



Cooperatives and the reorganisation of labour-intensive production in South Africa's clothing industry

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ABSTRACT

Wage regulation in South Africa's clothing industry has pushed low-wage producers to restructure themselves as partnerships between former employers, now intermediaries, and worker cooperatives. The proliferation of employer-initiated cooperatives in the clothing sector reflects and poses challenges to South Africa's system of industrial-level bargaining, to unionisation, and to the government's unevenly implemented strategy of using minimum wages to force enterprises to 'upgrade' and become less labour intensive. Through circumventing wage regulation and institutionalising a less adversarial approach to the management of labour, worker cooperatives represent a model for low-wage labour-intensive manufacturing that disrupts government rhetoric and policymaking.

Les coopératives et la réorganisation de la production à forte intensité de main-d'œuvre dans l'industrie de l'habillement en Afrique du Sud

RÉSUMÉ

La réglementation des salaires dans l'industrie sud-africaine de l'habillement a poussé les producteurs à bas salaires à se restructurer sous forme de partenariats entre les anciens employeurs - désormais intermédiaires - et les coopératives de travailleurs. La prolifération des coopératives à l'initiative des employeurs dans le secteur de l'habillement reflète et remet en question le système sud-africain de négociation au niveau industriel, la syndicalisation et enfin la stratégie du gouvernement, mise en œuvre de manière inégale et qui consiste à utiliser le salaire minimum pour forcer les entreprises à « s'améliorer » qualitativement, et à devenir moins intensives en main-d'œuvre. En contournant la réglementation des salaires et en institutionnalisant une approche moins conflictuelle de la gestion de la main-d'œuvre, les coopératives de travailleurs constituent un modèle de fabrication à faible salaire et à forte intensité de main-d'œuvre qui perturbe la rhétorique et la politique du gouvernement.

KEYWORDS

Worker cooperatives; trade unions; clothing industry; South Africa; employment

MOTS-CLÉS

Coopérative de travail associé ; syndicats ; industrie du vêtement ; Afrique du Sud ; emploi

Introduction

Africa has, for the most part, missed out on the employment boom in labour-intensive, export-oriented manufacturing that played an integral part of industrialisation in East and Southeast Asia. Relatively high labour costs have been one factor in this. South Africa, unusually, has experienced *deindustrialisation*, especially in more labour-intensive sectors such as clothing production. In the South African case, this was driven by labour and industrial policy reforms that sought to ‘upgrade’ production along a more skill- and capital-intensive growth path, despite very high and rising unemployment. In response, labour-intensive clothing enterprises have sought to restructure, shifting away from capitalist production organised around wage labour into partnerships between worker-managed cooperatives that provide labour and the former employers who own the sewing machines, serve as intermediaries between suppliers, retailers and workers, and often provide managerial assistance. By mid 2018, about 40% of South Africa’s clothing production enterprises – including more than half of the enterprises outside of the major cities – had been transformed into worker cooperatives. The purpose was to circumvent wage regulation, unionisation and industrial conflict, to reduce the costs of maintaining labour discipline and productivity, to protect jobs and thus to benefit both former employers and workers.

This paper examines the contested rise of worker cooperatives in South Africa’s clothing industry as a case study of the evolving political economy of labour-intensive production. We show the attraction of cooperative organisation to employers (who can reorganise themselves as managers and intermediaries, providing specific services) and workers (who protect their jobs and open the possibility of higher earnings) and why they are opposed strongly by trade unions, regulatory parastatal institutions and the champions of the anti-capitalist cooperative tradition. We show that cooperatives can expand opportunities for small and even medium-sized enterprises engaged in low-wage, labour-intensive production, but also that there are limits to how easily this ‘model’ can be scaled up.

The paper draws on a decade of research on South Africa’s lowest-wage clothing manufacturers in Newcastle, in northern KwaZulu-Natal (see Natrass and Seekings 2014, 2019). Our research focused originally on five firms that challenged in court the government’s ‘extension’ of new minimum wages in 2010–11. In addition to repeatedly interviewing the owners of these firms and interrogating their finances, we met with numerous other ‘employers’, mostly in groups, both before and after they restructured their enterprises as cooperatives. Our sample of firms was not random: the firms with the worst ‘employment’ practices were probably unlikely to agree to be interviewed (as is the case with all studies of this industry). We also met with officials in (or formerly in) local government and the parastatal National Bargaining Council for the Clothing Manufacturing Industry (NBC). Our research on the proliferation of cooperatives was conducted up to mid 2018. One of our key informants is an employer who has been interviewed frequently by journalists; we make extensive use of these published interviews as well as our own frequent discussions with him (and with other employers). We also facilitated research by – and worked closely with – Xu, who conducted about 100 interviews between 2013 and 2017, including about 45 interviews with factory workers (Xu 2017). Whilst we have met with workers (and less often with local trade union officials), we have

not ourselves conducted detailed interviews or participant observation on the shopfloor. We suspect that workers may see us as connected to their (former) employers, shaping the veracity of anything they tell us. Our research cannot be considered ethnographic. We therefore avoid making strong claims about the views of workers, although we can draw inferences from their evident behaviour. In this article we also make extensive use of court papers and other documents, especially from 2016 to 2018, including submissions by the trade union (whose national officials have repeatedly declined requests for interviews). Our sources allow for detailed discussion of the causes and consequences of cooperative formation, but not for precise findings about earnings, profits or employment.

