worker solidarity and to play a leading role in the broader union movement in South Africa is part of this overall trend.

A final development has been the growing centralisation of core union activities such as collective bargaining and decision-making in other areas of union work. This is partly a function of the membership growth discussed above, which often makes centralisation a necessity rather a choice. The larger the membership, the more difficult it is to involve

everyone in decision-making. However, centralisation is defended on other grounds too; namely, that centralisation allows for speedy response by leadership; that in a globalising environment, leadership should not be hamstrung by lengthy consultative or participatory processes; and that rank-and-file members generally do not possess the skills to enable them to decide on and participate in complex deliberations with sophisticated managers and state bureaucrats.

Centralisation has two consequences that are of relevance to this discussion. One is that it engenders reliance on a few leaders who become increasingly alienated from the rank and file, a process that makes these leaders extremely powerful by virtue of their access to information, resources and networks within and outside the unions. The other consequence is that centralisation results in the decline of what in COSATU's lexicon is known as 'worker control'. This means that opportunities for participation by workers and elected worker leaders diminish at the same time as the power of full-time union officials increases.

The trends discussed above have been visible within COSATU since the late 1980s. Although there are other processes that accentuate these weaknesses, spectacular growth in union membership was the main objective factor that triggered the trend in the first instance.

COSATU's expanded political and representational role

COSATU membership growth alone is not adequate in explaining some of the weaknesses discussed in this paper. It needs to be added that the expanded political and representational role of the federation has produced, perhaps inadvertently, some counter-productive forces that have contributed to the decline of organisational power. One of these is a form of democratic rupture whereby key union leaders become alienated from members, such that in the long term their outlook changes as they begin to think and act like the power elite the movement is seeking to displace – businesspeople, politicians, bureaucrats and other layers of the middle classes. When this occurs, we witness what C Wright Mills (2001: 7) noted in his discussion of American union leaders in the 1940s: 'The labor leader is a powerful man: he accumulates power and he exerts it over the union member and over property.'

The democratic transition in South Africa has created conditions that are conducive to the emergence of union leaders who believe that in undertaking the political and representational role of their unions and federations they have to be seen to be reasonable by their interlocutors in

business and the state. After all, they spend longer hours in meetings with employers and state bureaucrats than they do with blue-collar members of their unions. For COSATU leaders and even certain echelons of shop stewards, interactions with employers and state officials occur in institutions such as bargaining councils, NEDLAC, the governing boards of bodies such as the CCMA, task teams and other ad hoc bodies, *bosberade* (retreats) and numerous others that have become common in post-apartheid South Africa. To this list I should add a whole array of international trade union bodies in which the federation and its affiliates have representation. During social occasions at such events, the conversation is seldom, if at all, about building a workers' paradise and often about the latest trends in consumption – cars, houses, food and expensive drinks, playing golf, and free tickets to watch sports matches from corporate suites at sports stadiums.

This all means that leadership positions have become inscribed with power and privilege; hence, the often acrimonious leadership contests for power and resources that have occurred within the unions over the last decade (Buhlungu & Bezuidenhout 2008). Furthermore, being a representative of the federation or its affiliates in political and other forums means more than just conveying their views and mandates. Very importantly, it often also means access to new networks, an opportunity for one to 'profile' oneself, and access to perks such as free flights, hired cars, paid time off work, *per diems* and so on.

The political and representational role of the federation and its unions has had the effect of widening the horizons of its members and, particularly, its leaders, from shop stewards up, in terms of what opportunities are available for upward social mobility. Unlike in the past when the best a shop steward could aspire to become was a supervisor on the shop floor, today the range of options is almost endless, including becoming a local government councillor, a member of the provincial or even the national parliament, and numerous other career possibilities. Since 1994, the presence of these greener pastures has continued to present COSATU and its unions with a serious challenge as generations of leaders and activists have continued to seek career opportunities elsewhere. Often, these activists and leaders develop new contacts and networks in the course of performing their representational roles and, in this way, their skills and capabilities get noticed by others. It is no wonder, then, that when they exit the unions, union leaders and activists find employment with organisations that they have had the most sustained contact and interactions with. These include government departments, such as Labour and Trade and

Industry, labour market and industrial relations institutions, such as bargaining councils and the CCMA, and other public institutions that include NEDLAC, state corporations and private business organisations.

