The Report of the September Commission: Chapter 4

Reclaiming redistribution
our economic vision, goals & strategies

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This chapter outlines an economic vision which focuses on overcoming poverty and the legacy of apartheid, through a strategy of redistribution. This is an economic transformation based on the redistribution of wealth, incomes, power, opportunities and skills. The chapter argues for the transformation of four sectors: the transformation of the public service, the socialisation of the state sector, the formation of a social sector collectively owned by unions and communities, and the transformation of the private sector into a stakeholder sector.

1. Current reality

1.1 The economy we have inherited

Under apartheid, the South African economy developed structures which ensured a grossly unequal distribution of economic resources, distorted industrial development, wide-spread poverty, low living standards for the majority of South Africans, an inefficient public service with a racially skewed pattern of delivery, and an extremely segmented labour market. The structural problems of the economy are severe and, in many cases, remain firmly in place. The transformation of the South African economy into a system which meets the needs of all must be seen as a structural transformation, not simply a problem of getting the prices right, clearing the markets, and stabilising the rand.

South Africa remains one of the most unequal societies in the world in terms of its income distribution. Only countries such as Brazil, Chile, and Guatemala are comparable. Ninety-five percent of all African households live below the poverty line. Unemployment is high and a large number of those who do have jobs earn poverty-level wages. A significant number of households do not have access to basic economic resources – housing, water, electricity, and support for raising children. For example, of the poorest 53% of the population, about 80% have no access to electricity, 70% have no access to piped water, and over 80% have no access to proper sanitation.

In the new South Africa the centres of economic power remain relatively unchanged. The vast conglomerates continue to control most productive, investment and financial activities. Land distribution remains as racially skewed as it was under apartheid. The Reserve Bank has managed to retain its position of non-accountability, and continues to exert enormous influence through its control of monetary policy.

The only major economic instrument that has fallen into the hands of the progressive movement is the state, with the democratic elections of April 1994. Our victory here is, however, by no means assured: on the one hand large segments of the state machinery are still controlled by bureaucrats from the old order who are either unwilling or unable to develop and implement policies to meet the needs of the people. On the other, important aspects of government economic policy seem designed to *downplay* or *undermine* the state as a powerful instrument for transforming our economy and meeting the needs of the people.

1.2 The global economy

Current economic reality is also shaped by forces and trends in the global economy. These forces and trends are being felt sharply as the collapse of the ‘laager state’ of apartheid has opened South Africa to international economic forces.

The analysis of ‘globalisation’ is controversial, but in general it refers to the following trends:

- the intensification of international competition in global product markets, driving continual innovation in both production processes and products
- the increased mobility of financial capital on the basis of expanding global financial markets
- the increased mobility of the manufacturing and service industries on the basis of globalised production networks
- these trends are underpinned - some would say determined - by new micro-processor information technology, which facilitates process and product innovation, the mobility of capital and the linking of production and markets through global networks, and transforms and globalises specific industries such as telecommunications and entertainment
- the global hegemony of neo-liberal macroeconomic policies
- new management techniques, including worker participation, lean production, casualisation and outsourcing, etc

These trends result in growing divisions within the working class, as some workers benefit from increased participation, improved skills and job security, while others are subject to increased control and job insecurity, with deteriorating wages and conditions of work. The general result is a shift in the balance of class forces between capital and labour, as union solidarity is undermined. The increased mobility of capital, reinforced by the programmes of multilateral economic institutions, such as the International Monetary Fund (IMF) and World Trade Organisation (WTO), has the same effect, weakening the influence of the state on the national economy and so undermining labour’s claims on government as a vehicle for redistribution.

The apartheid legacy of poverty: there is a crying need for redistribution of wealth, services and opportunites: Photo: William Matlala

Furthermore, the growth of multinational corporations (MNCs) means that corporate organisation and governance extends beyond a particular country and its legal institutions, We therefore have to rethink the idea of national public ownership and accountability in large economic organisations. The worldwide sales of prominent MNCs such as Ford Motor Company, Exxon, and General Motors are comparable to the entire GDP of South Africa, yet the distribution of resources within these corporations is not subject to international regulation and public scrutiny.

The globalisation argument says that these trends are developing in the same way across the world economy, driving all countries in the same direction. Optimists say that such convergence will lead to economic growth and success. Pessimists say that globalisation cannot be avoided, but that it undermines economic development and increases the gap between the wealthy and the poor.

We believe that both optimists and pessimists overestimate the power of globalisation to form a single world-wide economy. Research suggests there is a much greater variety of political options and national institutional responses to new trends and forces in the international economy than the globalisation argument claims. Different nations follow different routes, partly because of differences in history and institutional environments, partly because of political choices. There are limits to the integration of local and domestic markets – for example, the highly segmented and disjointed labour markets of South Africa – which cast doubt on the concept of a single global marketplace. National sovereignty is not coming to an end - it is crucially important for defining what path of development (or decline) a nation will follow.

It is not only the continuing importance of the nation-state as an agent for economic development that challenges the idea that the world is moving towards a single global economy. the emergence of new super-regional economies like the European Union (EU), the North American Free Trade Area (NAFTA), Mercasul, the Pacific Rim, potentially the Southern African Development Community (SADC), is as important. Equally, sub-regional economies and even city economies within countries are emerging as important sites for economic policy-making and development.

This means that there is continuing scope for national economic policy-making and economic development, important arenas where a working class agenda on redistribution can be pursued. Super-regional economies like SADC provide further terrain for contest over economic development, as do sub-regional economies and cities. Struggle can take place at a more global level as well, in relation to institutions such as the United Nations, the IMF, the World Bank, the WTO and so on. Our vision and strategies for pursuing such a working class agenda are discussed in the rest of this chapter, and other chapters in this report.

Unfortunately, the ANC government has adopted the "optimistic" view of globalisation mentioned above - in other words, that there is no alternative to adopting conservative macroeconomic policies, but that these will create conditions for dynamic growth in the South African economy. By adopting policies of trade and financial liberalisation the government is increasing the vulnerability of the South African economy to global forces and trends. Our assessment of these policies follows.

1.3 Government economic policies

The core of the current economic strategies of the ANC government is laid out in the Growth, Employment and Redistribution strategy (GEAR). GEAR has a range of elements.

The less negative aspects of GEAR are:

- the aim to increase the efficiency of government expenditure of public money, making sure that every rand is well-spent
- improving revenue collection and clamping down on tax defaulters, customs evaders, etc;
- the emphasis on the need for public investment
- the emphasis on human resource development

These elements are, however, overwhelmed by the right-wing aspects of GEAR which are:

- government commitment to conservative deficit targets which means real spending cuts
- government commitment to ending exchange controls
- government commitment to high interest rates as a way of controlling inflation, preserving the value of the rand and defending foreign exchange reserves
- the emphasis on privatisation
- the emphasis on ‘labour market flexibility’ as a means to create jobs
- the emphasis on the role of the market and "business confidence" in generating private sector investment as the engine of economic growth

The result is that the main aim of government’s economic policy is to meet the demands of financial capital and financial markets for conservative macro-economic targets. Social development targets set out in the RDP - job creation, services, public sector investment, investment in human resources - have become secondary. The intermediate objective of fiscal discipline has now substituted the ultimate objective of development.

These economic policies are likely to lead to strengthening of vested economic powers which have their roots in the apartheid era. They promise to strengthen capital, and specifically its financial interests, and weaken labour. They promise very little redistribution of wealth and economic power in our society. The stark contrast between the blatant wealth of a minority and the desperate poverty of the majority will continue to tear apart the fabric of society, generating crime and social instability. This is hardly going to improve investor confidence!

If we are right, and GEAR fails to deliver extremely rapid economic growth and job creation, one of two courses of action will be open to government. The first, and obviously preferable, would be to abandon GEAR (whether explicitly or implicitly) and adopt more developmental strategies. The second would be to blame GEAR's failures on 'compromises' with labour and other forces, and move to the right in adopting harsher forms of GEAR.

2. Our economic vision

2.1 Reclaiming redistribution

New water project in Northern Province: there is an urgent need for a national - Photo: William Matlala

We believe that the aim of economic development should be to overcome poverty. This means *reclaiming redistribution* as the fundamental goal of economic policy, and as an instrument for generating economic growth. Redistributive policies should focus on three goals.

Firstly, there is the goal of *increased productive activity* in the real economy, producing more wealth, bringing more and better jobs, and increasing the range and variety of economic opportunities for the citizens of South Africa.

Secondly, there is the goal of *meeting the needs of all the citizens* of the country - the needs for work and income, for health, shelter, education, decent childcare and provision for old age, as well as a high quality of community life.

Thirdly, there is the goal of *economic democracy* (redistribution of power) - meaning the participation of all working people in determining the conditions of their economic activity, and the general priorities of economic policy.

The focus of our economic policies, therefore, is on:

- industrial development,
- public service delivery, and
- economic democracy.

2.2 Transformation of four sectors

Industrial development, redistribution and economic democracy should be implemented through specific transformations in different sectors of the economy. The commission has identified four such sectors: the public service, the state sector, the social sector (including a co-operative sector), and the private sector.