Like many other African countries, South Africa has a long history of rural cooperatives established by farmers for the procurement of inputs and credit, and for processing and marketing of produce. Cooperatives have proliferated in the 2000s. National and provincial governments have provided modest grants and incentives for cooperatives, recognising that they can play a role in combating unemployment, promoting local community development and facilitating 'black economic empowerment' (DTI 2012; Wessels 2016; Ndumo 2019). South African trade unions have formed and supported worker cooperatives, primarily to save their members' jobs, but also in the hope that they could provide higher earnings for members than prevailing market wages (Jaffee 1988; Philip 2018). South Africa also has a history of attempts to establish cooperatives as part of the 'solidarity economy movement' (Satgar and Williams 2013; Satgar 2019; Williams and Satgar 2019).

What distinguishes the Newcastle clothing cooperatives is that they were initiated by former employers as a way of circumventing the regulation of wages and employment under South Africa's 1995 Labour Relations Act (LRA). The members of worker cooperatives share their collective 'profits' rather than earn individual wages and hence are not considered 'employees' under the LRA. Cooperatives are instead regulated – loosely, in practice – under the separate Co-operatives Act (2005, amended in 2013). Crucially, erstwhile clothing enterprises that have reconstituted themselves as partnerships between the former employers (now intermediaries and contract managers) and worker cooperatives no longer fall under the jurisdiction of the parastatal NBC. The NBC, which is dominated by the Southern African Clothing and Textile Workers Union (SACTWU) and less labour-intensive and relatively high-wage employers in South Africa's metropolitan areas (especially Cape Town), has historically set minimum wages (routinely 'extended' countrywide by the Minister of Labour) at levels suitable for the fashionable end of the industry and protected niche markets, but unaffordable for the more labour-intensive firms producing basic clothing items. This was justified by a developmental discourse portraying industrial upgrading as the *only* sustainable economic strategy for the industry (Nattrass and Seekings 2019). The transformation of labour-intensive firms into worker cooperatives disrupted this vision – and poses a direct challenge to the financial viability of the NBC (which depends on the fees paid by registered firms for their employees) and the organisational reach of the union (limited to waged employees).

Support for worker cooperatives is consistent with a socialist tradition running from Proudhon to Wright in support of democratic control of the workplace as a progressive alternative to capitalist wage relations (Wright 2010; Jossa 2017; Frère 2018). Marx was

generally favourable towards worker cooperatives (Jossa 2017) although he worried that without the right ideological vision and leadership they were susceptible to co-optation, becoming ‘a sham and a snare’ (Marx 1871, 20). Marx was also suspicious of utopian socialist cooperatives, which he thought were being used as a ‘cloak for reactionary humbug’ (Marx 1921, 327–328). He argued that cooperatives were ‘of value *only* insofar as they are the independent creations of the workers and not protégés either of the governments or of the bourgeois’ (Marx 1875, emphasis in the original). Marx’s anxieties are echoed closely in criticisms of clothing worker cooperatives in South Africa, including by SACTWU. Yet Marx would surely have regarded SACTWU with suspicion given its substantial financial interests in the clothing industry as well as other sectors (Natrass and Seekings 2015, 2019). Cooperatives pose a threat not only to the union’s control over labour in the industry, to its income from membership fees and to its preferred industrial strategy, but also to the competitiveness of enterprises that it owns and that generate profits for the union. The conflict between SACTWU and the worker cooperatives cannot easily be reduced to a simple narrative of ‘labour’ versus employer-assisted ‘sham’ entities: both sides are engaged as both entrepreneurs and workers.

Contestation over the establishment of worker cooperatives in the South African clothing industry points to the complexities of ‘class struggle’ in a context of high unemployment. Tensions between ‘insider’ and ‘outsider’ workers – the former protected by trade unions and labour legislation, the latter not – become especially acute amidst high unemployment and a declining demand for less skilled labour. The workers in clothing worker cooperatives are very conscious of being outside of the trade union: establishing a cooperative is a strategy not only for preserving jobs but also of regaining some control over the decision to work for any particular level or remuneration. Labour-intensive employers have also for decades been very conscious of being outside of the employer associations that have loud voices in the NBC. In this context, some entrepreneurs and workers in the lower-wage, more labour-intensive sector believe that they have more interests in common with each other than they have with the higher-wage employers and their unionised employees.

Labour law in post-apartheid South Africa has a bifurcated character in terms of implementation: minimum wages and regulations concerning conditions of employment are more readily enforced against some employers than others. Implementation is weakest in sectors without significant trade unions, including the minibus taxi industry and domestic employment. Trade unions have generally been effective agents of enforcement, including through the bargaining council system. The establishment of worker cooperatives in the clothing industry is a direct challenge to one trade union’s authority. Ironically, in attempting to preserve its authority, the trade union has pitted itself against workers, some of whom may even have been former members, as well as their former employers.