The dramatic increase in upward mobility opportunities for union leaders, officials and members has had a generally de-radicalising effect on the unions. Unlike in the past, when government and business organisations were regarded by radical unionists as part of a putative enemy, today these and other organisations are regarded as legitimate and coveted avenues for upward mobility. In this regard, the radical rhetoric of unions, particularly those in COSATU, obscures the fact that the practice among individual union members and leaders concerning upward mobility is one of *realpolitik*, where any organisation and institution is good enough if it can provide employment opportunities. In other words, if one examines the practice of these officials and leaders, radical notions of smashing the state and capitalism ring very hollow.

The dramatic increase in upward mobility opportunities for union leaders, officials and members has had a generally de-radicalising effect on the unions.

At the level of union members on the shop floor, a related phenomenon is demobilisation, which is a result of a deep sense of cynicism. This is symptomatic of the gradual but inexorable erosion of forms of solidarity built during the era of resistance, when there was greater alignment between the rhetoric and practice of the unions and their leadership. Although research in recent years shows that COSATU members are satisfied with the general direction and policy positions taken by their leaders (Buhlungu 2006), there are strong indications that membership participation in union activities such as general meetings and rallies has declined. This suggests that union membership is now increasingly motivated by a sort of instrumental pragmatism, where support for the union is driven more by the material benefits that can be extracted from the union than by a genuine support for the policy positions that the union espouses.

South Africa's entry into the global economy

The third explanation for the loss of organisational power by the federation stems from the growing insertion of South Africa into the global economy. COSATU continues to project a confident political image, and its leaders are identified with

the core of political power in the new dispensation. However, not so apparent to the casual observer are the deleterious effects of work restructuring and job insecurity associated with trends in the global economy on the federation's organisational well-being. As Table 2.3.1 illustrates, most COSATU affiliates have either faced stagnation of their membership figures or have seen a consistent decline in membership. Where growth was recorded, it was largely due to the incorporation of hitherto unorganised sub-sectors or sections of the workforce, or the expansion of the organising scope of the union. As the table shows, the overall figures also paint a picture of stagnation in the federation's

membership figures, with the highest total of 1.869 million members having been achieved in 2000.

The membership figure of 2 million presented at the 2009 COSATU congress is misleading because it creates the impression that membership has increased since 2006. The first problem with the figure is that it is a reflection of the situation at the end of 2008. Furthermore, the figure does not take account of the massive job losses suffered by the federation since the end of 2008. For example, two of the largest unions, the National Union of Mineworkers (NUM) and the National Union of Metalworkers of South Africa (NUMSA) lost a combined 108 000 members in 2009, with

Table 2.3.1: COSATU membership, 1991–2006 (rounded to thousands)