We propose strengthening *the public service* and recognising the central role it plays in redistributing wealth and income and meeting peoples' needs. By *the state sector* we refer to state-owned companies such as Telkom, Eskom, the Industrial Development Corporation (IDC), etc. We propose strengthening, expanding and socialising the state sector as the sector for meeting the social and developmental needs of society. It should be made a bastion of worker control and enterprise democracy. We propose striving to establish *a social sector* under the control of communities and trade unions, dedicated to economic and social development .

The biggest part of our economy consists of the *private sector*. We propose a programme for transforming it into a stakeholder sector - a sector which is not only driven by shareholder interests, but by the interests of workers, the community and society as well. This requires a re-examination of the rights and privileges which are attached to property ownership. We acknowledge that private capital in the form of small businesses, large corporations and financial institutions will continue to be a reality, but we propose to harness these massive productive forces to the requirements of economic development as defined by the needs of ordinary people. In other words, it will not be solely the need to produce surplus value, but the needs of society, that shape investment and distribution decisions. This represents the partial socialisation of capital and its resources.

These transformations are discussed in more detail in Section 3 of this chapter, especially sections 3.2, 3.5 and 3.6.

2.3 The activist, developmental state

Our argument so far makes it clear that we see the state as a key economic agent. It is the biggest employer, consumer and investor in the economy. Through its fiscal and monetary policies, and the composition of its budget, it exerts a tremendous influence on the economy. Its parastatals - especially Eskom, Transnet, Telkom and the Post Office - are massive engines in the economy. Through its education, trade and industrial policies it shapes the country's industrial development. We believe that an active, interventionist state is necessary if we want to achieve our goal of economic development - in other words, to overcome poverty and redistribute power, wealth, income and economic opportunity from a small minority to the majority of citizens. This is what we mean by the transformation of the apartheid state into a developmental state in South Africa.

It is strategically important for the union movement to identify the state as a critical agent for the redistribution of income and wealth. It is important to combine collective bargaining with the redistributive role of the state in improving the standard of living of workers. A strategy of focusing pressure on the state to deliver will require a change in orientation and new capacities in the unions. This is already happening - for example, in the establishment of COSATU's parliamentary office.

A strategy of focusing on the state as an agent of redistribution is consistent with international comparative research on the role of the state in economic growth. The evidence is that:

- countries which are more equal in terms of wealth distribution tend to have higher growth rates
- countries which spend a lot on redistribution do better (in contrast, countries whose governments simply spend a lot tend not to grow)
- higher tax rates (if linked to redistribution) do not adversely effect growth rates.

The extreme contrast of wealth and poverty in South Africa makes redistribution a necessary condition for economic growth. A trade union strategy for state-directed redistribution is at the same time a strategy for economic growth.

2.4 The link to socialism

We believe that the programme we suggest has a socialist orientation because it:

- defines economic policy in terms of meeting the needs of citizens
- furthers a culture of solidarity, community and social responsibility
- opens up the space for economic democracy
- redistributes wealth, income, assets, opportunities and powers

Socialism is often defined in terms of structures of ownership. Our programme envisages an economy composed of the public service, a state sector, a social sector , and the transformation of the private sector into a stakeholder sector. We are therefore proposing a significant basis of public and social ownership in the economy, as distinct from private ownership. Our proposal for a stakeholder sector entails a partial socialisation of capital. These proposals create foundations for potential socialist transformations in the future.

Our programme will lay the foundations for the development of a democratic, human society which meets the needs of its citizens. This is the starting point for socialism.

2.5 The link to the Reconstruction and Development Programme (RDP)

The RDP was initiated by COSATU, and developed jointly with its Alliance partners. It contains a powerful vision of redistribution and transformation. It analyses the oppression, injustices and blockages in the apartheid economy, and describes in detail a series of intentions and goals for the new democratic government. In many aspects, the vision outlined in this report is a restatement of the fundamentals of the RDP.

However, the RDP is weak in describing a coherent set of economic policies for implementing its vision. Where it does propose economic policies these are still relatively undeveloped. This chapter seeks to build on the RDP by outlining a coherent set of economic tools and strategies for achieving its vision. The report also benefits from three years of policy implementation by the ANC government, and the detailed economic analysis and debates that have accompanied this. The RDP was the product of negotiation within the Alliance, whereas our report outlines an economic vision, policy tools and strategies for the labour movement. Thus, for example, we make explicit the links between economic policies and COSATU's goals of socialism.

3. Tools to implement the vision

3.1 Macroeconomic policies

3.1.a Social targets

We believe the key macroeconomic targets should be the social ones:

- overcoming poverty and inequality
- reducing unemployment by generating new jobs
- the progressive realisation of every citizen's right to shelter, food and water, health, education and community life

It is important to ensure a regular social audit of government performance in meeting the above targets. In the new South African constitution the Human Rights Commission (HRC) is given this task. It is important for parliament and organisations in civil society to monitor its ability to play this role effectively. The HRC should table a regular report on government progress in meeting these social goals in parliament for debate.

3.1.b Interest rates

We believe interest rates should be substantially reduced in order to create the scope for increased economic activity. Lower interest rates would increase the purchasing power of consumers, facilitate the shift of capital from financial markets into productive investments, and substantially reduce the burden of public debt on government, allowing it to increase its social and infrastructural investment. The Reserve Bank needs to be restructured to sensitise it to the developmental needs of the country.

3.1.c Regulation of financial markets

We believe government should increase its regulation of financial markets significantly. Exchange controls should be maintained in order to protect the domestic economy from the flight of capital and guarantee the efficacy of government intervention in the economy. Specific taxes to reduce the attraction of speculative investments relative to productive investments should be introduced.

An alternative approach to the regulation of financial markets would be to redirect investment streams much more directly. The strategies are certainly not mutual exclusive. A more detailed discussion of the latter approach is developed in sections 3.3 and 3.5 below.

3.1.d The budget and taxes

Government should avoid binding itself to specific financial deficit targets without first assessing their impact on service delivery, on the ability of the state to extend services to communities previously denied them, and on the institutional capacity of the state.

The demands of the present are to overcome the legacy of apartheid - to overcome poverty. This requires the expansion of state services and their improved quality, as well as substantial state investment in people and in social and productive infrastructure - in other words, increased state expenditure. If deficit targets must be met, they must be met by increased taxation on the wealthy, rather than cutting - or failing to extend - social services to the poor. This is an imperative for overcoming the legacy of apartheid and tackling poverty.

South Africa’s tax revenue as a proportion of national income is substantially lower than comparable countries internationally. A study of relative tax levels in 70 industrialised and developing countries suggests that South Africa’s tax should be increased from 25,7% of national income to 31% - an extra R25 billion at 1996 prices. South Africa’s tax regime is also significantly regressive, especially at the bottom and top levels. This means that South Africa’s poor are paying higher effective tax rates than other sectors of the population, and that the lower and middle income groups bear a disproportionate share of the tax burden. The research indicates that there is substantial room to reduce the budget deficit, and increase social spending and public investment, by increasing taxes, especially on the wealthy. As noted above, international experience shows that high tax rates are consistent with growth if they are spent on reducing inequality.

Government debt could also be substantially reduced by moving to a pay-as-you-go public service pension fund. A third of government’s debt of R270 billion consists of the public service pension fund debt, on which costly interest payments have to be made. This is an enormous burden on the budget and on our economy. A shift to a full pay-as-you-go system (used by many governments) would reduce the budget deficit by 2% of GDP. This would release roughly R10 billion a year, which could be used for public investment and strengthening government capacity - to the benefit of all citizens and economic growth.

The budget is perhaps the most important tool for achieving the development goals outlined in this chapter. This requires a struggle over the broad macroeconomic parameters of the budget – deficit financing and interest rate policies - as well as over the key economic priorities as they are contained in the budget. Without such participation, the achievement of the progressive economic goals outlined in this chapter will be severely constrained.

The budget process in South Africa must be reformed in order to allow greater transparency and democratic participation of labour and civil society. Reform of the budget process must take into account the new structures of fiscal federalism and provincial autonomy which have been introduced with the new South African constitution.

3.2 Transforming the public service

The transformation of the public service is dealt with in detail in Chapter 5, Democracy for delivery. In this chapter we simply outline some of the main principles and goals for the transformation of the public service.

Firstly, it is quite clear that the state needs to expand its provision of basic services in order to reach those who were previously excluded. The public service is the critical instrument for achieving social justice, ie redistribution in order to realise the right of all citizens to a decent life, education, health and income.

Secondly, expenditure on clinics and hospitals, on schools, on child maintenance and old age care, cannot be seen simply as a cost in the form of consumption expenditure. It is an investment in people and community solidarity, which will contribute to a more productive society.

Thirdly, public service activity is a powerful economic lever - building infrastructure, generating demand, and stimulating a host of private sector companies through procurement and contracts.

