

DEMOCRACY WORKS | CONFERENCE PAPER | 2014

South Africa: Post-Apartheid Democracy and Growth

by Nicoli Nattrass



Voices FROM THE *South*

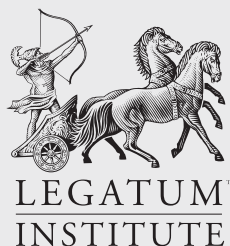
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Executive Summary

This working paper was prepared on 20 April, 2013 for presentation at the Democracy Works Project seminar at CDE.

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The transition to democracy in South Africa restored the conditions favourable for economic growth, but the extent to which democracy has facilitated economic development in the post-apartheid period is questionable. This paper draws on the 'varieties of capitalism' literature to argue that South Africa's post-apartheid economic and labour-market policies have been shaped by rival visions of economic development, and that this has contributed to policy incoherence. Policy contestation between the ruling African National Congress (ANC) and its alliance partner, the Congress of South African Trade Unions (COSATU), has undermined labour-intensive growth. This, coupled with the ongoing problem of corruption and patrimonialism, are contributing to South Africa's relatively disappointing economic performance.

The 'varieties of capitalism' approach suggests that economic growth is promoted most effectively when the policy/institutional environments approximates either a 'liberal-market economy' (LME) or 'co-ordinated market economy' (CME) ideal type. Part 2 of the paper argues that the economy of post-apartheid South Africa has elements of both ideal types, and that this has shaped the growth path in ways which have exacerbated the nation's unemployment problem. Notably, labour-market policies raised the costs of employing workers at a time when trade liberalisation and tight fiscal and monetary policies put additional pressures on business.

Part 3 focuses on the democratic transition and related rise and fall of the alternative CME vision for South Africa. It argues that the relationship between COSATU and the ANC is problematic not only with regard to policy contestation, but also due to COSATU's use of its political power to win concessions and block labour-market reforms. Part 4 considers the alternative growth strategy put forward by organised labour, Part 5 explores the current relationship between race, business and the state, and Part 6 provides a conclusion.

During the early 1990s there was significant momentum from above (peak-level corporatist institutional formation at national level) and below (regional accord processes), suggesting the possibility of a post-apartheid social-democratic road to growth. Business leaders had assisted with early political negotiations

and with setting up economic forums bringing business, labour, and regional and local government together. This formed the impetus for the creation of the National Economic Development and Labour Council (NEDLAC), a peak-level tripartite institution in which business, labour, and government parties negotiated the new Labour Relations Act (LRA) before it went to parliament in 1995. Yet this nascent social-democratic development was hindered at the outset by organised labour's reluctance to put productivity-linked pay or wage-restraint on the bargaining table. It collapsed altogether when government unilaterally adopted orthodox macroeconomic policies while creating incentives for business and labour parties to engage in bilateral negotiations with the state. Black Economic Empowerment (BEE) policies created incentives for black business to organise along racial lines and to engage directly with the state, thereby opening the door for growing patrimonialism and corruption. While this has created a new black business elite and new investment opportunities, the downside has been capital flight, as the old white elite unbundled their assets, diversified abroad, and otherwise took a wait-and-see approach to new investments in South Africa. As organised business fractured along racial lines, the potential for business to engage at peak-level with labour and the state as a single voice was eroded.

Post-apartheid South Africa is now characterised by CME-like labour regulations but without any corresponding mechanisms or commitment to CME-like wage co-ordination, such as to restrain wage growth in line with productivity. Furthermore, there are many LME elements to South Africa's economic policies, notably its open economy and lack of any welfare support for the unemployed. The current policy and institutional environment benefits firms operating in higher wage and higher productivity niches, but it comes at the cost of growing capital-intensity and persistently high unemployment, and thus high poverty and inequality. The South African variety of capitalism provides CME-like support for the employed, patrimonial, and sometimes corrupt support for sections of black business—while effectively excluding the predominantly unskilled or unemployed from the benefits of growth.

One option for combating this is to move in the direction of a CME and introduce social welfare for the unemployed. But this is not popular with organised labour or business because of the tax implications. Another option

is to move more in the direction of a LME with regard to labour laws while retaining some statist components, but this is resisted by organised labour. The framing of those who propose labour-market reforms as neo-liberals and sell-outs makes it difficult to have a productive discourse about how best to build an inclusive political economy in South Africa.

There are serious concerns about the level of violence in South African labour relations, crime, policing, and the rule of law more generally, but these conditions do not appear to pose any immediate threat to democracy. To be sure, the ANC has an unassailable majority in parliament—which gives the country the flavour of a one-party state with its attendant internal jockeying for power—but civil society remains vibrant and acts as a further check on government.

Introduction: Democracy, Growth and Varieties of Capitalism

This paper argues that democracy has been consistent with growth in South Africa, but questions how governmental institutions, policies, and political alliances have shaped the nature of that growth during and after the transition to democracy. Drawing on varieties of capitalism literature the argument goes that South Africa's post-apartheid economic and labour-market policies have been shaped by rival visions of economic development and that policy incoherence at the heart of the state has harmed employment levels. The political transition was necessary to create conditions conducive to economic development, but policy contestation and the growing problem of corruption and patrimonialism are now weakening investment and employment growth.

South Africa is one of only a handful of African countries that can be considered liberal democracies (Maree, 2012: 70-72). There are regular elections, a free press, and a tradition of civil society activism in place to hold leaders to account. But South African democracy is complicated by the fact that the ruling ANC is in a tripartite alliance with COSATU and the South African Communist Party (SACP) and the arrangement favours some parts of the business community, namely the politically-connected black elite, over others. These extra-parliamentary relations, centred around state-labour and state-business, have affected economic policy and the institutional context that shapes business operations. The conditions created by the tripartite alliance have increasingly promoted clientalism and policy-incoherence at the centre of an otherwise democratic state. This has serious implications for future growth and job creation, and for democratic consolidation. It makes it harder to address unemployment, and entrenches a division between those with jobs and the millions of unskilled people without adequate social security or access to employment.

DEMOCRACY AND GROWTH

The relationship between democracy and growth is not a simple one. Lipset (1959) and Barro (1996) argue that growth in advanced capitalist countries results in greater demands for political freedom—the so called Lipset hypothesis. However there is doubt whether this relationship holds in developing and newly industrialising countries, which may be foregoing democratic consolidation to pursue economic development (Glasure et al. 1999). According to the conflict hypothesis there are several reasons why democracy undermines growth: it is associated with political instability, elected officials make myopic decisions to maximise their chances of electoral success, it is prone to corruption, and because special interest politics undermines efficiency and investment (see review in Narayan et al. 2011: 901). In contrast, the compatibility argument emphasises that corruption is common across all political systems and contends that democracy provides a system of checks and balances that protect against predatory behaviour and systemic abuse, while allowing for differences among social groups to be resolved in predictable, inclusive,

and participatory ways (e.g. Rodrick, 2000; De Haan and Sturm, 2003). But while democracy embodies the rights and freedom essential for capitalism, by its very nature it creates political opportunities to challenge such rights and freedom, for example individual property rights and managerial prerogative (Przeworski and Limongi, 1993).