Union	1991	1994	1997	2000	2003	2006
<i>CEPPWAWU</i>	88 000	78 000	94 000	74 000	65 000	62 000
<i>CWU</i>	21 000	23 000	40 000	35 000	32 000	25 000
<i>DENOSA</i>	---	---	73 000	70 000	71 000	64 000
<i>FAWU</i>	129 000	121 000	140 000	119 000	119 000	115 000
<i>MUSA</i>	---	---	---	---	---	1 000
<i>NEHAWU</i>	18 000	64 000	163 000	235 000	235 000	204 000
<i>NUM</i>	270 000	311 000	311 000	290 000	279 000	262 000
<i>NUMSA</i>	273 000	170 000	220 000	200 000	173 000	217 000
<i>PAWE</i>	---	---	---	---	---	400
<i>PAWUSA</i>	---	---	---	---	---	17 000
<i>POPCRU</i>	---	---	45 000	71 000	67 000	96 000
<i>SAAPAWU</i>	---	---	29 000	22 000	22 000	---
<i>SACCAWU</i>	97 000	102 000	102 000	102 000	102 000	108 000
<i>SACTWU</i>	186 000	150 000	150 000	120 000	105 000	110 000
<i>SADNU</i>	---	---	---	8 000	8 000	9 000
<i>SADTU</i>	---	59 000	146 000	219 000	215 000	224 000
<i>SAFPU</i>	---	---	---	---	---	1 000
<i>SAMA</i>	---	---	---	---	---	5 000
<i>SAMWU</i>	60 000	100 000	117 000	120 000	120 000	118 000
<i>SASAWU</i>	---	---	---	18 000	18 000	9 000
<i>SASBO</i>	---	---	70 000	63 000	63 000	61 000
<i>SATAWU</i>	70 000	74 000	91 000	103 000	74 000	133 000
TOTAL	1 212 000	1 252 000	1 791 000	1 869 000	1 768 000	1 841 400

Source: COSATU (2006); http://www.naledi.org.za/cosat/state_of_cosatu_affiliates.pdf

the former losing 48 000 while the latter shed 60 000 members (Enlsin-Payne 2009). Other affiliates also lost significant numbers.

An important but not fully acknowledged feature of globalisation is the rapid, worldwide diffusion of managerial ideologies and strategies, including those that have negative effects on union mobilisation. Of particular relevance in this respect is the role played by management consultants in the diffusion of these ideologies and strategies. By contrast, unions do not have access to advisors or consultants with the same global reach or influence; thus, union strategies are not shared in the same way as those of management. Indeed, unions across the world continue to show ambivalence regarding outside inputs and advice. In cases where unions seem to have the upper hand and can exert influence independently, based on their organisational resources, they tend to shun advice from outside sources such as consultants. Then, in cases where they are under pressure from management, state and other sources, they tend to welcome advice and assistance uncritically from all sources.

The fact that in a globalising environment capital has greater mobility across different regions of the world, from strong union and high wage zones to weak union and low wage zones, has contributed to what Beverley Silver (2003) calls a 'spatial fix', which makes capital more powerful *vis-à-vis* labour. The real challenge for labour has been its inability to redefine the role of its organisational structures to deal with concrete issues in a context where industrial unionism has been shown to be patently inadequate. In South Africa, the crisis of the industrial union model is best illustrated by its inability to cope with labour market changes, such as the segmentation of the labour market into a core workforce, comprised of workers in permanent positions with benefits and relative security of tenure, and a peripheral workforce, made up of workers in precarious forms of employment.

COSATU'S RELATIONSHIP WITH OTHER INSTITUTIONS AND CONSTITUENCIES

The paradox discussed above also plays out in COSATU's relations with other institutions and organisations in society. In one respect, COSATU's relations with these organisations and institutions reflect the power and influence the federation continues to exercise. The federation commands enormous respect, and even fear, among leading figures in these bodies. This derives from the historical symbolism associated with the federation and its heroic struggles against unyielding employers and the stubborn apartheid regime, on the one

hand, and the powerful influence the federation has commanded under the democratic dispensation, on the other. However, the relations also reflect the diminishing organisational power of COSATU to impact upon important developments in society. The federation's relations with some of the leading institutions and organisations in post-apartheid society are considered below.

State institutions

To many, COSATU is closely associated with the ruling ANC and, by extension, with many of the institutions of the post-apartheid state. The federation's broad participation in activities and programmes associated with state institutions is often seen as lending them legitimacy. Thus, the views and inputs of labour, specifically COSATU, are solicited actively whenever important policy decisions are to be taken. Also significant here is the fact that COSATU has formal representation in numerous statutory bodies and other ad hoc committees that have consultative or advisory powers in respect of state institutions, such as NEDLAC, presidential jobs summits and various tripartite commissions established by law.