Fourthly, the state has been run down by the apartheid regime, undermined during the transition, and further weakened by mismanagement by the new government (the fiasco of voluntary severance, for example). The state urgently requires investment in rebuilding its institutional capacity - developing effective management, improving skills, introducing new technology, and improving staffing levels. Only this will produce the dynamic, service-oriented and efficient public service that our new society needs.

Fifth, we reject the ideology of a ‘lean state’ - a reduced state cannot meet the needs of social transformation and development, and is inappropriate in a society with our level of unemployment. We propose the goal of a public service which is enlarged to the extent required to effectively deliver universal service to all our people.

Sixth, we envisage a powerful role for the union movement in reshaping the public service and introducing dynamism into it. We propose a partnership between government and labour in transforming the public service.

3.3 Industrial development strategy

We advocate an industrial development strategy that is *targeted*, *active* and *co-ordinated*. Every kind of resource for industrial development is scarce in our country - capital, state finance and capacity, educational resources, technology, expertise, skills and capacity for innovation. These resources need to be combined in a fashion, and be deployed to those activities, that will most rapidly achieve Cosatu's industrial goals. If these issues are left to the market the result may take us further away from those goals - for example, jobless industrial growth with no redistribution of wealth or incomes. Industrial policy should thus be seen in an activist and developmental manner.

In Appendix 1 we discuss how a targeted, active and co-ordinated industrial strategy might be implemented in two sectors: plastics and forestry products.

3.3.a Goals and principles of industrial development

Industrial development in South Africa should have the following goals:

- to create sustainable, quality jobs as its first priority
- to provide for the country's social and economic needs
- to stabilise the Balance of Payments through increasing exports and reducing imports by developing domestic industry
- to expand production for the domestic market

In addition, industrial policy must be based on the following principles:

- it must include provisions for training and technological development
- it cannot base development on the reduction of labour standards
- it should include social plans to transfer workers from declining to growing sectors of the economy

3.3.b Targeting and a vision for industrial development

Targeting means selecting clusters, sectors or sub-sectors with the best potential for growth and for achieving the goals set out above. In order to select appropriate sectors, it is necessary to have a vision of the kind of industrial development we would like to see in South Africa.

Industrial Development: South Africa needs an active, targeted and co-ordinated strategy - *Photo: William Matlala*

Our overwhelming need in the short to medium term is to develop labour-intensive industry which is able to employ massive numbers of unskilled and semi-skilled workers. This suggests a focus on sectors such as clothing and footwear, furniture, plastics, electronics/electronic consumer goods, metal products, agribusiness/food processing, construction and tourism.

3.3.c An active industrial strategy

On the basis of the particular vision developed for our country, specific clusters, sectors or sub-sectors should be selected for development. Opportunities and constraints need to be identified and overcome. Available resources need to be mobilised for the development of these sectors - finance/credit, R&D and innovation and design capacities, institutions for developing the appropriate skills (industrial training, universities and technikons), infrastructural capacities (eg transport, cheap electricity), marketing resources, etc.

Current industrial policy has mobilised resources for mineral beneficiation mega-projects such as the Coega zinc smelter and the Saldanha steel mill, which do little to meet the goals of industrial development that we have identified above. There is no reason why similar mobilisation of scarce resources cannot be embarked upon to develop labour-intensive manufacturing, and more labour-intensive forms of beneficiation.

3.3.d Co-ordinated industrial strategy

Co-ordination is probably the most critical element of industrial strategy, and government is the key player in driving such co-ordination. Government needs to help enhance the co-ordination capacities of business and labour, actively co-ordinate their activities, and develop much stronger co-ordination between its own various departments and institutions. Chang (1997) suggests establishing a "pilot agency", in the form of a "ministry of the economy" or an agency in the president’s office, to take charge of policy co-ordination. He also proposes a weekly co-ordination meeting of all ministers whose portfolios affect industrial development, and regular, frequent meetings between the senior civil servants in their departments.

Industrial capital

Industrial companies are potentially major national assets in the quest for industrial development: they consist of large resources of capital, technology, expertise in product development and in competing for markets. Labour has tended to concentrate on advocating *p statisticsunitive* policies in relation to business - for example, increased taxes and anti-trust legislation. There are good reasons for this, as business has tended to adopt an antagonistic attitude to many of labour's proactive proposals. There are, however, very important examples of unions and business building partnerships around industrial strategy in particular sectors. COSATU needs to build on this experience. One of the most important lessons of this experience is the critical importance of government's role as an active partner. Without that there is very little that can be achieved.

Government, for its part, has lambasted being uncompetitive, and adopted a strategy for putting pressure on it by lowering tariffs and proposing tough anti-monopoly legislation. It is ironic that government's aggressive attitude to our country's manufacturing industry is in stark contrast to its conciliatory attitude to financial capital and financial markets. GEAR is essentially a set of policies to meet the demands of, and strengthen, financial capital. The evidence of the social democracies, as well as of the fast-growing economies of Asia, is that financial capital should be regulated, and that large industrial corporations are critical agents in industrial development.

Industrial partnerships need to focus on strategies for developing targeted sectors by mobilising capital, deciding on appropriate trade policies, bringing in international investors as partners, targeting markets, ensuring that appropriate technical, scientific, shopfloor and managerial skills are developed, and providing resources for R&D and technology development. A longer-term benefit of building such industrial partnerships is that they may encourage industrial capital to organise and articulate its interests as distinct from those of financial capital - whose agents tend to dominate public debate, the press, NEDLAC and other forums in our society.

Labour

Labour has an important role to play in shaping industrial policy. It can exert pressure for labour-intensive industry, for increased levels of investment, and for high levels of training, education and human resource development. It can also exert pressure for industrial development to be based on innovation and dynamism, rather than low labour standards and low wages. One of the most valuable contributions labour can make to industrial policy is its understanding of the necessity for co-ordination - which both business and government may under-value because of the way they are structured.

In order to play these roles, labour needs increased participation in the key leverage institutions - the IDC, DBSA and the National Productivity Institute (NPI) (or a new institution, see 3.3.f below). This is the basis of our demand that these institutions be democratised, with labour representatives on their boards.

3.3.e Investment

We see three focuses as central to efforts to increase investment:

- the mobilisation of domestic capital resources
- active investment strategies by the state to lead investment

- an expanding economy with growing markets

These three focuses suggest a range of policies to facilitate investment. Exchange controls should be retained or where appropriate reinstated, to prevent an outflow of domestic capital. The financial sector should be restructured to facilitate the cheap financing of industrial investment. Reserve Bank policies should encourage cheaper credit for targeted sectors. A restructured IDC and DBSA are critically important institutions for leading industrial development. Their funds should be substantially increased, as should their ability to extend cheap financing to targeted sectors and infrastructure.

Public sector investment, public-private partnerships, and industrial development partnerships are all important for leveraging increased levels of investment. Macroeconomic policies which stimulate the economy and expand markets are also important.

3.3.f Development Finance Institutions (DFIs) and other government agencies

The IDC, DBSA and Land Bank are the major DFIs in South Africa, and they can play a critical role in industrial and economic development. However, to do this they need to be transformed: they were central institutions in the development of the apartheid economy, and do not necessarily have the expertise or ability to play a very different role in a democratic and developmental economy.

The IDC

The IDC has enormous capital resources for investing in new industry, and financing new investments in existing industry. It also has a relatively highly developed policy capacity, and experience in project planning, technology appraisal and development, and co-ordinating joint ventures and new developments. These are all strategic capacities for national industrial development.

The problem is that the IDC’s major investments and experience have been - and continue to be - in facilitating and funding mega-mineral beneficiation projects such as Alusaf, Columbus and Saldanha Steel in partnership with South Africa’s mining and industrial conglomerates - Anglo-American, Iscor and Gencor. In 1995 84% of the IDC’s industrial finance was allocated to such projects. These projects are extremely capital-intensive with negligible employment creation, are export-oriented with few developmental linkages into the South African economy, and expose both the IDC and the South African economy to the volatile cycles of world commodity markets.

In line with the industrial development goals described above, the IDC needs to undergo a fundamental change in focus. The IDC’s focus should be on supporting the development of labour-intensive industrial clusters, as well as technology-based industries such as software development, using the same instruments as it has for the mega-projects: building partnerships, networks and joint ventures, providing investment capital, supporting technology development and product innovation, etc.

In other words, we see the IDC as a critically important resource in implementing a targeted, active and co-ordinated industrial development strategy together with the DTI. It could also act as a lever for technology and innovation networks including universities, technicons and research institutes such as the Coucil for Scientific and Industrial Research (CSIR), and other parastatals such as Denel.

IDC money is public money. The IDC could therefore play a role in implementing stakeholder rights, and building and supporting a social sector. These possibilities are discussed further in Section 3.5 below.

The trade union movement could play an important role in refocusing and shaping the development of the IDC. The union movement should have two seats on its board of directors and should be invited to participate in all industrial development initiatives (cluster studies, regional development studies, SDIs, etc). In addition, the role of the IDC in national development should be made more transparent through accountability to NEDLAC and to parliament.