Doucouliagos and Ulubasoglu (2008) concluded from a meta-analysis of regression studies that democracy has significant and positive indirect effects on growth through higher human capital, lower inflation, lower political instability, and higher levels of economic freedom. However, they concede that there are country- and region-specific democracy-growth effects. Narayan *et al.* (2011) explored the empirical relationship between democracy and growth in Sub-Saharan Africa specifically using two different measures of democracy: the Freedom House scores, which include civil and political liberties, and a narrower measure of legislative characteristics published by the World Bank. They found that with the exception of Botswana—which has a long democratic tradition and strong growth—it is wise to be sceptical of any claimed relationship between democracy and growth in Sub-Saharan Africa. They found that democracy in South Africa had a positive impact on real income when the narrower measure is used, but no relationship if one uses the broader Freedom House scores (which they prefer on conceptual and statistical grounds). This is consistent with the hypothesis that although the political transition was good for the economy the post-apartheid growth path has been disappointing.

One of the difficulties involved in measuring the relationship between democracy and growth is that democratic institutions vary significantly when it comes to labour-capital relations and the level of state intervention. In South Africa, the relationship between state, business, and labour is an evolving one, with changing implications for democracy. COSATU played a crucial role in the anti-apartheid struggle and corporate business leaders helped facilitate the transition to democracy. In this regard, both were necessary for creating political conditions conducive to economic growth. But in post-apartheid South Africa, state-business and state-labour relations appear to be undermining employment growth and fostering clientalism and corruption.

Organised labour achieved gains in the post-apartheid period, in terms of improved labour standards and the extension of industrial-level wage bargaining, but, like black business, did so by engaging directly with the state and by using its leverage as alliance partner of the ANC. This undermined the potential for any social democratic co-ordination of wage growth, employment, and investment—as did COSATU's ideological preference for a developmental state tasked with 'disciplining capital' and promoting 'decent work' at relatively high wages. By accommodating the demands of organised labour while pursuing more orthodox economic policies, notably trade liberalisation, a serious policy inconsistency was injected into the heart of the state. Rising wages in the face of growing international competition slowed growth and exacerbated the unemployment crisis.

POLICY INCONSISTENCY AND THE VARIETIES OF CAPITALISM APPROACH

The problem of policy inconsistency is concisely highlighted by the varieties of capitalism approach to the relationship between political-economic institutions and growth. Scholars working within this intellectual tradition emphasise how economic growth is shaped by the institutional and policy context, and that it is promoted most effectively when the institutional and policy environment approximates either LME or CME ideal type. This approach adds an important nuance to the question of whether democracy is good or bad for growth. It suggests that the answer depends for the main part on whether the institutional and policy nexus is coherent or not: democracies where policies and institutions promote either a CME or a LME variety of capitalism are likely to grow faster than those with elements of both. Note that the varieties of capitalism approach does not address the question of whether democracy or authoritarianism would be better for growth but rather helps us analyse how the growth performance of democratic mixed market economies is affected by the coherence of their economic and labour-market institutional environments.

Varieties Of Capitalism: South Africa in Comparative Context

The varieties of capitalism approach draws a key distinction between LMEs and CMEs (Hall and Soskice, 2001; Hall and Gingerich, 2009). In LMEs, seen as approximated most closely by North America, the United Kingdom, Australia, and New Zealand, firm strategies are mediated by competitive markets. Large stock markets and liberal financial regulatory regimes facilitate hostile takeovers, thus encouraging managers to be particularly sensitive to current profitability, while fluid labour-markets with limited employment protection incentivise workers to invest in general skills that can be transported to other jobs. By contrast, firms in CMEs, seen as approximated most closely by Germany and the Scandinavian social democracies, operate in an institutional environment which provides greater 'voice' for organised labour and favours incremental innovation and strategic collaboration between firms. Generous government welfare and retraining policies incentivise workers to make the necessary investments in firm-specific skills. Businesses in CMEs accept higher labour costs (and taxation) so long as the system delivers the necessary skills, productivity growth and long-term finance needed to operate profitably in this institutional and policy context. Where these synergies are not evidenced, as in mixed market economies (MMEs), economic growth has been slower than in either CMEs or LMEs (Hall and Gingerich, 2009).

Table 1 shows that countries typically classified as CMEs still have more generous labour-market policies (as proxied by the cost of firing in terms of weeks of wages), greater trade union coverage, higher levels of wage co-ordination and wage bargaining, lower inequality, a higher share of government in the economy (as

proxied by tax as percentage of GDP), lower levels of stock market capitalisation, higher levels of product-market regulation and a generally more complex regulatory environment in which government and business organisations play a greater role than is the case in LMEs. Like the LMEs, South Africa has relatively high levels of market capitalisation and inequality. But as discussed below, it also shares some characteristics with CMEs, such as labour regulation, and is more like a MME with its attendant problems of policy incoherence.

The CME-LME distinction has become blurred over time as the European Union (EU) forged greater policy consistency across countries and as the level of wage bargaining fell in the CMEs. Even so, differences between CMEs and LMEs remain evident along key dimensions (see Table 1), and despite the fall in the level of wage bargaining in the CMEs, wage co-ordination is facilitated by multi-level bargaining within frameworks set at higher levels or through national initiatives (Hayter et al. 2011). This is reflected in Table 1 by the typically higher levels of wage co-ordination than suggested by the dominant level of wage bargaining in CMEs.

The idea that pro-labour policies can form the basis of a different, more desirable, variety of capitalism is a powerful one, and raises the tantalising prospect for policy makers of being able to affect the national variety of capitalism by changing the institutional environment. For example, in the 1950s when Germany introduced legislation to enhance worker's rights on the shop floor, employers expressed strong opposition. However, once these institutions were in place employers developed production strategies oriented towards high-value added production, which made a virtue out of the necessity of increased worker voice (Streeck, 1992). As discussed below, the idea that governments can create such a win-win situation through institutional design is powerfully evident in South Africa today.

THE SOUTH AFRICAN CASE

The South African economy clearly approximates neither an ideal type CME nor LME. Schneider (2009) suggests that South Africa is more like a Latin American hierarchical market economy (HME), characterised by vertically integrated dominant firms, multinational enterprises, and weak trade unions. But while this may have been so under apartheid, it is not an accurate description of the post-apartheid political-economy, where organised labour is politically powerful and business is now much less vertically integrated. In 1994, the gold-mining giant Anglo American controlled 43 percent of the entire Johannesburg Securities Exchange (JSE) capitalisation and the top five groups controlled 84 percent through complex cross-holdings and preferential shares. This apartheid-era concentration had been driven by exchange controls which prevented firms from divesting abroad, so when exchange controls were liberalised in the mid-1990s, it had a dramatic impact on economic concentration. By 1998 Anglo American's share had plummeted to 17 percent as it unbundled (selling off part of the business to a BEE consortium), listed on the London Stock Exchange and moved its head office to London.