The new worker cooperatives operate within the basic logic of a market economy. They challenge not capitalism but specific forms of state regulation. For this reason, these employer-initiated cooperatives are also viewed with open hostility by Marxist scholars and other anti-capitalist activists in South Africa. In this view, ‘authentic’ or ‘genuine’ worker cooperatives are ‘people-centered and values-based’, on the front line of global opposition to neoliberal capitalism through prefiguring an ‘emancipatory

alternative' (Satgar 2019, 145; Williams and Satgar 2019, 455). 'Cooperatives' that are not opposed to capitalism – such as the new clothing worker cooperatives – are seen to be 'corrupted' deviations, even if workers, as members of cooperatives, are collectively managing their labour and regardless of their potential future evolution.

Minimum wages, the management of labour and the origin of worker cooperatives in the South African clothing industry

In 1994 the clothing industry accounted for about 10% of manufacturing jobs in South Africa. The combination of trade liberalisation (through tariff reduction) and rising minimum wages resulted in employment crashing in the early 2000s. Some firms remained in business by becoming more capital- and skill-intensive, assisted by generous government capital subsidies. Others moved to neighbouring Swaziland and Lesotho, where wages were lower (Morris, Staritz, and Barnes 2011).

Other labour-intensive firms continued to pay wages below the legislated minimum. These firms were pursued relentlessly by the NBC's 'compliance manager'. Hearings within the NBC imposed 'arbitration awards' against recalcitrant firms. These would be made orders of the Labour Court. Writs of execution would then be implemented against non-compliant firms by local sheriffs of the court when instructed to do so by the NBC. The compliance manager used the legislation and the NBC's resources to charge non-compliant firms over the non-payment not only of minimum wages but also of the levies owed to the NBC itself. By the end of 2009, the NBC had acted against over 400 non-compliant clothing factories (Natrass and Seekings 2014). The NBC compliance manager later told us that he had 'taken out' almost half of the industry. After leaving the NBC in 2011, he came to regret his role in job destruction and spent several years – until his death in 2015 – promoting worker cooperatives to circumvent the regulations that he had previously enforced.¹

Newcastle (in northern KwaZulu-Natal) was one of the centres of clothing production by firms that did not comply with the increasingly onerous regulations. Most of the Newcastle firms were owned and managed by first- or second-generation 'Chinese' entrepreneurs. An initial wave of larger Taiwanese firms in the 1980s (Todes 1998; Hart 2002; Xu 2017) was followed by mostly smaller, family-linked firms, from Hong Kong and mainland China also. By the mid 1990s, clothing and knitwear production had become the mainstay of manufacturing in Newcastle (Robbins, Todes, and Velia 2004, 15). The larger Taiwanese-owned exporters closed in the early 2000s. From 2003, almost all the remaining producers were smaller family-owned 'Chengyi' operations, concentrated on the lower- and middle-income domestic market, competing directly with imports from low-wage countries like Lesotho and China (Xu 2017). These firms paid low wages and generated only modest profits.

SACTWU regarded these firms as sweatshops that abused workers and flouted labour laws. Employers accepted that there were a few 'bad apples'. Given competition from imports, however, compliance with minimum wages and overtime regulations would push most of these labour-intensive firms out of business. Missed deadlines could turn a small profit into a major loss as fines were imposed by large customers and orders cancelled. These clothing factory owners (some of whom had been line supervisors or sewing machine mechanics themselves) were accustomed to working long hours, including

through the night when deadlines loomed. They demanded similar commitment from their employees. But neither the larger export-oriented factories in the 1990s nor the smaller Chengyi family-owned enterprises in the 2000s found it easy to maintain the productivity required to be competitive. 'Chinese' managers and supervisors routinely shouted at and threatened workers in an ongoing attempt to discipline labour and maintain productivity (Hart 2002; Xu 2017; Natrass and Seekings 2019). Workers employed a range of resistance strategies (Xu 2017, 204). Employers repeatedly sought to restructure wages so that a larger share was linked to piece-work or bonuses for meeting production targets. The union and NBC sought to enforce prohibitions on such wage restructuring.

The formation of cooperatives entailed a new phase in employers' attempts to manage (and reward) productivity. Alex Liu was one of the first to experiment with restructuring his enterprise to produce in partnership with a worker cooperative. He shut down his clothing firm (WinCool) in 2008 because of pressure from the NBC but was prompted by his parents and ex-workers to start up again. He decided the only way this could be done was to help the workers set up a worker cooperative (Simunye) and to restructure WinCool as an order-sourcing mechanism. By 2011, workers in the cooperative took home a basic R250 per week plus productivity-linked bonuses, which pushed earnings for some as high as R630 per week (well over the then NBC weekly minimum wage of R489). The NBC took a dim view of both the earnings and the WinCool/Simunye collaboration but were unable to convince the courts that it was a 'sham' cooperative. Simunye members produced the necessary documentation (such as their constitution, minutes of production meetings and financial records) and testified as to how production and remuneration were organised collectively. It seems that none of the workers in Simunye supported SACTWU, which they regarded as motivated to maximise its fee income and to destroy their cooperative.