The DBSA

The DBSA has a major role to play in financing and co-ordinating the provision of infrastructure. The main strategic question in relation to the DBSA is whether it should focus solely on municipal infrastructure, its current mandate, or whether it should focus on infrastructure more broadly. Within the field of municipal infrastructure investment, government's emphasis on cost recovery is questionable. Linked to this is the extremely high interest rates (approximately one percentage point below market rates) charged by the DBSA on its infrastructure loans. Insistence on cost recovery and market-related interest rates will increase the financial pressures on already under-resourced municipalities, and undermine their role in extending services and infrastructure to poorer sections of the population.

The trade union movement should have seats on the board of directors; importantly, these should include municipal trade unions such as SAMWU. Researchers should be seconded, joint projects could be explored and the DBSA should be accountable to NEDLAC as well as parliament.

The Land Bank

The Land Bank needs to play a new role in support of transformations in agriculture, in food processing and in rural development. These are areas of great job creation potential and will have an impact on agricultural workers and their unions.

The NPI

There is a need for a national tripartite centre for improving innovation, skills, work practices and relations, and management practices. The mandate of such an institution should be to act as an agent for encouraging and extending stakeholder rights, workplace democracy, and participation in improving manufacturing and service performance.

It is not clear that the NPI can be transformed to play such a role. Neither its leadership nor its staff have the relevant experience or vision. It may be simpler to close it down, and establish a new tripartite institution from scratch with a new mandate. This is a question that needs to be decided urgently, before more public money is wasted. COSATU should play a central role in deciding whether to transform the NPI, or replace it. If it is decided that the NPI should be transformed, its transformation would require the full participation of labour.

A tripartite institution (whether a transformed NPI or a new body) should only provide support and services to companies where there is a negotiated agreement between management and unions on the procedures to be followed in workplace change and development. Where such agreement does not exist, the institution could encourage and facilitate progress towards an agreement. In providing advice, support or training for workplace change, the institution's role should be to empower and resource workers and their unions as well as management.

National Occupational Safety Association (NOSA)

NOSA is notorious for its ineffective programmes and its management bias. It is an even less likely candidates than NPI for transformation. A decision should be made urgently whether to close it and use the funds to strengthen the Labour Department's health and safety inspectorate instead. COSATU should play a central role in making such a decision.

3.3.g Demand side measures

Government needs to use public investment, infrastructural development and state contracts to expand the capacity of industry. Expanding the domestic consumer markets so that domestic producers benefit from economies of scale is also important, and our general redistributive policies are designed to achieve this.

Currently, government tariff policy seems to be exclusively focused on increasing competitive pressures on domestic companies. This should be replaced with a 'strategic trade' policy which uses tariffs to strengthen and boost South African industry's ability to replace imports and as well as its ability to compete on international markets. This means protecting infant industries, especially in sectors targeted for growth. The lessons from the rapidly growing economies of East Asia are clear – one can pursue an import-substitution strategy with trade restrictions, and a rapid development of export markets, at the same time.

3.3.h Sub-regional industrial development

Provinces and cities are becoming increasingly important sites of economic development. Provincial and municipal budgets and public services are concrete instruments for redistribution and development. In a number of provinces development forums have been established, and many towns have local development forums. Government's spatial development initiatives (SDIs) are designed to unlock development potential in specific regions.

International research indicates that cities and regions are increasingly being seen as the appropriate terrain on which to implement industrial development strategies. Specific industries, skills, institutional networks, traditions and relationships are concretely located in different regions and towns. For example, the clothing and textile industries are concentrated in Cape Town and Durban, motor vehicle assembly and components in the Eastern Cape, heavy engineering on the East Rand, tourism in the Western Cape, KwaZulu-Natal and Mpumalanga. The deeply embedded social conflicts in KwaZulu-Natal are a deterrent to industrial development.

These trends indicate the importance of building regional economies. Targeting specific sectors will have implications for specific regions. Likewise, targeting specific regions may boost specific sectors.

The regional economies should be designed in a way which advances, rather than undermines, national economic priorities. The Finance and Fiscal Commission (FFC) formula aims at ensuring equitable allocations to overcome regional disparities. In addition, deliberate policies need to be adopted to overcome uneven economic development between regions.

It is important for labour to engage with regional and local development issues, in order to protect their members as workers and as citizens, and to prevent a competitive ‘race to the bottom’ between provinces. Labour can bring pressure to bear for service delivery, for labour-intensive development, for resources to be invested in skills and human resource development. Unions can also encourage co-ordination, partnerships and networks in a concerted thrust for development. Labour should drive the formation of provincial or regional development forums where these do not exist, and motivate the establishment of regional development agencies.

Eskom workers: socialise the state sector - *Photo: William Matlala*

3.4 Transforming and expanding the state sector

The state already owns very big and important industrial enterprises in the form of parastatals like Eskom, Telkom and Transnet. In addition, through the IDC it has a large stake in a wide range of manufacturing enterprises - for example, Columbus, Alusaf, ADE.

We propose a programme for transforming the state-owned sector into a socialised sector. Enterprises in this sector are already owned by the state, and were established to produce for the public good (either to deliver cheap services or boost industrial development) rather than for profit. The parastatals should become laboratories for workplace and enterprise democracy, with union and worker participation on management boards. Unions could become much more actively involved in issues of service delivery, expansion and quality, and industrial development.

The IDC is a state company, and the money it invests is public money. It could become government policy that companies the IDC invests in, are partly or wholly transformed into social-sector enterprises as described in Section 3.5 below.

The state sector should also be expanded through the establishment of a housing parastatal. The aim of such a parastatal would be to build rental housing for households unable to afford ownership, and to facilitate the development of community-based housing co-operatives so communities can build their own houses at low cost.

3. 5 The formation of a social sector

By the social sector we mean enterprises and capital collectively owned - or partially owned - by organisations in civil society such as trade unions or community trusts. Under this heading we discuss union retirement funds, employee and community- owned companies, a co-operative movement, union investment companies, and collective employee share-ownership projects (collective Esops). We do not recommend them all. Some, such as union control of retirement funds, are already union policy. Others, such as collective Esops, or a co-operative movement, are more controversial. We include them here to provoke debate.

The goal of building up a social sector would be:

1. to influence investment patterns so that investment generates real productive activity and jobs
2. to replace the way enterprises are currently managed with democratic governance
3. to use the profit generated from enterprises in the social sector for the benefit of workers and communities
4. to tie control of capital and assets to local community/worker ownership, and so limit the ability of capital to abandon communities or South Africa
5. to find creative ways to redistribute productive assets
6. to establish collective and social forms of production, as part of a movement towards socialism.

The economic strategy of apartheid was to concentrate wealth, income and productive assets in the hands of the white minority. The economic strategy of democracy must therefore seek to redress this through the redistribution of wealth, income and productive assets to the previously oppressed majority. The transformation of the state sector (considered in 3.4 above) could overlap with, and reinforce the development of a social sector.

3.5.a Control of retirement funds

The biggest institution of social ownership are the retirement funds. Worth some R500 billion, a large part of their assets consists of workers' deferred wages in the form of savings for retirement. Retirement funds represent 35% or more of total savings in South Africa, and provide about 60% of local finance to companies. The retirement funds are a major source of investment capital in the South African economy, and own substantial stakes in hundreds of companies. Although the retirement funds represent workers' money, workers have very little influence over how it is used. We have three proposals on how this can be changed.

- All retirement funds in South Africa should be required by legislation to invest at least 20% of their funds in prescribed assets. These could be divided between RDP bonds (managed by the DBSA, representatives of the pension fund trustees, and union representatives) and venture capital funds (managed by the IDC, pension fund trustees and union representatives) to channel investment into new ventures in sectors targeted by industrial policy.
- Currently mutual insurance companies such as Old Mutual and Sanlam are nominally controlled by policy-owners, but in practice are controlled by their managers. Organised labour and other representatives of policy-holders should be given representation on their governing structures. This would give great influence over companies in which the insurance companies hold a large stake.
- Unions can exert a more active influence over pension funds, having secured legislation requiring them to have at least 50% worker representation on their trustee boards. This also provides union trustees with the opportunity to exert active influence over the companies in which the retirement funds are invested, with the aim of enhancing company governance, investment policy and social responsibility. This approach has been used effectively by the Community Growth Fund.

3.5.b Community/union/employee-owned companies

Ensuring accountability of, and worker influence over, retirement funds is not the only way of building a social sector. Another is the transfer of state or private assets to union and community trusts. For example, the discussion about restructuring the state-owned diamond company, Alexkor, includes the idea of transferring a 30% stake in the company to a community trust representing Namaqualand communities in the areas where the company operates. Our proposals for the transfer of 35% of Safcol, the state forestry company, to employees and communities would provide another example (see Appendix 1, *The forestry sector*).

There are a range of potential mechanisms for building up such a sector.