However, not everyone in state institutions is sympathetic to labour. To begin with, many state officials are uninformed or ignorant about labour issues, which means that their sympathy or support for labour and labour-friendly programmes and policies is never guaranteed. Indeed, even the support of those who have a fair-to-good appreciation of the policies of labour cannot be taken for granted. Over the last 15 years, hundreds of COSATU officials and leaders have moved into state institutions of one sort or another, including Parliament and the Cabinet. The reality is that many of these ex-COSATU activists now ensconced in powerful positions in state institutions are generally lukewarm or even hostile towards COSATU. There have been numerous instances where COSATU members have embarked on protest action against ex-COSATU activists in high-profile positions, such as former Gauteng Premier Mbhazima Shilowa, former Trade and Industry Minister Alec Erwin, and Johannesburg Metro Mayor Amos Masondo. More recently, COSATU and its affiliates launched scathing attacks on key government officials such as Minister in the Presidency responsible for the National Planning Commission, Trevor Manuel and the previous Reserve Bank Governor, Tito Mboweni.

In short, the reaction of state officials to COSATU can be categorised into three types: admiration, fear and contempt. The irony is that the attitude of former COSATU members, full-time officials and other leaders now in the state is characterised largely by contempt and disparaging remarks

about the federation's current crop of leaders and the policies and strategies they adopt. This was particularly the case during the tenure of Thabo Mbeki as the country's president, when relations between the federation and several state institutions reached their lowest point since 1994. A notable exception has been the Department of Labour, which has remained a bastion of union support in a government that has become increasingly lukewarm and even hostile towards unions. However, many within the department are becoming increasingly frustrated about the unions' lack of capacity to make use of the current protective legislative and policy dispensation.

Employers

The labour movement's history of militant struggle against managerial despotism and racism on the shop floor, and its central involvement in the broader political struggle to transform society have earned it the respect of management across all sectors of the economy. With regard to COSATU, the fact that it is in alliance with the ruling party further underlines the influence that the federation exercised during the democratic transition and its centrality to the unfolding processes of change. The significance of this for COSATU's relations with employers is twofold. Firstly, it has made employers come to terms with the reality of a powerful union movement that will remain a permanent feature of the landscape of employer-employee relations in South Africa. Secondly, most employers have come to accept that it is unrealistic to try to eliminate or destroy unions, and that the best approach is to learn to live with them. Hence, the dominant approach among employers today is to engage with COSATU in those sectors and workplaces where the federation's affiliates have a presence.

However, none of the above should be construed to mean that relations between employers and COSATU have become cosy. Indeed, as we saw with the security industry and the Johannesburg MetroBus strikes in 2006/07, there are some employers who continue to believe that a hard-line approach is the best way to deal with unions. Even those who accept the reality of strong unions continue to find ways to bypass unions and ignore legislation. A recent study assessing the implementation and impact of employment equity provides a good illustration of this point (Bezuidenhout et al. 2008). A popular strategy among managers is the deployment of consultants and other resources to outmanoeuvre workplace and local union leaders (Von Holdt 2005).

The hundreds of former unionists who have assumed management positions at various levels of seniority are not included among those who have moved into the corporate

world as owners of business. To what extent do these former unionists help smooth relations between employers and the unions? Like their counterparts who have moved into politics and civil service positions, most ex-COSATU activists in management maintain a lukewarm attitude towards the federation and its affiliates. Some are downright hostile and make no effort to hide their contempt for the current leadership of the federation.

COSATU and politics

The influence that COSATU exercises in society derives in part from its engagement in the politics of the country, particularly its relationship with the ruling ANC through the tripartite alliance, which also includes the SACP. The benefits of the relationship for workers and the union federation have been the subject of many scholarly analyses (see, for example, Buhlungu 2005, 2006; Southall & Webster, forthcoming). An aspect of the relationship that has not received sufficient attention is the way in which political engagement detracts from the task of maintaining the organisational strength of the federation and its affiliates. In the majority of cases, this has meant that human and material resources have been diverted away from building the organisational capacities of unions from the workplace upwards. In this regard, union education and training activities have suffered severely, particularly in a context where new categories of members not steeped in the struggles of the 1980s and 1990s have been joining the unions in large numbers. Many unions also fail to run induction and training programmes for their leadership cadres, including shop stewards, office-bearers and representatives in various bodies such as bargaining councils, pension and provident funds, and other negotiating forums.