Other clothing firms followed the WinCool/Simunye example. For example, Robert (Zhi-liang) Han transformed his business GoldFinch JCR Clothing into a partnership with his erstwhile workers, newly constituted as the Goldfinch Workers Co-op. The cooperative obtained a certificate from the Department of Trade and Industry showing they are properly registered. By 2018 they had been inspected several times by government officials and by their main customer (a large clothing retailer) both of whom sought assurance that they were genuinely run and managed along cooperative lines. From our observations, an elected worker management committee takes responsibility for accepting orders, allocating production tasks, managing the labour process and organising payments. Like their old employer used to do, the cooperative provides for a basic (low) income supplemented with productivity-linked earnings. Han was satisfied by the quality produced by the worker cooperative for jobs he sourced for them and relieved that he no longer had to tussle with workers over productivity. GoldFinch JCR Clothing employed 203 workers in 2011. As of mid 2018, Goldfinch Workers Co-op was providing livelihoods for 290 members.

The typical approach taken by Newcastle clothing manufacturers was to maintain control of the ordering arm (restructured as a new company) to source orders for the new worker cooperative, manage logistics and utilities, and lease machinery and space to the worker cooperative if necessary (see also Xu 2017, 162–163). Labour management, and organisation, was left in the hands of the worker cooperatives, though in some cases the worker cooperatives were assisted by 'Chinese' line supervisors to help set up production processes and determine targets to ensure that a job was done in time to avoid penalties.

Workers had three incentives to participate in this process. The first was to save their jobs. The NBC's compliance drive had rendered concrete – in very direct ways – the trade-off between rising minimum wages and job losses in the labour-intensive end of the clothing industry. The second was to avoid the 10% 'agency fee' all workers in the industry were required to pay to SACTWU, via the NBC. They could also choose to remain members of the NBC pension and provident fund, but most opted not to do so. The third was to take advantage of an opportunity to control their own collective labour without the risks associated with investment in capital or the challenges of managing suppliers and customers. Unlike worker-owned enterprises where workers invest also in capital (buying shares, taking on debt), the new clothing worker cooperatives outsourced the (modest) costs of capital equipment and factory space to the former employer – along with logistics.

As more entrepreneurs and workers opted to re-organise in this manner, the Newcastle Chinese Chamber of Commerce engaged the services of a labour consultant to 'assist' workers to set up worker cooperatives correctly, i.e. with their own constitution, bank accounts, bookkeeping, equipment or lease agreements, health and safety procedures and a management committee mandated by the members to accept work, allocate tasks and remuneration, in line with legal requirements. The Chamber hoped that this would encourage South African retailers to source from them (rather than import from China and Bangladesh) as part of a socially responsible 'buy South Africa' initiative and that by presenting a united front, they might be able to obtain both higher producer prices and a larger market share.

In May 2018, the South African parliament agreed to a national minimum wage of R3500 per month (implemented in 2019). As this was higher than the NBC's minimum wage for experienced machinists in Newcastle, this prompted even employers who had hitherto complied with NBC wage rates to join the move to restructure as cooperatives. By July 2018, only nine out of about 100 'Chinese' clothing operations in Newcastle were still conventional capitalist enterprises.

The NBC, union and legal struggles against cooperative restructuring

Facing what it believed to be an existential challenge, the NBC asked the courts to rule that the labour law applied to members of the new worker cooperatives, and hence that the cooperatives had to comply with the NBC collective agreement, including its minimum wages. The NBC sought, in effect, to shut down the new cooperatives by having the courts declare that they were not genuine cooperatives. The courts, focusing on the distinctive form of a cooperative, rejected the NBC's applications.

In 2016 the NBC applied to the Labour Court for a 'declaratory order' that the LRA applied to members of worker cooperatives. Such a declaratory order would mean that members of worker cooperatives were de facto employees and hence that their earnings and conditions of work had to conform with the labour legislation – including, in the case of clothing worker cooperatives, the NBC's minimum wages and compulsory levies. When the Labour Court dismissed the application, the NBC appealed, but its application was dismissed with costs. The Constitutional Court denied the NBC leave to appeal further.

The LRA defines an employee as 'any person, excluding an independent contractor, who works for another person or for the State and who receives, or is entitled to

receive, any remuneration'. According to the Co-operatives Act (as amended in 2013) a member of a worker cooperative is not an employee unless they satisfy the definition of an employee as defined by the LRA. The Labour Court found that members of a worker cooperatives were not employees because they worked 'with' each other rather than 'for' an employer. The Labour Appeals Court clarified that the LRA applied only to anyone hired as a wage worker by a worker cooperative (Durban Labour Appeal Court 2017).

The Labour Court judgment emphasised that power dynamics within cooperatives were different from those in capitalist enterprises:

One of the main objects of labour law is to ensure equity in the relationship between individual employees and their employers, with it being accepted that the latter possess considerable social and economic power over the former. However, if the relationship between the parties to production have transcended the traditional employment hierarchies, where those providing their labour also jointly own the enterprise, share in any surplus and have a democratic say in the running of the operation, then, in my view, labour law should not and does not apply. (Durban Labour Court 2017: paragraph 22)

The judge noted that the judgment 'should not be taken to condone sham co-operatives' but that 'such misuses required identification on a case-by-case basis' (*Ibid.*, paragraphs 36 and 39).