- State enterprises could be wholly or partially transferred to community and employee trusts, as would be the case with Alexkor or Safcol.
- The IDC could become an institution which drives the transformation of publicly- owned industry. As noted above, the IDC owns substantial stakes in large numbers of manufacturing companies. There could be a compulsion on such companies to become model workplaces in terms of workplace democracy and union participation. They could, for example, have union-nominated directors and profit-sharing. IDC financing of, or investing in, new companies could be accompanied by a transfer of a portion of company assets to community or employee-owned trusts. There could also be a compulsion on the IDC, when it sells its stake in "mature" companies, to transfer a portion of company assets to such a trust.
- Companies which are threatened with closure could be placed in the hands of their employees or local communities; this would need legislative and financing measures to require such companies to explore this option, and to enable employees to buy out such companies (tax concessions, cheap credit, IDC funding).

There are also a range of different possible ownership structures for enterprises in the social sector: by employees or communities; by a mixture of both; by union investment companies or civil society organisations; or by large national trusts controlled by unions and community organisations, rather like the Swedish model of wage-earner funds.

These models all have their own advantages and disadvantages. It is probably desirable to experiment with a range of different structures in order to meet different needs, and to assess their advantages and disadvantages in practice. However, it is important for any project to be guided by the principles that the goals of the social sector are broader than simple accumulation or profit-making; that the social sector should be based on collective ownership rather than individual ownership; and that it is preferable to include communities in ownership structures rather than only employees, as this will insure wider participation in the benefits of ownership.

3.5.c Building a co-operative movement

Some of the socially-owned enterprises described above could take the form of co-operatives.

Some COSATU affiliates have extensive experience with co-operatives. The Mineworkers Development Agency, formed by the NUM, has decided against forming more co-operatives because they require a lot of resources and support, and do not provide many jobs. Instead, it has pioneered a development strategy based on the co-operative provision of economic services - transport, storage, bulk supplies, joint marketing and product development - to networks of self-employed former mineworkers. This provides the support base that is necessary for rural economic activity, boosting production, consumption, incomes and rural accumulation.

SACTWU on the other hand, owns and operates a few clothing and blanket factories. One of these was established to provide employment for retrenched textile workers, and another was a union buyout of a factory threatened with closure.

There may be scope for the development of a dynamic co-operative movement, building on the above activities, as a far more meaningful form of grassroots economic empowerment than buying shares in Johnnic. Such a co-operative sector could consist of formal sector factories, shops, mines or housing co-operatives, as well as simpler activities like brick-making or printing T-shirts. Co-operatives could become an alternative form of "black economic empowerment", to participate in public-private partnerships, or in subcontracting and outsourcing where unions fail to prevent these.

The disadvantage of committing COSATU to supporting a co-operative sector is that it would require a lot of resources and time for success. However, COSATU need not take sole responsibility, but could support initiatives by other organisations and lobby government for support.

COSATU should consider the potential benefits and drawbacks. Possibly COSATU could send a team to countries like Italy and Spain where there are very big and dynamic co-operative movements, to gain further insight into the sector.

3.5.d Union investment companies

Unions have been getting involved in investment through union investment companies in the past few years. A number of problems have become apparent:

- the separation between unions and investment companies has been blurred
- in many cases union officials gain financially, through access to cheap shares or directors' fees
- there is no clarity about the strategic goals of the investment funds
- decisions about investment funds have sometimes been taken in deliberate secrecy, preventing members from participating
- investment companies have at times drawn on worker retirement funds to finance deals

The above problems point towards possible dangers:

- *unions lack coherent policies on investment by their investment companies:* this may lead to divisions and conflict in the unions over the behavior of investment companies.
- *the lack of democratic participation:* this process could exacerbate the gap between leadership and base in the unions. If some of the investments go seriously wrong and workers or the union loses money, this could precipitate a serious crisis.
- *What kinds of deals?:* some unions motivate their investment companies as generating income for worker benefits such as bursaries for workers' children, but their investments tend to involve deals that will only generate income in the long term.
- *Business is business:* none of the investment companies seem to be guided by any social criteria about what to invest in; in fact many unions explicitly say that investments should not be influenced by union principles as "business is business". This attitude undermines long-standing union demands that capital should invest in socially responsible ways, create jobs and boost the RDP.The real danger is that instead of trying to influence the pattern of capital accumulation, we accommodate ourselves to it, even through engaging in privatisation.

Options

There are three possible strategies COSATU could adopt:

1. Continue as at present: all unions establish investment arms, and engage in individual, often contradictory deals. Unions cease to show interest in actively shaping economic activity or policies. Some investments will lead to high profile disasters or scandals. Members will react with outrage, rejecting leadership. Union splits or decline may follow.

2. opposition to investments becomes dominant: a wave of resistance to union investment companies forces unions to withdraw from all investment activity, including pension funds. Unions lose their potential opportunity to influence investment decisions in the economy.

3. Unions adopt coherent policies and resolve the above problems: after full democratic debate, unions develop guidelines for investment which correspond to union principles and union policies on the economy.there is much less risk of scandals or membership revolt. Strategies of business and government are contested.

If COSATU decides to continue with its investment companies, it will have to consider what the most effective role for union investment companies to play would be.

The current model is that the primary role of the union investment company is to invest and take partial or full control of the companies it invests in. The purpose of the investment is the same as that of other capitalist shareholders - to make as much profit as possible. We suggest that the goals of union investment companies should be radically broadened, to include the 6 goals outlined at the beginning of this section (3.5). The powerful investment companies must be aligned with the general strategic perspective of the union movement on investment in particular, and transformation in general.

3.5.e Collective Esops

Historically, Esops have been used by employers in South Africa as a device to co-opt workers. Workers were granted a small number of shares individually, which gave them no voice in the company.

An alternative is collective Esops, where the shares are held in a trust under collective control, rather than by individuals (NUMSA and Samcor established such a collective Esop when Ford disinvested in the 1980s). In the UK and the USA, employers have initiated such collective Esops in an effort to co-opt workers into adopting a management perspective. Typically such management initiatives have transferred between 10% and 40% of the company shares to the Esop.

The question is whether unions can make use of collective Esops to gain influence or control of companies. In the US, the Steelworkers have established collective Esops as a vehicle for employees to buy steel mills facing closure. Usually these Esops own 100% of the companies, and are therefore similar to co-operatives. Some unions argue that even a 20% stake can give workers the power to elect some directors and share in company profits.

Esops also hold very real dangers. They may co-opt workers to the goals of management. They are frequently used to make workers accept increased workloads or pay cuts, or take responsibility for financing a failing company.

The Commission does not recommend Esops. It proposes that COSATU should discuss whether collective Esops have any benefits for workers and unions, and take decisions accordingly.

3. 5.f Support for the development of a social sector

If COSATU decides to support the development of some elements of a social sector, it will have to consider a number of support measures and institutions:

- Legislation would have to provide support. For example, there would have to be a legal requirement for retirement funds to invest in prescribed assets. There would have to be a legal framework to support co-operative ownership. Tax concessions would be necessary for employee and community buyouts, or for collective Esops.
- Cheap financing and credit would have to be made available to support initiatives such as co-operatives or community-owned companies.

- A variety of labour-linked, NGO or community-based support institutions would have to be established, to support pension fund trustees, socially-owned enterprises, co-operatives or collective Esops.

Union investment companies could play a role in assessing, financing and supporting socially-owned enterprises. This would mean transforming their role from making profit-maximising paper deals, to supporting and expanding the arena of collective economic activity in the social sector.

3.6 Transforming the private sector into a stakeholder sector

The basis of this transformation is the principle that workers have stakeholder rights as workers, whether they own assets or not. In other words, workers may have a right to consultation or participation, or a right to share in company profits, or to representation on the board of directors, notwithstanding the fact that they do not own shares in the company. Legislation could enforce such stakeholder rights. For example, France has a law that all companies above a certain size have to reach agreement with workers on an arrangement for profit-sharing.

The institutionalisation of stakeholder rights represents the transformation of property rights, in contrast to the redistribution of assets which entails transferring property rights from capital to labour. Stakeholder rights therefore represent a partial socialisation of capital - it is no longer only the rights of shareholders that prevail, but also the needs of workers, communities and society. The idea of stakeholder rights, and how they could be implemented, are developed further in Chapter 6, *Democracy & apartheid in the workplace*.

3.7 Social Wage

A major pillar of the RDP's programme for addressing poverty and inequality is the extension of a comprehensive social wage to all citizens. This is a critical vehicle for economic redistribution and implementation of socio-economic rights in the Constitution. It provides an economic floor below which no South African should sink. The social wage comprises direct income transfers (such as social security and retirement benefits) and social subsidisation of the costs of basic needs (such as housing and health).

COSATU has put forward concrete proposals in a number of these areas, including the setting up of a basic national social security system; a national retirement fund; the mass provision of public housing through a housing parastatal; a public transport system, amongst others. It has also, with qualifications, supported government proposals for setting up a national health system, as well as proposals on access to water.

Debate around these issues often tends to focus on the costs of implementing the social wage , and ignore the major social and economic benefits of implementing such a programme. These have been well documented in the international context by bodies such as the United Nations Development Programme (UNDP). The question of the level at which the social wage needs to be established, given capacity constraints, and the form it should take in various areas, is clearly something which would need to be discussed in some detail in the Alliance and with government.