One of the consequences of South Africa's re-entry into the global economy has been increased investment volatility. As shown in Figure 1, portfolio investment

TABLE 1: GENERAL ECONOMIC AND LABOUR INDICATORS

	REAL GDP PER CAPITA, PPP 2009	PRODUCT MARKET REGULATION INDEX 2008	MARKET CAPITALISATION % GDP 2010	TAX % GDP 2008	UNEMPLOYMENT 2009	% EMPLOYED 2009	GINI	TARIFF RATE, WEIGHTED MEAN	COST OF BUSINESS START-UP PROCEDURES (% OF GNI PER CAPITA)		FIRING COST (WEEKS WAGES) 2009	COLLECTIVE BARGAINING (2008)**				
									2000	2010	2003	2010	Trade union density %	Coverage %	W-coord (level)	RI
LMES																
AUSTRALIA	\$34 259	1.23	1361	24.2	5.6	61.7		10.9	1.9	2	0.7	4	18.9	15-50	2 (2)	1
CANADA	\$34 567	0.96	1372	12.8	8.3	61.7	32.6	1.3	1.0	0.6	0.4	28	27.3	31.6	1 (1)	0
NEW ZEALAND	\$25 413	1.27	52.9		61	64.1		2.5	1.6	0.2	0.4		20.6	<15	2 (1)	1
UK	\$31 985	0.79	138.3	28.6	7.7	58.3		2.1	1.4	1	0.7	22	27.6	33.6	1 (1)	0
USA	\$41 735	0.84	117.5	10.3	9.3	59.3	40.8	1.8	1.8	0.7	1.4		11.9	13.7	1 (1)	0
CMES																
AUSTRIA*	\$34 673	1.38	18.0	20.1	4.8	58.4	29.1	2.1	1.4	6.1	5.2	2	29.1	99	4 (2)	2
DENMARK	\$32 027	0.99	74.7	35.0	6.0	67.3		2.1	1.4	0	0		19.1	62.5	3 (3)	1
FINLAND*	\$30 722	1.12	49.5	21.3	8.2	61.1	26.9	2.1	1.4	1.1	1.1	26	67.5	90	3 (3)	1
GERMANY*	\$32 255	1.27	43.2	11.8	7.7	55.3	28.3	2.1	1.4	5.9	4.8	69	19.1	62.5	4 (2)	1
NETHERLANDS*	\$36 452	0.90	84.4	22.8	3.4	64.5		2.1	1.4	13.3	5.7	17	19	82.3	4 (2)	2
NORWAY	\$47 281	1.15	60.5	28.6	3.2	70.5	25.8	1.1	0.3	3.5	1.8	13	53.3	74.0	4 (4)	2
SWEDEN	\$32 183	1.24	126.9	21.6	8.3	64.7	25.0	2.1	1.4	0.7	0.6	26	68.8	91.0	3 (2)	1
SWITZERLAND	\$36 954	1.12	234.7	10.9	4.1	65.6	33.7	1.4	0.0	8.6	2.1	13	18.2	48.0	3 (2)	2
MMES																
FRANCE*	\$29 367	1.39	75.3	21.5	9.1	51.7		2.1	1.4	1.3	0.9	32	7.6	90	2 (2)	0
GREECE*	\$26 242	2.30	23.8	19.8	9.5	48.7	34.3	2.1	1.4	32.7	20.7	24	24	65	4 (4)	1
ITALY*	\$26 526	1.32	15.5	22.5	7.8	44.9	36.0	2.1	1.4	22.1	18.5	11	33.4	80	4 (3)	1
PORTUGAL*	\$21 395	1.35	35.9	21.5	9.5	56.0		2.1	1.4	12	6.5	97	20.5	65	3 (2)	1
SPAIN*	\$27 046	0.96	83.7	10.7	18.0	49.1	34.7	2.1	1.4	16.8	15.1	56	15	84.5	4 (3)	2
BRICS AND OTHERS																
BRAZIL	\$9 438	1.98	74.0	16.7	8.3	62.9	53.9	12.7	7.6	13.1	7.3	46	28.7	35	3 (2)	0
CHILE	\$13 033	1.57	167.9	19.7	9.7	50.5	55.4	9	4.0	12.1	6.8	52	13.6	23.6	(1)	
CHINA	\$6 206	3.30	81.0	10.3	4.3	57.6	41.5	14.6	4.2	17.8	4.5	91		22.3	5 (1)	
INDIA	\$2 993	2.84	93.5	11.2	4.4 #		36.8	27	7.9	53.4	56.5	56	41.1	60	2 (2)	
IRELAND*	\$35 801	0.86	16.5	23.1	11.7	54.3	34.3	2.1	1.4	10.4	0.4	18	35.2	44	5 (4)	2
RUSSIA	\$13 623	3.03	67.9	15.8	8.2		42.3	8.8	5.9	14.4	3.6	17				
SOUTH AFRICA	\$9 340	2.38	278.4	27.8	23.8	40.5	57.8	4.9	4.4	9.4	6	24	27.7	42.5	3 (3)	2

SOURCES:

<http://www.ilo.org/public/english/dialogue/ifpdial/info/dialdata.htm> (key indicators of the labour market); <http://www.imf.org/external/pubs/ft/weo/2011/01/weodata>; [http://www.ilo.org/global/statistics-and-databases/lang-en/index.htm](http://data.worldbank.org/http://www.ilo.org/global/statistics-and-databases/lang-en/index.htm); http://www.oecd.org/document/36/0,3746,en_2649_37443_35790244_1_1_1_37443,00.html (OECD Indicators of

product market regulation) * member of the Eurozone; # 2005 estimate
http://www.jussemp.org/Resources/Labour%20Resources/Resources/Global_Wage_Report_2008-09.pdf; ICTWSS data base: <http://www.uva-aias.net/208>

**RI= routine involvement of unions and employers in government decisions on social and economic policy (1=irregular, 2=often);

enforceability; 3=industry; 4=industry with central guideline and pattern bargaining; 5=national bargain or govt imposition; level = level of collective bargaining (4 is central+industrial, 3=industrial, 2=industrial+firm; 1=firm; trade union density=% salary and wage workers that are unionised; coverage=% workers covered by collective agreements in sectors where there is the right to bargain.

W-coord: 1=fragmented, mostly firm; 2=mixed firm+industry weak

has come to play the dominant role in financing South Africa's current account deficit—and these flows are easily reversed. The only significant inflow of foreign direct investment in the post-apartheid period was in 2001, when De Beers mining company was sold to a foreign financial holding company causing both a spike in foreign direct investment and an outflow of portfolio investment capital. Increased reliance on volatile portfolio capital flows, privatisation of state assets, and the abolition of apartheid-era agricultural marketing boards, has fundamentally transformed the South African business environment in the direction of a LME. But economic collusion remains a problem (Competition Commission, 2008) and South Africa's labour-market regime looks more like a CME.