The KwaZulu-Natal chamber of the NBC resisted this finding, stating in its application to the Constitutional Court that the growth of worker cooperatives had 'far reaching implications for the continued existence' of the NBC. The NBC reported that the number of registered cooperatives in the clothing industry in KwaZulu-Natal had risen from 199 in January 2016 to 'approximately 400' as of June 2018, at which time the number of registered employers (i.e. non-cooperatives) had dropped to 255. In the south-eastern Free State, the NBC also reported, about half of the employers previously registered with the NBC had converted to cooperatives. The NBC asserted that the precedents set by the Labour and Appeal Courts would lead to the restructuring of firms as cooperatives in other industries also (NBC 2018, paragraphs 15–18).

For the NBC, the fact that employers were initiating the restructuring and 'assisting' workers to form and register as worker cooperatives was evidence of their 'sham' character. Moreover – and going beyond Marx – 'individual employees/members are no more insulated from exploitation by the co-operatives' than in privately owned enterprises (*Ibid.*, paragraph 52). Precisely what the NBC meant by this is not clear. The NBC may have been suggesting that the 'surplus' shared within the cooperatives was so low that it amounted, in some basic sense, to unacceptable self-exploitation or complicity in 'exploitation' by former employers, retailers or even consumers. Alternatively, the NBC might have been implying that some workers were being exploited by other members of the cooperative (perhaps even if the division of the 'surplus' was determined democratically). It is possible that the NBC believed both.

The Labour Court found that:

A legitimate and properly constituted co-operative is characterized by the values of collective self-help, self-reliance, self-responsibility, democracy, equality and social responsibility. At its heart is the impulse of members to voluntarily associate with each other and to apply democracy as the basis of organizational decision-making. This is reflected in provisions of the COA [Co-operatives Act] dealing with shareholding and the allocation of surpluses, requiring regular meetings, and instituting the general membership of the cooperative as

the highest decision-making body of the organisation. Members of a worker co-operative may be employed in a very wide sense, but in legitimate co-operatives, these members are not working *for* another person in the same way a wage-earner is. They do not place their capacity to work at the disposal of others. They are working *with* others for themselves in an enterprise they jointly own and collectively control ... even though their day-to-day work may be subject to the control of appointed managers. (Durban Labour Court 2017, paragraphs 23–24, emphasis in the original)

Despite these court judgments, SACTWU and the NBC chose to interpret the Co-operatives Act as requiring that worker cooperatives comply with labour laws ‘unless they can demonstrate to be genuine cooperatives functioning on behalf of, and in the interests of, their members’ (SACTWU 2019). The NBC proceeded to issue notices of inspection to several hundred worker cooperatives including Goldfinch Workers Co-op. Lawyers acting for the cooperatives responded by pointing out that the NBC ‘cannot (as it seems intent on doing) rely on supposed powers it has under the LRA, before, first, establishing the LRA’s applicability and the Council’s resultant jurisdiction over any worker co-operative’ (Omar and Associates, letter to the NBC, 4 June 2019). The lawyers went on to note that if the NBC obtained ‘independent evidence that a worker co-operative is a “sham” and has been set up to evade (not avoid) the provisions of labour legislation in South Africa and/or is somehow in breach of the COA’ then it should report the matter to the registrar of cooperatives. The lawyers referred to demands by NBC for access to premises and documentation as ‘manifestly unlawful’ and as ‘gross harassment and intimidation of our clients’, noting that NBC inspectors cannot ‘enter into premises in the hopes of ascertaining IF there may be applicable “employees” on such premises and in order to ascertain IF there is some potential breach of the Main Collective Agreements’. The letter concluded by informing the NBC that their clients would not be permitting access to their premises to anyone purporting to be an agent or inspector without a suitable court order and that if the NBC seeks ‘to solicit the assistance of the South African police services to bully their way into our client’s premises, our clients will seek urgent interdictory relief’ and a ‘punitive order for costs’.

A legal stalemate thus ensued, but it was an equilibrium where both sides were footing additional legal costs and worker cooperatives felt under siege. It was, in crucial respects, a war of attrition and a fight for survival on both sides. The worker cooperatives were fighting to stay in business and to avoid hostile and disruptive inspections by the NBC; the NBC was fighting for continued relevance in the clothing industry; and SACTWU was fighting to restore its flow of agency fees from erstwhile workers, to eliminate any obstacles to its South African strategy of decent work and industrial upgrading, and probably also to protect its own enterprises facing competition from worker cooperatives.

Theron (2019, 131–133) – himself a long-time union official – dismisses the clothing cooperatives as ‘bogus cooperatives’, although he presents no evidence whatsoever for this strong claim. Nonetheless, he concedes that cooperatives provide their members with a form of ‘collective self-employment’ and he therefore defends their regulation under the Co-operatives Act rather than the LRA. He suggests that it would have been easy to demonstrate whether the clothing cooperatives were compliant with the Co-operatives Act – i.e. whether they really were ‘bogus’ – and to enforce the law in the event of non-compliance. Theron notes, apparently incredulously, that neither the state nor trade unions tried to use the Co-operatives Act to shut down ‘bogus’ cooperatives.