The economic and social benefits of establishing a comprehensive social wage package include:

- its impact as part of an active strategy to stimulate demand in the economy
- its impact in reducing inequality
- its impact in bringing the working poor and the unemployed more directly into the mainstream economy, through addressing conditions of extreme poverty, degradation and disease
- reduction of direct non-wage costs to employers, by socialising the provision of elements of the social wage and by socialising provision of areas such as health care, reducing costs by taking them out of the private sector
- combined with a new approach to urban planning, reduction of the hidden costs of apartheid geography (in terms of well-located housing and infrastructure, transport etc)
- helping to lower input costs into the economy through socialising areas such as infrastructure, health and transport
- laying the basis for raising the overall productivity of the economy, through improved health conditions, reduced travelling time etc
- improving quality of life of society as a whole, and creating conditions for addressing crime and violence in a sustainable way.

3.8 The labour market

The legacy of the apartheid era has produced a set of labour market institutions which do not protect the welfare of the people and which are subject to devastating market failures. The two most severe problems are:

- the inability to create conditions of full-employment
- the large number of jobs which fail to pay a living wage

The current labour market institutions often replicate the structural failings of the labour market of the apartheid era. It must be stressed that these structural problems in the South African labour market require changes in institutions and production processes. This is a fundamentally different transformation to the much publicised call for increased labour market flexibility.

According to those who argue for increased labour market flexibility, the primary problem of the labour market is that wages do not adjust downwards to bring about conditions of full employment. The supposed need for greater labour market flexibility is based on a presumption that the labour market actually suffers from inflexibilities with respect to wages and employment.

In fact, the labour market, as it currently exists, is remarkably flexible in terms of wages and employment as demonstrated by the recent International Labour Organisation (ILO) study of the South African labour market. The amount of institutional protection workers have in South Africa is very small; retrenchments are not difficult; there is an increasing trend towards casual and atypical employment; and most wages are determined at the plant or enterprise level.

The working poor - *Photo: William Matlala*

The connection between the structure of the labour market and the level of poverty in South Africa is a key area of concern. How can the labour market be restructured so as to become a central tool for eliminating poverty and moving towards a more equitable distribution of income in the country? Two answers have been given to this question.

On the one hand, the high level of unemployment, currently measured at between 20% and 30%, has been offered as one explanation. Widespread poverty would therefore be a result of a lack of employment opportunities. To help alleviate poverty under this scenario, a comprehensive employment-creation strategy should be implemented.

On the other hand, others have argued that low wages and incomes are the real problem. The poor could be better characterised as 'working poor'. Given this interpretation, raising wages and improving conditions of employment are the most appropriate strategy for fighting poverty.

It is evident from the available data, that both low wages and unemployment contribute to poverty in South Africa. The situation is a combination of the *unemployed poor* and the *working poor*.

Policies aimed at reforming the labour market and creating new job opportunities must take this dual source of poverty into account. Jobs must be created and economic opportunities expanded, but not at the price of lower wages. Wage flexibility as a means of poverty alleviation – and particularly if new jobs are seen as the central mechanism of redistribution – simply means exchanging one source of poverty (low wages) for another (unemployment).

Creating new employment opportunities along with higher wages requires a long-run strategy and depends on the successful accumulation of productive investment in sectors of the economy which produce jobs, and on the structural transformation of the apartheid-era labour market.

3.9 Collective bargaining, productivity and wage policy

Collective bargaining is a form of redistribution. For trade unions it is often the most important form of redistribution, as it involves direct delivery to their members. Collective bargaining was used in an extremely effective manner by COSATU affiliates during the 1980s and early 1990s. They succeeded not only in increasing the real wages of their members, but in winning a range of benefits to compensate for the apartheid state's refusal to extend the social wage to those not classified as white.

Now, however, they are confronted with a range of arguments that their wage gains should be limited or rolled back. It is argued that:

- wages of their members are too high, preventing the employment of new workers (the solution advocated by *Growth for all* and by GEAR is increased wage flexibility)
- high wage costs are making our industries uncompetitive
- wage increases are not linked to productivity increases and so could stimulate inflation (Labour Market Commission)

There is little evidence to support any of these arguments.

Recent research indicates that race and education have a far greater effect on wage differences than union membership does. It is the apartheid wage gap, and the skills and education differentials that characterise it, that are a major cost for industry.

Average monthly income in Rands by race and educational level

	Primary education or less			**Secondary education**		
Union status	All workers	African workers	White workers	All workers	African workers	White workers
Members	551	541	2 733	1 714	1 305	2 650
Non-members	476	472	1 838	1 245	818	2 713

Glenn Adler and Gerald O'Sullivan 1996

A defining characteristic of incomes in South Africa is the wage gap between blue collar and low-paid workers on the one hand; and management and high-paid employees on the other. The gap between the salaries of management and other highly-paid staff, and the wages of the bulk of union members, is extremely high by world standards. This is the legacy of the apartheid wage structure.

Labour costs include the total wage bill, including the remuneration of management. White employees, who dominate managerial, professional, supervisory and skilled positions, account for some 45% of the wage bill, although they constitute only 23% of the total workforce in manufacturing.

Supporting evidence for the high cost of management in South Africa is provided by the World Competitiveness Report. South Africa is ranked 41 out of 49 countries in terms of management efficiency, but 6th in terms of the remuneration of top management. The high cost of South African managers is very clear when it is contrasted with the low productivity of the enterprises they manage.

Senior Occupational pay as ratio of value added per worker - manufacturing

	CEO	**Plant Managers**
South Africa	1 208	398
Chile	371	151
Hong Kong	727	377
Korea	578	320
UK	482	305
USA	325	200

World Competitiveness Report

These statistics all suggest that if labour costs are too high this is the consequence of high management costs. A significant reduction of the management wage bill would contribute substantially to the reduction of labour costs. However, the management/worker ratio is increasing. This makes little sense when there is a surplus of workers and a shortage of managers in the labour market. The appropriate strategy for reducing labour costs would be to reduce management intensity and management incomes in South African industry.

This points to the need to change the production system. Unproductive and idle managers who earn high salaries should be weeded out. Management functions should be devolved to the shopfloor, and a portion of management salaries that are saved should be redistributed to shopfloor workers.

There is no evidence that wage increases won by union members are the main source of inflation. To the extent that rising incomes generate inflationary pressure, this can as plausibly be explained by high and rising management incomes, a greater portion of which are spent on imported goods. Redistributing part of these incomes to workers will tend to increase demand for local goods, and reduce poverty.

The proposals of the COSATU Policy Conference on closing the wage gap need to be taken forward, for a comprehensive programme, through national and sectoral bargaining, and employment equity legislation, to reduce the ratio between the highest and lowest earners to 8:1, over a specified time frame.

3.9.a Productivity

We are confronted with arguments everyday - in workplaces and in the media - that workers' productivity needs to increase in order for our industries to become competitive. In fact, labour productivity has been rising and unit labour costs have been declining since 1992.

It is not at all clear that the weak competitiveness of South African manufacturing is primarily due to low productivity. International comparative data on productivity is notoriously difficult to compile.

To the extent that productivity growth is a problem, causes are also controversial. The Industrial Strategy Project (ISP) argues that it is due to low skills and inefficient work organisation. Bell points to macroeconomic factors - low capacity utilisation due to small markets. Managers claim that workers are lazy. Clearly, the refrain that workers are not productive has the same status as the claim that labour markets are flexible - mere sentiment with no factual basis.

Strong union presence, worker rights and labour standards compel management to seek productivity improvement through increasing management effectiveness, innovation, increased investment in training and skills and worker participation.

Our view is supported by the ILO's argument for the importance of 'dynamic efficiency'. For example, where there are few costs or limitations on management use of overtime, there is little incentive for managers to engage in serious forward planning and production scheduling, or to make efficient use of available people. We reject strategies for improving competitiveness through undermining worker rights and labour standards, fragmenting the labour market or reducing wages.

Workers and trade unions cannot be held to be the chief obstacles to productivity improvement. It is management, government (through the supply of services, infrastructure and industrial policy), and low capacity utilisation which are responsible for most productivity problems which exist. We believe that increasing the competitiveness of the South African economy requires a strategic approach to entering rapidly changing world markets, public investment in cheap and efficient infrastructure, communities, people and skills, and a comprehensive restructuring of the management structure and how production is organised.

This does not mean that unions and their members have no contribution to make to improved performance. They are able to commit themselves to making their workplaces productive where they are accorded proper stakeholder rights, full information disclosure and a share in the benefits. The results in such workplaces will be improved work practices and relationships, and increased efficiency and productivity.

At a broader level, a different approach to promoting productivity as part of a broader strategy of redistribution and employment creation is clearly required. Labour has proposed (in 'Social Equity') the need to negotiate a National Productivity Framework in order to achieve this objective.