FIGURE 1: INCREASINGLY VOLATILE INVESTMENT FLOWS

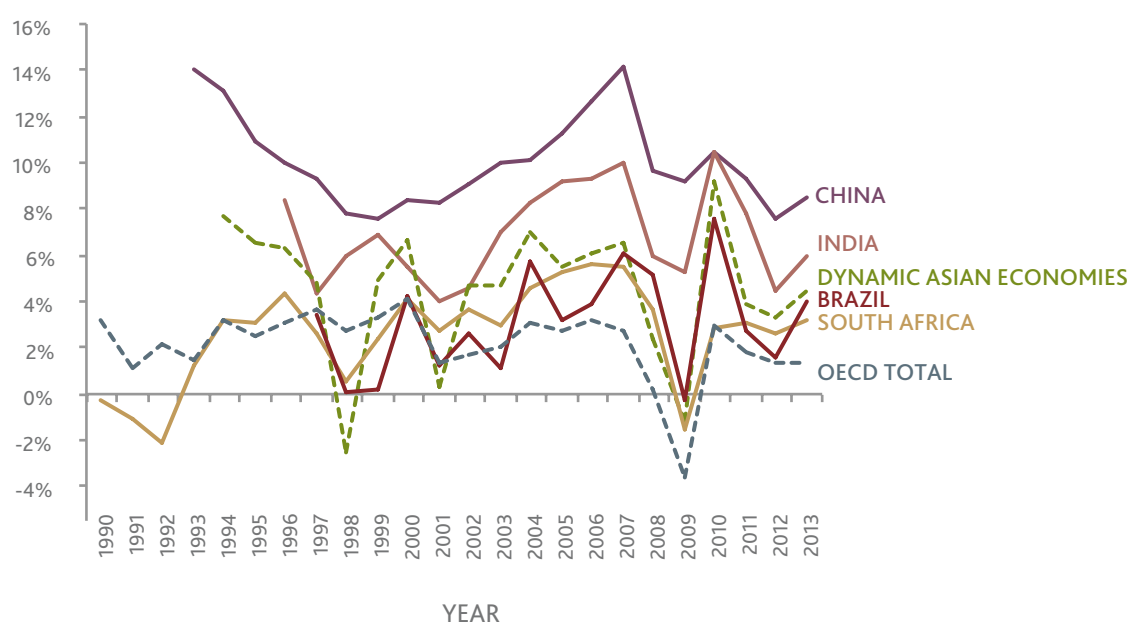
SOURCE: DATA FROM THE SOUTH AFRICAN RESERVE BANK (WWW.RESBANK.CO.ZA)



South Africa's economic growth certainly improved during the mid-1990s as the country made the transition to democracy (see Figure 2). However, South Africa's economic fortunes have since followed those of the advanced capitalist countries, and growth has been slower than in the dynamic Asian economies of China and India (see Figure 2 and Table 2). Growth has been similar to that of Brazil, but unlike Brazil where labour-markets are tight (the unemployment rate in Brazil is a third of that in South Africa), South Africa's growth has not been particularly labour-demanding. As argued below, South Africa's institutional and policy environment has contributed to the problem.

FIGURE 2: GDP GROWTH RATES: SOUTH AFRICA IN COMPARATIVE PERSPECTIVE

SOURCE: OECD STATISTICS: [HTTP://STATS.OECD.ORG/](http://stats.oecd.org/)



South Africa today contains elements of LMEs and CMEs. Macroeconomic, trade, and investment policy is economically liberal. But while it is relatively easy to retrench workers for economic reasons, labour legislation is protective in other respects, raising costs to employers (Bhorat and van der Westhuizen, 2009). South Africa's welfare system is also more akin to the CMEs. In 1994 the post-apartheid government inherited a system of social grants that reached 2.9 million recipients (7 percent of the population at that time) at a cost of 2.1 percent of GDP. By 2010, social grants were reaching 14 million people (28 percent of the population at that time) at a cost of 3.3 percent of GDP.¹ However, unlike the ideal-type CME, no significant or sustained support is provided for the unemployed.

Compared with the other middle-income and developing countries in Table 1, South Africa has a relatively high coverage of collective bargaining and routine involvement of trade unions and business in government policy. It also has by far the highest unemployment rate. This is partly because the state has strong regulatory capacity—particularly in relation to tax and labour legislation—which makes it difficult for firms to escape regulation. This, together with the dominance of large retail chains, has made it difficult for an informal sector to emerge in South Africa. This is the crucial difference between South Africa and other middle income countries—especially in Latin America—where informal employment provides a safety net of sorts. As shown in Figure 3 (p12 top), only 6 percent of working age adults are employed in the informal non-agricultural sector.

TABLE 2: SOUTH AFRICA IN COMPARATIVE CONTEXT: SELECTED DATA

SOURCE: WORLD DEVELOPMENT INDICATORS ([HTTP://DATABANK.WORLDBANK.ORG/DATA/](http://databank.worldbank.org/data/))

	BRAZIL	CHILE	CHINA	INDIA	SOUTH AFRICA
Average annual real GDP growth (1990-2011)*	2.8%	5.2%	10.1%	6.5%	2.6%
Wage employed as percent total employed (most recent data)	66.4%	72.8%		18.1%	84.5%
Percent vulnerable employment as percent total employment (most recent data)	25.1%	24.4%		80.8%	10%
Percent of 15+ population employed (2011)	64.8%	56.1%	70.9%	53.6%	39.3%
Most recent GINI	54.7	52.1	42.5	33.4	63.1

The difference in labour-market characteristics between South Africa, Brazil, and other emerging economies is also reflected in Table 2. It shows that not only does South Africa have a much smaller proportion of the population aged 15 or older employed than Brazil, but it also has a relatively low proportion of 'vulnerable' jobs (i.e. relatively low paid and insecure) in total employment. The lack of opportunities for unskilled South Africans to find informal or low-paid work is an important driver of poverty and inequality. South Africa's relatively high GINI coefficient is driven as much by the gap between the income of the employed and the unemployed as it is by wage differentials (Seekings and Nattrass 2005; Leibbrandt, et al. 2010).

Figure 4, which reports the findings of the September 2012 Labour Force Survey, shows that over half of South Africa's working age adults are not working. The unemployment rate is 23 percent or 30 percent, depending on whether the discouraged work-seekers are regarded as not economically active (and hence not part of the labour force), or whether they are counted as unemployed. Most of the unemployed have been out of work for a long time, many have never worked at all. According to the September 2012 Labour Force Survey, only 40 percent of active job-seekers had worked in the previous five years. Of these 29 percent were elementary workers. As only 23 percent of jobs are elementary, their chances of finding work are even lower than those of the more skilled unemployed ex-workers (see Figure 4).

Unemployment is the central economic dilemma facing the country—and one that poses different challenges for economic policy and wage-setting institutions than is evident in the Eurocentric CME and LME paths to growth. In the European CMEs, labour-market protection is associated with lower inequality because the wage distribution is compressed and also because the unemployed get generous welfare assistance. In South Africa, however, so many working age adults are without work or government grants that creating jobs, even at low wages, would have a positive impact in terms of poverty alleviation and narrowing inequality. However, for the trade union movement the priority is protecting and raising real wages, boosting productivity, and advocating 'decent' work for the employed.