The court cases revolved around the organisational form of the cooperatives, not their ideological or political mission. The courts were not interested in whether the cooperatives were opposed to capitalism and the logic of the market. Proudhon argued that if the principle of reciprocity and profit sharing was extended across society, then ‘you have created a form of civilisation which from all points of view – political, economic and aesthetic – is radically different from all earlier civilization’ (quoted in Wright 2010, 165). The South African clothing worker cooperatives were not yet – as Proudhon had imagined – both ‘the cellular units of a socialist alternative to capitalism and as the centre-piece of the struggle against capitalism’ (*Ibid.*).

In the clothing sector, earnings were in practice shared between all the actors in the value chain, including especially the retailers, the former employers as contracted intermediaries and the workers through their new cooperatives, according to the logic of the market. Whilst workers controlled their own collective labour and the distribution of their collective earnings, they remained subject to the logic of the market. The transformation of power relations within the ‘enterprise’ was not matched by any similar transformation of power relations in the supply chain. Indeed, the establishment of the cooperatives was a way of circumventing the regulation of wages by the parastatal NBC. Perhaps the cooperative might become in future the basis for an alternative social and economic order, but for the moment they were firmly enmeshed in the existing order.

The partial transformation of power relations

It is difficult to know how many worker cooperatives are ‘genuine’ in the sense of properly constituted and democratically managed. We have no evidence that any of the new cooperatives do not comply with the legislation regulating cooperatives, but the absence of such evidence is not the same thing as evidence of absence. Given the extent of employer involvement and the hiring of labour consultants by the Newcastle Chinese Chamber, however, it is likely that most (at least in Newcastle) are indeed properly constituted. The fact that SACTWU and the NBC have failed to produce evidence that cooperatives are a sham, despite very strong incentives to do so, suggests that the evidence is weak and/or that members of worker cooperatives are not co-operating with the union and NBC. Whether workers take advantage of their membership of worker cooperatives, including their democratic rights and responsibilities, is another matter. There is too much suspicion and the stakes are too high for independent researchers to access a representative sample of worker cooperatives. Yet even if the motivations to move into worker cooperatives were defensive (to avoid minimum wage setting and related NBC fees and levies), and even if erstwhile workers turned members of worker cooperatives are too fearful of losing their income to challenge the authority and involvement of old employers in their businesses, the members of worker cooperatives do now stand in a new legal relationship with each other and their old employer, as successive courts declared.

Former employers hired a labour consultant to help their former employees to set up cooperatives whilst retaining some power relative to each collective of workers through their contacts in the supply chain, their experience and their control over factory space and machinery. Once labour and hence production were restructured around cooperatives, however, the members of a cooperative had more bargaining power with their

former employers. They can even, in principle, sell their collective labour to other former employers. They can also forge their own relationships with design houses, suppliers and retailers and can potentially accumulate reserves to lease space and machinery elsewhere. Ironically, continued harassment from the NBC and SACTWU probably served to consolidate inter-dependence between worker cooperatives and their old employers because of the value of a united front (including sharing legal costs). Such pressure no doubt also benefited the worker cooperatives as it incentivised the parties to avoid ‘sham’ cooperatives and to set them up properly.

In principle, worker cooperatives can ‘walk away’ from any relationship with a former employer if the former employer – now an intermediary – brokers an order that pays the cooperative less than the members’ collective ‘reservation’ earnings or if the workers are dissatisfied with other aspects of the service provided by the former employer to the cooperative. This incentivises the former employer to forge long-term, collaborative relationships with the cooperatives, including providing training and assisting the cooperatives to plan (and to execute) the production of orders. Allocating to the erstwhile employer a share of income to cover utilities, logistics (notably transporting the finished products to retailers), sourcing orders and the like, can be advantageous for the worker cooperative as it allows the management committee to concentrate solely on organising work effort and distributing earnings. The cut provided to the old employer is subject to negotiation, making transparent, reciprocal bargains the most likely sustainable solution. Egregious exploitation remains possible, where erstwhile employers demand an unreasonably large share of revenues, but this is less likely over time as worker cooperatives are free to form new relationships with other suppliers and intermediaries, or even direct relationships with retailers. This, in itself, is likely to restrain the old employers and give them an incentive to develop longer-term, more trusting relationships with the worker cooperative.

According to one of the Newcastle employers who opted to restructure his business into a new relationship with a worker cooperative, ‘I now earn slightly less than before But it feels so good because I am hassle free from the unions and the NBC.’ Rather than spend time battling with the NBC and in conflict with his workers over productivity, he concentrates on sourcing orders and leaves the issue of pay and productivity to the cooperative. He observed that the cooperative did not instigate a pure piece-work reward system, but that the management committee is ‘smart’ and ‘know who should be rewarded, and who should not’. He concluded: ‘I am glad that I did this. This [is] probably the way of doing factories in the future . . .’ (quoted in Xu 2017, 47).