3.9.b Wage policy

The above argument makes it clear we see no reason for unions to moderate their wage demands or accept higher levels of wage flexibility. Indeed, union demands should stimulate management to seek ways to reduce the cost of management and improve production processes. In addition, as outlined in Section 3.8 on the labour market, low wages are already a cause of poverty. Reducing them further will increase poverty.

Union wage policies should be based on the following:

- increases in basic wages should not be linked to productivity increases since the major portion of productivity improvements are the responsibility of management
- at the same time, as producers and stakeholders, workers should share the benefits of productivity improvement, either through wage increases or through gainsharing agreements
- it is a priority for unions and their members to close the apartheid wage gap between the majority of workers and highly-paid workers/management - and COSATU should insist on this becoming a priority for employers and government too
- the trade union movement should pursue a strategy of wage solidarity which seeks to increase most the wages of the lowest paid
- unions should oppose labour "market flexibility" which seeks to increase wage flexibility (eg undermining centralised bargaining, increasing casualisation)
- centralised bargaining should be strengthened

Critics will argue that the wage policies contradict the industrial development strategy of focusing on labour-intensive industry where wages are lower than in capital-intensive industry. However, there are already large labour-intensive sectors in South Africa where wages - whether set at company level or through centralised bargaining - are relatively low. Such wage levels cannot act as a deterrent to new labour-intensive investment. New companies will either fall within the scope of bargaining councils that already cover labour-intensive industry, or wages will be set through company-level negotiations. In either case the unions will seek to organise their members and bargain for improved wages and conditions.

Our comments on productivity and wages above, apply as much to labour-intensive as to capital-intensive industry. The labour movement cannot accept low wages simply because of management incompetence. Where companies or sectors experience particular problems, unions should be open to seeking mutually beneficial solutions on the basis of full information disclosure.

3.10 The Southern African Region

An economic strategy for South Africa, if it is to move beyond a short-sighted development horizon, must consider the development of southern Africa as a region.

Firstly, it will be impossible for the South African economy to grow if it is surrounded by a sea of poverty and unstable societies. The impact on our society of the flow of illegal weapons from Mozambique into South Africa illustrates this point.

Secondly, and looking on the positive side, southern Africa as a large potential market of over 140 million people. Economic development of the region will increase the demand in this market - attracting investors and becoming an engine for growth.

Thirdly, the growth of the national economies is linked. If the Zimbabwean economy grows and flourishes, then there will be positive impacts on the South African economy through cross-border multiplier effects, increased trade between the countries, and improved infrastructure development.

Finally, a co-ordinated approach to regional development could allow southern Africa to play a dynamic role in South–South economic relations, with important links to South America, Asia, and the rest of Africa.

But while it is possible to envision a co-ordinated regional development strategy in which all countries of southern Africa benefit, there is a large risk of countries in southern Africa adopting a "beggar-thy-neighbour" approach to economic policy in which one country’s gain is seen as another country’s loss. Policy maneuvers such as tax breaks, supply-side incentives, economoic protection zones (EPZs), and flexible labour markets could be implemented as an attempt to attract foreign investment and remain competitive in world markets. The result would be an unco-ordinated race to the bottom with each country trying to obtain a competitive edge. South Africa is the only country in the region with the resources to pull the region onto a different growth path.

The picture in southern Africa is made more complicated by the uneven development and large inequalities between different countries in the region. South Africa is classified as an "upper-middle income" country while Moçambique is one of the poorest countries in the world. Any effective regional policy must recognise and actively address these inequities. Tensions arise when regional development is seen as a future luxury which can be supported once the pressing national needs of the day are met. But if the national needs are met within a competitive context, then there is likely to be an erosion of the overall level of social welfare in southern Africa despite talk of regional solidarity.

One approach to this dilemma would be to institutionalise elements of co-operation between the different countries of southern Africa. For example, a regional infrastructure investment fund could be established to which the different countries of southern Africa would contribute based on their wealth and level of development, with more developed countries (eg South Africa) contributing more than less developed countries (eg Moçambique).

There is also a need to move beyond a trade policy for the region (Southern African Customs Union), towards an industrial policy for southern Africa in which industrial development in different countries is orchestrated for mutual benefit. The cluster studies of the IDC could be expanded in scope to include an analysis of regional strategies.

4. Our recommendations: strategies to achieve COSATU’s economic goals

We have identified five areas where COSATU can develop strategies to achieve its economic goals:

1. through engaging, within the Tripartite Alliance, with the ANC and government
2. through engaging with a range of different levels and institutions of government - with individual ministries, departments, parliamentary portfolio committees, and provincial and local government

3. at NEDLAC
4. at industry level, through using our organisational strength and bargaining power
5. through building broad popular alliances with other organisations in civil society - churches, NGOs, intellectuals and so on.

These do not constitute five alternative sites of engagement. We need to pursue all of them in combination. However, we will have to decide which of these leverage areas is the main strategic focus, depending on the balance of class forces. Our preferred strategy would be to secure a far-reaching accord for transformation with our Alliance partners. This would be a good foundation on which to build engagement at other levels.

We have also identified three different scenarios within which we may have to implement our strategies - **Pap, vleis and gravy**, **Skorokoro** and **The desert**. We can seek to influence, with our strategies, which scenario prevails - but we are not the only forces shaping the scenarios and we cannot control the outcomes. Therefore we have to be prepared to adapt our strategies even to scenarios that we would not choose.

4.1 Pap, vleis and gravy - or a comprehensive accord

A comprehensive accord or agreement may be a way of moving to **Pap, vleis and gravy.** A comprehensive accord would be one in which a number of the most important elements of our economic vision and programme are agreed within the Alliance, and taken forward at NEDLAC with the other labour federations, with business and with the development sector. The proposal for such an agreement is set out in the COSATU Discussion Paper on a Programme for the Alliance.

An Alliance Reconstruction Agreement would need to be combined with an engagement with business using NEDLAC as a forum to seek social consensus about the developmental needs of our society and the strategies to achieve them.

It may be that it is not possible, for various reasons, to reach agreement on an Alliance Accord. COSATU would then have to adopt a more selective strategy, targeting core policies that it believes are achievable, and mobilising an alliance around these core demands, which could then be negotiated within the Alliance, and at NEDLAC, in addition to lobbying parliament directly.

The Labour Market Commission (LMC) advocates a social accord between government, labour and business on wages, prices and investment with the aim of promoting job-creating growth. COSATU has tended to reject this idea because, to the extent that it is based on a policy of wage moderation for labour, it would entrench existing inequalities. COSATU needs to explain to its Alliance partners why this approach to an accord is doomed to failure.

It would also need to put forward as an alternative perspective, the view that such an Accord could only be considered, if its fundamental thrust was redistributive in character. Elements of this would have to be:

- closing the wage gap by setting targets for real wage increases for the lowest paid and most vulnerable workers, and targets for real wage cuts for the highest paid
- securing a commitment to redistribution of income through taxation policy and social wage targets -in housing, health, transport etc- and establishment of a comprehensive social security system

- a framework for restructuring the public sector which was aimed at expanding the role of the public sector in service delivery
- redirecting investment, including through prescribed asset requirements on retirement funds
- securing acceptance of our macro-economic goals outlined above.

Equally, the proposed Jobs Summit would need to see agreement by the Alliance and government, on an approach to these basic issues, if it is to have any chance of success.

4.2 Skorokoro continues: no accord, but room for influence

In this scenario COSATU is unable to reach agreement with the ANC on a comprehensive socio-economic platform. However, both the ANC and a number of government institutions (ministries, departments, parliamentary portfolio committees, provincial and local government) are prepared to work with COSATU in developing and implementing policies in specific areas.

In such circumstances COSATU should continue to contest GEAR publicly and within the ANC, but its main focus would be on strategic policy work on specific issues, and engaging with the relevant government institutions on these issues with the aim of developing what might be called "sectoral accords". At the same time, it would have to devote resources to building popular alliances and campaigns on these issues, to hold government to its promises.

In this scenario COSATU should adopt a similar strategy at NEDLAC, seeking to fashion a series of agreements on specific issues such as training.

The strategic focus areas should be:

- industrial development and employment creation
- socialising the parastatals
- public sector reform
- reducing income inequalities/wage gap
- securing a social wage

In this scenario COSATU could also organise or participate in a broad campaign against poverty and for social justice.

4.3 Into the desert: COSATU is shut out

In this scenario GEAR is imposed on the entire state machinery, and there is no significant space for working jointly with ministries, departments or institutions on developing or implementing progressive policies. There is widespread pressure and intimidation in state institutions to silence dissent from GEAR and prevent research into policy alternatives. The public sector is systematically cut back, and services increasingly put in the hands of the private sector.

Under these circumstances resistance and defence seem to be the only strategic options, and the focus is on building powerful organisation in workplaces and industries, and forming popular coalitions with other organisations in civil society around specific campaigns. Possibilities include the following:

- campaign against spending cuts
- campaign for jobs
- campaign against poverty and inequality
- campaign for public services

4.4 Further recommendations

At the beginning of this section, we identified five different leverage areas where COSATU could seek agreements in pursuit of its economic policies. However, if it is unable to forge such agreements, there is no need to be paralysed. It should still pursue its economic goals through engaging in the leverage areas identified above. Progress will be more limited. COSATU will need to concentrate its organisational and policy resources on a small number of priority issues where it feels it can make gains. Strategies will have to combine resistance and proactive goals. In this way it can continue to keep alive its vision of a democratic economy based on redistribution.