FIGURE 3: SOUTH AFRICA'S WORKING AGE POPULATION

SOURCE: [HTTP://WWW.STATSSA.GOV.ZA/PUBLICATIONS/P0211/P02114THQUARTER2012.PDF](http://www.statssa.gov.za/publications/P0211/P02114THQUARTER2012.PDF)

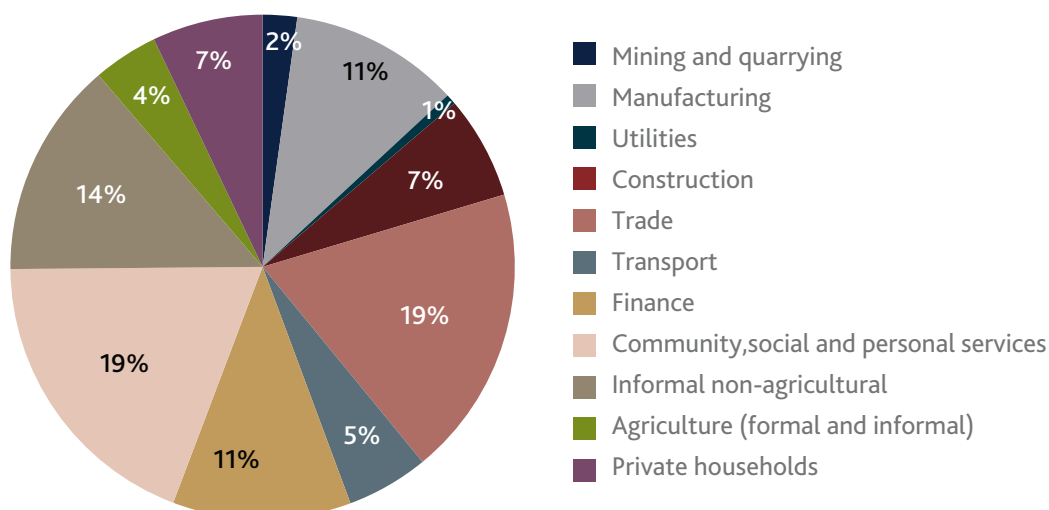
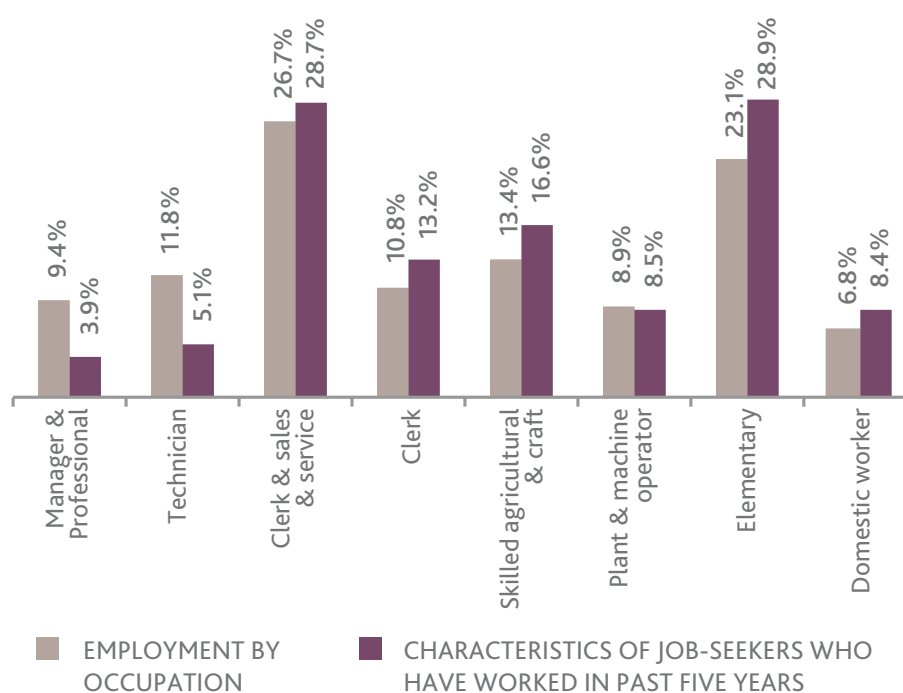


FIGURE 4: OCCUPATION: EMPLOYED, AND THE UNEMPLOYED WHO HAVE WORKED OVER THE PAST FIVE YEARS.

SOURCE: [HTTP://WWW.STATSSA.GOV.ZA/PUBLICATIONS/P0211/P02114THQUARTER2012.PDF](http://www.statssa.gov.za/publications/P0211/P02114THQUARTER2012.PDF)



There is a question of why organised labour is so unconcerned about the trade-off between wages and employment. One part of the answer is ideological. As discussed below, COSATU has an alternative growth vision in which great hopes are pinned on the developmental state to drive growth and on wage growth to alleviate poverty and boost demand. Concerns about labour-intensive growth are seen as a distraction at best—and no rhetorical space is available to take the trade-off between wages and employment seriously. Another part of the answer is that COSATU’s membership has shifted heavily towards the public sector, from 7 percent in 1991 to 39 percent in 2012 (COSATU, 2012: 6). Public sector workers are protected from the exigencies of capitalism and fighting for higher wages is more of a political than an economic struggle.

The Democratic Transition: The Rise and Fall of a CME Vision In South Africa

When South Africa made the transition to democracy, it did so under the long shadow of apartheid. Racial discriminatory policies had left the economy with a persistent skills shortage and a business community divided on sectoral, cultural, and racial lines (Nattrass, 1997b). Some labour-market reforms had been undertaken in the 1970s, notably the ending of job reservation for whites only, and from 1979 the system of collective bargaining was deracialised. This effectively legalised black trade unions, allowing black workers to participate in industry-level bargaining, and this system persists, fundamentally unchanged, today.

Representative employer organisations and trade unions set wages in bargaining councils, and these are typically extended to non-parties on request by the minister of labour. Where no bargaining council exists, the government’s Employment Conditions Commission sets minimum wages. This amounts to a relatively strong level of wage co-ordination. As shown in Table 1, South Africa is classified as level 3 on a scale ranging from national agreement (5) to firm-level agreements only (1).

As political opposition to, and protests against, apartheid mounted during the 1980s, investment and economic growth collapsed, making it abundantly clear that a democratic transition was required to re-create institutional and social structures more conducive to growth. Key figures within South Africa’s business elite held secret meetings with the ANC in exile, and started engaging with opposition leaders inside the country (Handley, 2008: 53-4). These consultations continued to take place after 1990, when the ANC was allowed to operate legally in the country and South Africa began the transition to democracy. Nelson Mandela, who became South Africa’s first democratically elected president, received regular briefings from the business leaders and often dined with Anglo-American patriarch Harry Oppenheimer (Waldmeier, 1994: 256-7).