Another problem with the federation's form of political engagement is that it has developed into support for a single political current, as represented in the ANC and the SACP. Even within the alliance, COSATU has increasingly aligned itself with the faction associated with party president Jacob Zuma. In practice, this has meant that those associated with other factions within the alliance, as well as unionists who openly align themselves with other parties, have been marginalised and, in some instances, have been purged. The federation has also shown itself to be unwilling to forge alliances with other civil society organisations, preferring to keep all its political eggs in the tripartite alliance basket.

COSATU and communities

COSATU's track record in the anti-apartheid struggle includes its remarkable ability to combine shop-floor and

community struggles, which many observers referred to as social movement unionism. However, as some scholars have argued, social movement unionism is a phenomenon that applied to the specific conditions that prevailed under the apartheid social order (Von Holdt 2002). In recent years, COSATU unions have not been making any effort to earn and win community support. During strikes, such as the 2006 Johannesburg MetroBus strike, the 2007 public service strike and the more recent wave of strikes in 2009, no serious efforts were made by the relevant unions to seek community support. Indeed, in the case of the public service strike, non-COSATU unions were more proactive in the way that they dealt with the public. For example, the National Professional Teachers' Organisation of South Africa (NAPTOSA) sent letters to parents explaining why they were on strike and asking for their support during this struggle. No similar gestures were forthcoming from COSATU's South African Democratic Teachers' Union (SADTU). The distance between unions and communities has meant that it is no longer possible for unions to command the respect of community members, or provide leadership in communities, as was the case during the height of the anti-apartheid struggle.

COSATU on the world stage

Like most federations around the world, COSATU has become inward-looking, focusing its attention at home and, more specifically, on its members, all of whom are in full-time permanent employment. The result is that its participation in regional and international trade union bodies has become rather weak. For example, its participation in regional bodies such as the Southern African Trade Union Co-ordinating Council (SATUCC), the Organisation of African Trade Union Unity (OATUU) and the Southern Initiative on Globalisation and Trade Union Rights (SIGTUR) adds virtually no organisational muscle whatsoever. Acts of solidarity that the federation has embarked upon in recent years have been limited and dependent on the idiosyncrasies of the national leadership. In short, the role that the federation plays on the international stage has disappointed many activists who looked up to it as the embodiment of social movement unionism and international solidarity in an era when most other union movements were in decline. Meanwhile, leaders of the federation have dismissed the advice of those, including

The future of the federation is a matter of fierce contestation between those forces that prioritise political influence and those that give primacy to building organisational power.

many from the African continent, who caution against unions having too cosy a relationship with the ruling party. They argue instead that South Africa is different, and that the tripartite alliance can yield only positive results for the unions.

CONCLUSION: A CONTESTED FUTURE

This paper has tried to demonstrate that COSATU remains extremely powerful and influential in South African society, particularly because of its close relationship with the ruling party, the ANC. This power and influence would be the envy of many a trade union federation in other developing countries today. However, several factors negate this influence and, instead, bear testimony to the organisational weaknesses that are increasingly becoming apparent in the federation. The existence of these contradictory processes, influence and loss of organisational power, make it nearly impossible to predict the future of the federation. What we can say with a degree of certainty, however, is that the future of the federation is a matter of fierce contestation between those forces that prioritise political influence and those that give primacy to building organisational power. On the one hand, the democratic environment serves to enhance the extension of the political influence of COSATU; on the other hand, the advent of democracy, the growth in size of unions and the global economic environment, including the current economic downturn, serve to exacerbate the loss of organisational focus and power. Union movements in the rest of the world have learnt the hard way that political influence is impossible to sustain in the absence of organisational power. Sadly, COSATU does not seem too keen to learn from the experiences of union movements in other parts of the world.