But if it is to engage effectively, it will have to develop the necessary organisational and policy capacities. Most importantly, it will need to focus its energy on developing strategies, and implementing these in a consistent way.

We recommend that COSATU take steps to implement the following:

4.4.a campaign against poverty

This should be a broad, ongoing campaign based on a coalition of organisations in civil society, as discussed in Chapter 3 - NGOs, churches, academics, civics and youth.

i. Such a coalition could focus attention on poverty and inequality in South Africa, and on the necessity for democracy to extend social justice to the poor. It could produce a *Poverty and inequality report* which would assess progress in overcoming poverty and inequality, and evaluate government economic policies accordingly. The report could focus on poverty indicators such as reduction or increase in the diseases of poverty, access to health care, access to potable water, shifts in income distribution, access to education, progress on overcoming unemployment and income inequality and progress on housing delivery. The report should be presented to the President and to parliament in an effort to stimulate a society-wide debate on poverty and inequality and strategies to overcome it.
ii. It could challenge cutbacks in state spending, engage in the budget process and mobilise for increased taxes on the wealthy.
iii. It could mobilise for specific measures, such as improved child maintenance grants, or poverty relief programmes such as free food, fuel or transport.
iv. It could campaign for investment in job creation. Such a campaign could have several focuses: for an expansion of the public works programme as part of the RDP; for a comprehensive government programme on job creation, focusing on lower interest rates, active industrial development and increased state spending.

4.4.b Industrial development policies

i. Every affiliate should establish its own industrial policy department or team, to develop industrial policy, participate in COSATU industrial policy processes, and engage with employers, NEDLAC and government. COSATU and affiliates should develop industrial policy teams, driving the development of policy in each sector. This would require demarcation of various sectors, and co-operation between relevant affiliates, e.g. in the energy sector. These sectoral teams should cover industrial development both in the public and private sectors.
ii. COSATU must develop greater capacity to co-ordinate policy formation and engagement on industrial development issues. COSATU should concentrate on co-ordinating and building the NEDLAC team in the trade and industry chamber and the parliamentary office's interventions on industrial policy issues, as well as supporting affiliates which are engaged in specific campaigns over industrial development issues.
iii. A process with potential for union influence is the cluster study/development process co-ordinated by DTI, NEDLAC and IDC. We recommend that all affiliates make it a priority to participate proactively in this process. Affiliates in a sector should meet with the head of the DTI sectoral bureau for that sector, to discuss plans and processes for sectoral industrial strategy. Through such involvement, the industrial policy team can start to think about an 'industry plan' for its sectors or subsectors. Such an industry plan should include a component on a strategic trade policy (including appropriate tariff policies) to foster sectoral growth.
iv. Resources must be made available at NEDLAC to develop the capacity of labour to engage more effectively in industrial policy development in the Trade and Industry Chamber, including through the employment of labour researchers in this area.
v. NALEDI should establish an industrial development research capacity. This could provide research and policy support to COSATU and affiliates. In addition, we recommend that NALEDI convene an industrial policy reference group consisting of trade unionists - from affiliates and COSATU - involved in industrial policy, to collectively develop strategies and guide research. COSATU should consider a longer-term research project, housed at NALEDI, to assess industrial development strategies, based on an evaluation of international comparative experience, with a view to developing a vision for long-term industrial development in South Africa.
vi. COSATU needs to develop a consistent strategy in relation to the IDC, the DBSA, NPI, the Land Bank and NOSA. The federation should initiate discussions with the relevant ministries (Trade and Industry, Finance, Labour, Agriculture) and the institutions themselves about their restructuring (or in the case of NPI and NOSA, their possible closure) and labour representation on their boards.
vii. COSATU should lobby government to conduct an in-depth investigation of the financial sector and how to ensure channeling of financial resources into industrial development. COSATU should initiate its own research into this area
viii. State tendering procedures have great potential for influencing and leveraging economic development. The WTO is currently discussing neutralising these procedures as instruments for fostering domestic industry. We recommend that COSATU lobby government to take a stand against this at WTO debates.
ix. COSATU must develop the policy and strategic capacity to engage with regional and local development issues. We recommend that this should form part of the mandate of the COSATU policy department.

4.4.c Transformation of the public sector

i. Transformation of the public sector is discussed in detail in Chapter 5.
ii. Transformation of the public sector should be linked to the campaign against poverty. It should also be linked to COSATU's involvement in the public finance chamber of NEDLAC. The capacity of COSATU - and labour more broadly - to participate effectively in this chamber should be boosted in the same way as its capacity to participate in the trade and industry chamber (Section 4.4.b.iv above).
iii. We recommend that COSATU plays a leadership role in co-ordinating and driving the programme to restructure the parastatals. The industrial policy capacity outlined above should be applied to the restructuring of state assets.
iv. COSATU needs to take forward the proposal made at this year's COSATU policy conference, for a National Framework Agreement for the restructuring of the public sector as a whole, to be negotiated between labour and government.

4.4.d Building the social sector

i. The source of greatest leverage in the formation of a social sector, and one which promises substantial results, are the retirement funds. We recommend that COSATU convene a conference of affiliate general secretaries, affiliate retirement fund specialists, and representatives of fund trustees, to develop concrete proposals and strategies for having them implemented.
ii. COSATU should obtain a register of all companies in which the IDC has a stake. A meeting of representatives from these companies should be convened to discuss our proposals for developing such companies into models of stakeholder rights and participation.
iii. COSATU should explore the implications of more actively supporting the expansion of a co-operative sector in South Africa, including in the mainstream of the industrial economy. There are a range of NGO and community organisations that could help build such a movement. Union investment companies could form a vehicle for supporting co-operatives. Government could also be lobbied to provide institutional and legal support.
iv. COSATU should commission NALEDI to research into ways of structuring collective Esops as vehicles for employee and community ownership of companies, and into legislative, tax concession and financing and credit measures that may be necessary to support the emergence of the social sector. This should include research on the viability of transferring bankrupt companies, or companies which are about to close, to their employees.

4.4.e Union investment companies

i. Cosatu should initiate a process of full debate over the aims of union investment strategies, and adopt policies and guidelines at congress this year. This should include a decision on the role, form and future of union investment companies.
ii. Aims should include the following: building a social sector; changing investment behavior in the economy by channelling investments into reconstruction; using union stakes in companies to change corporate governance; introducing workplace democracy; and developing the model workplace.
iii. Guidelines should make sure that the priority for union money is to build effective union organisation with the necessary capacities to defend and advance members interests.

iv. Guidelines should lay down strict criteria for the behavior of union officials and office-bearers in relation to investment companies or funds. Any remuneration accruing to any union representative who sits on a company board of directors should as a matter of principle be paid directly into union education accounts
v. COSATU should consider whether to divert union funds into strike funds, rather than investments.
vi. COSATU should continue to mobilise around the demand for prescribed assets on retirement funds, for a national RDP fund, and for worker and union influence over corporate investment strategies

4. 4.f Collective bargaining

i. We propose that unions intensify collective bargaining as a means of redistributing incomes and benefits. We recommend that all affiliates should establish collective bargaining departments with a research capacity. Those that have not yet developed a coherent wage policy for increasing the wages of their lowest-paid members should do so. The first step is to research the wage structure in the industries organised by the union, and on this basis to develop strategies for wage solidarity.
ii. We also recommend that COSATU establish a collective bargaining department and work on actively co-ordinating the collective bargaining demands and campaigns of affiliates.

4.4.g Sub-regional development

i. COSATU needs to increase the capacity of its local and regional structures. It should convene a meeting of all regional secretaries to analyse regional developments and develop ideas for strategic engagement. A research programme to understand regional economic development issues and their relation to national economic trends should be initiated. On this basis COSATU could develop clearer regional development policies to guide the work of regional structures.
ii. Secondly, COSATU head office should assist regions in their engagement with economic development forums, as well as provincial governments.
iii. COSATU should adopt a similar strategy to empower locals to engage with town councils and development forums in their areas.

4.4.h Super-regional strategies: the southern African region

i. COSATU should propose a Regional Development Bank.
ii. COSATU should support a programme of infrastructural development projects, especially those which link two or more countries of the region, such as the Maputo corridor, based on clearly defined criteria.
iii. COSATU affiliates should establish firm links with their counterpart unions in the region, with the aim of analysing the problems in their sectors and developing ideas about how their industries could be developed in a mutually beneficial way across countries.
iv. COSATU should support the struggle for decent labour standards in all countries in the region. Affiliates should establish cross-regional company shopsteward councils to build solidarity. COSATU should also assist unions in the region to develop their organisational, research and educational capacities.

Cosatu must take forward the proposal for a Regional Summit of states and trade unions to develop a regional economic development strategy.