THE ANC'S CHANGING ECONOMIC POLICY STANCE

When Nelson Mandela was released from prison in 1990, he called for nationalisation of the mines and monopoly industries—a long-standing demand embodied in the 1955 Freedom Charter.² However, by the following year, at the World Economic Forum in Davos, Mandela was reassuring international investors that this would not happen. Some believe that this about-turn was because 'those who wield power in the West told Nelson Mandela in no uncertain terms that any actions that threatened property rights would invite their wrath' (Jordan, 2012). But according to Tito Mboweni, who accompanied Mandela to Davos, it was discussions with the communist leaders of China and Vietnam, both of whom were critical of the ANC's stance on nationalisation, that convinced Mandela the ANC had to move with the times (Mboweni, 2012).

As ANC policy documents became increasingly market-friendly and liberal (Nattrass, 1994), leftist critics accused the party of forging an elite pact that would leave existing power structures intact (Bond, 2000, McKinley, 1997). But, as noted by Cyril Ramaphosa, a leading ANC architect of the transition to democracy, an ideological groundswell was evident and 'many people were beginning to feel more and more comfortable with a mixed type of economy' (quoted in Green, 2008: 339). Even SACP, a long standing ally of the ANC, engaged in some soul-searching, as its secretary general penned an influential piece titled 'Has Socialism Failed?' (Slovo, 1990), criticising Stalinism and asserting the importance of democratic freedoms. Thus the stage seemed set for the adoption of a more social-democratic or co-ordinated variety of capitalism in South Africa.

NASCENT SOCIAL-DEMOCRATIC INSTITUTIONAL FORMATION

Further impetus for change was provided by spontaneous regional accord processes. In the Eastern Cape province, business organisations, labour, and government came together to form the Eastern Cape Socio-Economic Consultative Council (ECSECC). This helped foster more co-operative relations between business and the state (for example in one initiative private sector advisors were seconded to local government to help with public infrastructure revitalisation), but was less successful with regard to capital-labour relations. Whereas business wanted organised labour to put the region first, i.e. to negotiate regionally-specific wages and not to participate in national strikes, this was resisted by the trade unions (Nattrass, 1997a), yet, conversely, organised labour started cutting productivity-related pay deals with employers in order to save jobs (Nattrass, 1995). In 1991, mining employers and the National Union of Mineworkers (NUM) entered into agreements where workers accepted wage-restraint and various forms of profit sharing. The NUM acting general secretary noted: 'The choice we had to make was whether to drive a higher wage increase with less employment in the industry as a real prospect—or whether we try to achieve maximum employment, and at the same time augment wages and win social rights'.³ Although these innovative wage-setting agreements fell apart three years later (because there were concerns about the process of profit sharing and union officials were worried about the potentially divisive effect of having the more profitable mines pay workers relatively higher wages),⁴ they demonstrated that

even South Africa's militant trade unions were capable of concluding agreements that recognised the trade-offs between wages, employment, and profitability. The possibility that South Africa could move towards CME-type co-ordinated wage setting seemed very real during the early 1990s, and substantial energy was put into developing regional- and national-level social-democratic institutions.

In 1990 organised business and organised labour agreed, in principle, to create a national forum to discuss the impact of labour relations on the economy. This resulted in the National Economic Forum being set up in 1992—a body that was subsequently transformed into the National Economic Development and Labour Council (NEDLAC) by one of the first pieces of legislation passed by the new democratic government in 1994. According to the leading business representative, NEDLAC was intended to 'inaugurate a new era of inclusive consensus-seeking and ultimately decision-making in the economic and social arenas' (Parsons, 2007: 9). Unfortunately, this hoped-for vision failed to materialise.

THE SOCIAL-DEMOCRATIC OPTION UNRAVELS

The first problem with the NEDLAC vision was that attempts to create the kind of peak-level business organisation necessary for national co-ordination were plagued by racial divisions. An organisation called Business South Africa (BSA) was formed to represent South Africa at the International Organisation of Employers conference in 1994, and it subsequently went on to represent business in NEDLAC. But this unity was fragile and tensions soon arose and the organisation fragmented between the predominantly black and the predominantly white business organisations. It took eight years before a new umbrella body—Business Unity South Africa (BUSA)—was created, but even then, racial divisions continued to simmer. The discordance was exacerbated by the government's Black Economic Empowerment (BEE) policies which further undermined the incentives for black and white business to work together (discussed further below). Eventually, in 2011, the major black organisations left BUSA to form the Black Business Council.

The second problem was that the government referred some, but not all, of its economic policies to NEDLAC. Thus, while the post-apartheid Labour Relations Act was negotiated in NEDLAC prior to reaching parliament, this was not the case with the infamous 1996 Growth Employment and Redistribution (GEAR) macroeconomic framework, which sought to restrain government spending (to deal with a debt crisis), boost private investment, and liberalise aspects of the labour laws in order to promote job creation (DOF, 1996). Although GEAR also called for a social accord, this aspect was drowned out in the public debate by condemnation—especially from trade unions—of its supposedly 'neoliberal' macroeconomic and labour policy proposals.

The problem for the ANC was that when it fought its first election, it had in its Reconstruction and Development Program (RDP) promised to boost employment creation through state-facilitated infrastructural and housing programmes and other poverty alleviation efforts (ANC, 1994). However, the fiscal space for doing this was seriously constrained by the sharp increase in the government deficit (from 1.5 percent of GDP in 1990 to 7.3 percent in 1993) that took place during the

transitional period. By 1996, when the ANC first obtained full control of government, controlling the debt burden and stabilising the economy had become a priority. The ministry of finance (now known as the National Treasury) responded with the GEAR framework—a document intended to boost private investment by emphasising fiscal discipline and to pave the way for greater regulated flexibility in the labour market (Nattrass, 1996). Leftist trade unionists, however, saw it as the beginning of the ‘1996 Class Project’ i.e. the ‘co-optation by White monopoly capital to weaken the National Democratic Revolution and reverse the gains of the 1994 democratic breakthrough’.⁵

The ANC’s large political majority in parliament gave it the space to introduce these unpopular policies because it could afford to take a longer-term perspective in facilitating sustainable growth (Green, 2008). In this respect, the ANC’s strong majority was good for growth, even though the political opposition was relatively weak. Even so, the political costs were substantial for the ANC in terms of its relationship with COSATU, with whom it was in a political alliance, and with the regard to the popular legitimacy of its economic policies. The idea that the revolution had been betrayed by GEAR resonated throughout the new social movements protesting against privatisation, especially of municipal services. This was a problem for the ANC in that constraints on government spending were seen as ideologically imposed, rather than economically necessary, and it rendered discussion of labour-market reforms unworkable.

COSATU attacked government for imposing these policies unilaterally, for reneging on its electoral promises by proposing changes to the labour legislation (appearing to support a ‘two-tier’ labour-market), and selling out to business. President Mandela sought to clarify the ANC’s position and how the tripartite alliance fitted in with it:

‘There are matters where we will agree. The second category is matters where we disagree amongst us, but compromise. The third category is where there is no agreement at all, and the government will go on with its policy’ (cited in Buhlungu and Ellis, 2012: 268).