The workers in cooperatives in Newcastle to whom we have spoken were, for the most part, cautiously optimistic about the model. These cooperatives were typically small, very labour-intensive operations run by experienced workers who understand that contracts have clear deadlines and that sustained productivity is essential. Some worried that they still lacked key workplace organisational skills, including how best to lay out production lines for each job, and how to price their work to win the contract and make a profit. Some worker cooperatives employ ‘Chinese’ line supervisors (often provided by their former employer) who scold and shout at machinists if the line is moving too slowly, as they did in the past, but workers report that they experience this very differently now that they are members of worker cooperatives and thus have a direct interest in the job being done on time. ‘We don’t mind being shouted at now’, we were told by

one laughing worker, ‘because we know they are on our side’. Whilst we heard many comments of this sort, we need to treat these with caution, given that we were probably viewed as associates of the former employers and we may not have accessed the workplaces where labour management remains abusive. But former employers’ claims that cooperatives maintain labour discipline and productivity more smoothly and less adversarially than when work was organised around wage employment are consistent with our qualified observations. Most importantly, in the series of court cases, the NBC and SACTWU did not produce evidence of actual abuse in sham cooperatives. If abuse were rife, we have no doubt that some workers would have reported this – not to us, but to the NBC and SACTWU.

Workers may have retained the ‘power’ to work for individual shares of the cooperative’s earnings that are less than the state-imposed minimum wages under the LRA, but they became entirely exposed to ‘market forces’ without legal recourse to the machinery of wage regulation. The inter-dependence between former employers and the worker cooperatives circumscribes the powers of each party. Furthermore, whilst workers might have more power collectively than individually, even their collective power is hemmed in by the context of high unemployment. Labour remains more abundant than the skills provided by the intermediaries (or the oligopolistic retailers). Despite unemployment, however, there is a long history of some clothing workers moving from one employer to another in search of higher wages or improved conditions of employment. It is likely that individual workers would consider moving between cooperatives and that entire cooperatives would consider walking away from some intermediaries. If it is true that cooperatives have been stable – as we have been told – then this is likely to reflect both the pressure of unemployment and an element of satisfaction with the new organisation of production.

Clothing worker cooperatives and the political economy of livelihoods in South Africa

The prospects for clothing worker cooperatives depend upon both their economic and their political sustainability. John Stuart Mill was famously optimistic about the potential for worker-owned firms to outcompete conventional capitalist enterprises because members have an incentive to work hard and to prevent other workers from shirking (Mill 1848; see also Carpenter et al. 2009; Pencavel 2014). But worker cooperatives may not be as efficient or effective as capitalist firms when it comes to financial management or entrepreneurial skill (Webb and Webb 1921; Jossa 2017, 177–188; Philip 2018). Such problems have bedevilled many of the worker cooperatives initiated by trade unions (including SACTWU) for retrenched members. Many struggled with obtaining and meeting orders, managing their cash flow and ensuring sufficient quality and productivity – a problem exacerbated by suspicion towards any form of management, seeing it as emblematic of the very authoritarianism of capitalist firms they were trying to avoid (Philip 2018, 57–66). Poor management explains much of the high mortality among cooperatives in South Africa (DTI 2012; Wessels 2016; Ndumo 2019).

Partnerships between former employers and new worker cooperatives in the clothing industry avoid these problems precisely because they entailed a modest adaptation of existing operations. As the International Labour Organization (ILO) notes, the survival

rates of worker cooperatives formed by workers taking over bankrupt businesses and converting them into cooperatives is ‘relatively high’ (2019, 3). The clothing enterprises in Newcastle and elsewhere that were restructured into cooperatives in partnership with former employers had become uncompetitive primarily because the state raised minimum wages to unaffordable levels in relation to productivity in labour-intensive production. Free from such regulation, new cooperatives have competed successfully with both the remaining conventional enterprises in South Africa and low-cost clothing imports from low-wage countries such as China and Bangladesh. But production has been restructured only partially. The former employer continues to mediate between workers and suppliers and retailers, to provide sewing machines and factory space. The members of the cooperative continue to provide the required labour. Workers have remained ‘employed’ but it is unlikely that they are better off than they were before. The cooperative model is viable due to the context of very high unemployment, which ensures a large supply of workers willing to work for low wages. It is precisely because this partial restructuring provides a viable model – in terms of competitive production – that the NBC and SACTWU attempted to shut down the cooperatives, regardless of the views of the workers in the cooperatives.

Success leads to further challenges. Faced with strong demand, should competitive cooperatives expand their membership or hire wage workers? When the marginal cost of hiring an additional worker exceeds the average share (of the additional revenues earned) going to members of worker cooperatives, there is a clear incentive to hire wage labour rather than expand membership (Ben-Ner 1984). Largely for this reason, Webb and Webb (2021) predicted that worker cooperatives would ‘degenerate’ into more capitalist enterprises (as happened in the case of some cooperatives in Spain and elsewhere: Errasti, Bretos, and Nunez 2017). Some Newcastle cooperatives have employed workers from Lesotho, rather than inviting them to join the cooperative as members. This has rendered these cooperatives vulnerable to the charges of illegally hiring foreign workers and even human trafficking (SACTWU 2019). As the courts have made clear, the LRA does not apply to a cooperative’s members but does apply to its employees.