This was interpreted by COSATU as a clear rejection of co-determination and a signal that ‘they, like other groups in society, had to lobby the party for their positions, but the party was under no obligation to embrace those positions’ (Buhlungu and Ellis, 2012: 268). COSATU, through its rolling mass-action protests and in its interactions with government, sought to bring pressure on the ANC to ensure that alliance policies were implemented by government. As Vavi stated in 2009, ‘Ultimately the state president bears the responsibility to translate alliance positions into programmes of government and to steer the ship of government’ (quoted in Maree, 2012: 82). This position, of course, disregards the role of parliament and NEDLAC, and as Maree notes, is inimical to the consolidation of democracy in South Africa (ibid).

The result of pressure from COSATU was that the ANC government backed away from ensuring greater labour-market flexibility, and instead effectively ceded labour-market policy to the trade union movement. While this served the ANC’s immediate political needs by offering an olive branch to its alliance partner, the result was an entrenched oppositional relationship between macroeconomic and labour-market policy making at the heart of the state. Whereas the National Treasury was, and continues to be, staffed by mainstream economists, the director general of labour

and the deputy director general in charge of labour policy and industrial relations are both long-standing trade unionists, and the current and previous ministers of labour were ex-chairperson of the COSATU women's forum and head of the teacher's union respectively.

A consequence of this institutionalised ideological mismatch between two crucial organs of economic policy making has been an uncoordinated set of economic and labour-market policies inimical to employment growth. While labour-market policy had the effect of raising the wage and non-wage costs of employing labour, business profits were squeezed further by weak demand and falling tariffs (tariffs on imported manufactured goods were reduced sharply, from 23 percent in 1994 to 8.6 percent in 2004 (Edwards, 2005)). As was the case in other countries, attempting trade liberalisation under rigid labour-market conditions and fiscal austerity (OECD, 1999: 156–9), the results were costly in terms of employment, especially of unskilled labour.

FIGURE 5: TRENDS IN PROFITABILITY

SOURCE: DATA FROM THE SOUTH AFRICAN RESERVE BANK (WWW.RESBANK.CO.ZA)

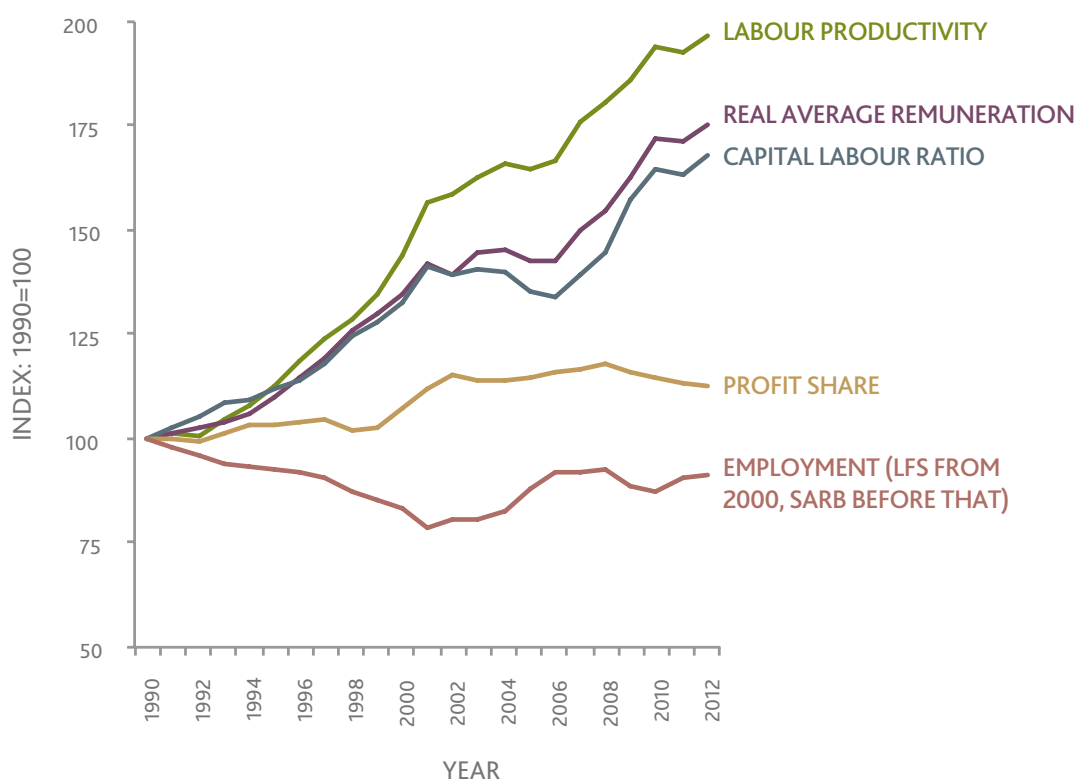


Figure 5 shows that employment fell as real average remuneration rose during the 1990s (and that this trend is evident in more recent years too). Note that labour productivity rose faster on average than real wages, thereby enabling the gross profit share to rise. In other words, capitalists were, on aggregate, able to shed sufficient jobs and raise the productivity of the remaining workers, that they were able to retain a higher share of value-added as profits. Thus, the winners were the employers who remained in business, and those workers who kept their jobs. The rise in profitability facilitated some growth in fixed investment, but most of this was in capital intensive directions, hence the capital–labour ratio rose. Some of these workers, notably the most skilled, enjoyed substantial wage increases—but for the most part, average real wages rose because relatively unskilled low-wage jobs were shed (Seekings and Nattrass, 2005).

Many factors contributed to the shedding of unskilled labour. These include the impact of labour legislation, which raised the cost of employing labour, and the operation of the wage-bargaining system, which set wage floors by industry (binding predominantly on unskilled labour). All of this provided strong incentives for firms to substitute machinery for workers, and to have a smaller, better-skilled, better-paid, and more manageable workforce (Moll, 1996; Nattrass, 2000). Even policy designed to improve the machinery of labour-dispute resolution, notably the introduction of the Commission for Conciliation, Mediation and Arbitration, had the unintended effect of burdening employers further by operating in an unnecessarily legalistic way, thereby increasing the risks to employers of hiring labour (Bhorat and Van der Westhuizen, 2009).

According to the most recent government growth strategy, the National Development Plan (NDP), ‘there is now an urgent need to craft a social contract that will enable South Africa to achieve higher growth and employment’ and increase investment and savings (NPC, 2012: 475). The NDP is vague on details, but calls for workers (except the very low paid) to agree to accept lower wage increases than their productivity gains would dictate, and on business to reinvest profits in ways that boost employment and growth rather than fuelling executive remuneration. Government is to facilitate the process by lowering the cost of living for workers (e.g. keeping inflation and import tariffs low) while facilitating skill development and productivity growth (NPC, 2012: 475-6). The NDP acknowledges that neither business nor labour trust each other to keep their side of the bargain and that ‘state capability issues bedevil the chances of success’ but ends with the following appeal:

‘Even as negotiations continue government should invest more on social and economic infrastructure and deliver an expanding social wage to the poor, business should take a longer term perspective by investing more and increasing employment and training. Labour has to recognise that some wage moderation is required and efforts to raise productivity are essential’ (ibid: 477).