The fact that production has been restructured only partly makes it unlikely that these new worker cooperatives will in the near future come to embody the kind of emancipation from capitalism imagined by Proudhon. Producing at the labour-intensive end of the clothing industry requires sustained effort, and margins are low – hence the term ‘sweatshop’. Workers understand that they must submit themselves to sustained work and tight deadlines – hence the practice of being assisted by Chinese line supervisors who continue to ‘shout’ and otherwise remind workers of the need for disciplined effort. Workers may decide democratically which contracts to accept and how to allocate the proceeds. As Frère argues, following Proudhon, provided that ‘labour is freely oriented and decreed in a co-operative workshop – as opposed to a factory where workers submit to their bosses – it may not be alienated but may instead become a vector of subjective realisation’ (2018, 86). The fact that labour discipline (including being ‘shouted at’ by a ‘Chinese’ line supervisor) is experienced very differently within a cooperative may underpin dignity in a way that leads to the steady expansion of worker power. But the work remains hard and the income remains low. South Africa’s low-wage clothing industry in areas like Newcastle provides an example

of precisely the kind of marginal, low-productivity, labour-intensive industry most suited to cooperatives, where cooperation improves productivity and there are few alternative employment opportunities, and where most enterprises are small. Membership in a cooperative in Newcastle might be vastly preferable to unemployment but it is unlikely to be attractive compared to most well-paid, formal employment – and is therefore unlikely to be as attractive to workers in South Africa's major cities. The union and NBC have their own vested interest in preventing enterprises being restructured into cooperatives in the clothing sector, but they are probably mistaken in suggesting that the trend in this industry will be replicated in other sectors. There is a clear need for new ethnographic research within factories and residential neighbourhoods to assess how working people perceive, experience and evaluate work that appears to be organised along different lines in different workplaces (and in different sectors).

The fact that production had been restructured only partially also explains much of the hostility on the left to the new cooperatives. Advocates of cooperatives as the pathway to a socialist – or at least non-capitalist – society decry cooperatives such as these newly established worker cooperatives in the clothing industry as the 'corrupted' vehicles of 'neo-liberal' restructuring. Advocates of 'decent work' decry the circumvention of wage regulation and the continued low earnings received by workers in this sector. Worker cooperatives are in some respects similar to 'labour brokers'. In many sectors of the South African economy, employers have outsourced or contracted out mostly less-skilled work to corporate 'labour brokers' who provide labour, thereby allowing their clients to sidestep the legal responsibilities of an employer. Clothing worker cooperatives also provide labour to the former employer (now an intermediary) under contracts rather than through employment. The rise of labour brokers entailed a change in the legal employment relationship and a restructuring of aspects of production as a way of avoiding the regulation of employment under the LRA. Clothing worker cooperatives are, in a sense, worker-owned and -managed labour brokers, providing (collective) labour under contract to a customer (through an intermediary). Unlike most labour brokers, however, cooperatives are worker-run and do not purport to provide labour to the final customer (the retailer) on a temporary basis, and their members (i.e. the workers) are not in an employment relationship with the cooperative itself (as the courts have recognised). Moreover, interdependence constrains both parties: accessing an alternative supply of labour through a different cooperative (required to avoid regulation and reduce harassment by the bargaining council and union) is far from costless.

The NBC and trade union continued to harass the clothing worker cooperatives through 2019–20, despite successive court rulings. The NBC has apparently not chosen to challenge 'bogus' or 'sham' cooperatives under the Co-operatives Act but has instead deployed its parastatal muscle through disruptive 'inspections' at times of peak activity and by exerting pressure on retailers to source only from NBC-compliant producers.²

While self-interest and ideology combine to set SACTWU and the NBC against the new clothing worker cooperatives, the state at national and provincial levels faces a more difficult dilemma. The case of the clothing worker cooperatives thus raises issues at the heart of debates about the labour market and inequality in South

Africa. In the short and medium term, what is the best balance between ‘decent’ work for the already employed and the creation of what might be called less-than-‘decent’ work for the unemployed? Put another way, does South Africa need more or less low-wage work? The challenge is enormous, with more than ten million people unemployed (even before the Covid-19 crisis) and millions more in precarious employment or earning low wages. The policy of the South African government has generally been to legislate for or support steadily rising wages in sectors with formal employment whilst implementing this unevenly, and encouraging as well as tolerating low-paying informal livelihoods.

Even in the clothing sector, the state’s endorsement of higher wages has been matched by a reluctance (in the 2010s) to destroy jobs. The establishment of cooperatives in the sector poses a stark challenge to the state: accept that workers can choose to work through cooperatives for less than the legislated minimum wages and that the bargaining council (and union) will be undermined, or shut down worker-managed cooperatives. To date, the government appears to have little appetite for shutting down worker cooperatives. Indeed, the legal form of a cooperative allows government to preserve low-paying ‘jobs’ (through cooperative-based livelihood preservation) whilst professing its continued commitment to highly paid ‘decent’ work.

Notes

1. Interview, 21 August 2014.
2. Personal communication from Alex Liu, March 2021.

Acknowledgements

We remain grateful to Alex Liu for facilitating access to research sites in Newcastle.

Disclosure statement

No potential conflict of interest was reported by the authors.

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