The key question going forward is how this is to be achieved. The GEAR policy document suggested explicit labour market reforms to facilitate wage moderation, whereas the NDP merely proposes entry-level wage flexibility, simplifying dismissals procedures and for reviewing regulations and standards for small and medium enterprises (ibid: 134-5, 143). NDP acknowledges ‘the competing interests of

reducing mass unemployment, raising living standards and closing the earnings gap' and about how 'in the early phase of the plan, emphasis will have to be placed on mass access to jobs while maintaining standards where decent jobs already exist' (ibid: 132). But no changes are suggested with regard to the wage-setting machinery in industry and the NDP assumes elsewhere that labour-intensive manufacturing is simply no longer feasible in South Africa (ibid: 147-8).

The NDP pins its hopes for job creation on small business development (facilitated by unspecified regulatory changes), agricultural development (including land reform), and expanded public works programmes. However, the issue of minimum wages and standards is side-stepped. Since the launch of the NDP, the agricultural minimum wage has risen by more than 50 percent and COSATU has called for an the national minimum wage to be even higher. These factors contribute to bleak prospects for significant labour-intensive growth.

Other policies, notably industrial policy, with its focus on recapitalisation, also contributed to rising capital intensity in post-apartheid South Africa (Kaplan 2003; 2007). Although the post-apartheid economic planners had hoped that recapitalisation would provide a strong basis for growth—thereby expanding employment opportunities in the future—industrial policy proved disappointing. As Kaplan (2007: 98–9) points out, industrial policy was never consolidated under one arm of the state, but remained scattered. Industrial policy was also bedevilled by having to address too many strategic concerns, including regional development, racial transformation in hiring, skills development, moving up the value chain; promoting labour-intensive growth, and BEE. The result was that industrial policy as a whole became less well targeted and effective. Attempts to create structured forms of engagement with business (including national investment summits and regional forums as part of the spatial development initiative) failed to build the necessary trust and information flow required for effective industrial policy.

The main institutional casualty was NEDLAC. According to a representative from the presidency (during Mbeki's term of office), NEDLAC failed because COSATU was fearful that business was bypassing NEDLAC and influencing the state directly—as it was believed to have done with regard to GEAR. Others argue that government was primarily to blame and that its failure to discuss GEAR in NEDLAC was symptomatic of a broader desire to maintain control over policy.⁶ The struggle with civil society over the provision of antiretrovirals for HIV prevention and AIDS treatment (Nattrass, 2007) is a case in point. When presented with a framework plan negotiated in NEDLAC by representatives from business, government, labour, and civil society, the health minister retorted: 'policy-development on AIDS cannot be dictated by agreements we enter into with our social partners' (ibid: 108). Unsurprisingly, the social partners steadily lost interest in NEDLAC.

According to Jayendra Naidoo, NEDLAC's first executive director, the key issue was that organised labour was never comfortable with the tripartite aspect of NEDLAC, preferring instead to have bilateral engagement with business over wages and working conditions and with the ANC over policy.⁷ This, in turn, was facilitated by an alternative policy discourse emanating from the trade union movement in favour of a strong developmental state designed to assist and discipline capital while promoting productivity growth and 'decent' work.

The Contrasting Growth Vision from Organised Labour

During the early 1990s, intellectuals aligned with the trade union movement grappled with how to engage with capitalism. Constrained by the collapse of socialism in Europe and thus required to accept market-oriented policies, they nevertheless saw themselves as radical socialists engaging with both state and business on a strategic level to establish a basis for socialism in the future (Gall, 1997). Arguments by visiting social democrats and Australian trade unionists for class compromise and linking wage increases to productivity growth failed to resonate within COSATU (Nattrass, 1999). According to Harcourt and Wood, this reflected deep historical antagonisms: 'Years of intense conflict, precipitated, at least in part, by a system of "racial Fordism" at the workplace, have radicalised workers, so that calls for wage moderation and cooperation with management would probably be perceived as signs of co-optation' (2003: 95-6). Thus, even those unionists who accepted the need for class compromise may have felt themselves discursively trapped by this history.

Instead, the trade union position eventually coalesced into support for a capitalist system shaped and managed by a 'developmental' state—which would support a high-wage, high-productivity growth path through complementary labour-market and industrial policies (e.g. Vavi 2008; 2008b). This 'high productivity now' strategy assumes that even in a country with a labour surplus like South Africa it is necessary to increase labour productivity today in order to project the economy onto a more 'dynamic' growth path tomorrow (Nattrass, 2001). It adopts aspects of the East Asian development experience—notably a role for active industrial policy (Wade, 1990)—while disregarding the central characteristic of the East Asian growth experience: that surplus labour was drawn initially into low-wage labour-intensive sectors, and that the economies were only projected onto a more capital- and skill-intensive labour demand growth path once that surplus labour had been absorbed and average skill levels improved (Birdsall and Jasperson, 1997). Instead, it asserts the need for living wages and decent work, thereby employing a rhetorical strategy inimical to low-wage, low-productivity employment strategies. Precisely because it prioritises decent high-wage jobs for the employed, it is, ironically, a reincarnation of the old trickle-down story: increases in productivity supposedly drive the rising tide of economic growth; the unemployed must get trained and wait for the employment waters to rise.

This approach has strong echoes of Porter (1990) in that it assumes national competitive advantage rests primarily (if not solely) on the adoption of best practice technology and on active state involvement in support of innovation, and otherwise generally encouraging structural change in favour of higher value-added activities. In the hands of trade union intellectuals, this approach was adapted to include the use of wage pressure to force South African capitalism onto the cutting edge and up the value chain (Nattrass, 2001).

An early influential statement of this vision was articulated by the Industrial Strategy Project (Joffe et al. 1995), a trade union-linked think tank which favoured using wage growth and employment protection to 'encourage restructuring up the value chain rather than restructuring towards low-wage, low-productivity forms of production' (ibid: 213). They situated the South African labour movement's approach to industrial restructuring within this particular logic, pointing out that it was 'premised on the need to move South African firms out of their low-wage, low-skill, low-productivity vicious circle in which they are out-competed by the second-tier newly industrialising countries' (ibid: 214). In other words, not only does it take as a given that South Africa's wage structure is too high to compete with the newly industrialising countries and that the appropriate response is for the state to assist firms to become more productive (which typically implies more capital-intensive production) in order to compete on a higher wage, high productivity trajectory—but it assumes that destroying existing (competitive) low-wage production is part of the strategy. This resonates with popular notions that if low-wage production is allowed to exist, there will be a race to the bottom.

Such ideas serve to denigrate low-wage labour-intensive jobs and deflect attention away from the fact that high and low productivity operations can co-exist where they compete in different product markets. This is the case, for example, in the clothing industry, where firms producing for the higher value-added, fashionable end of the market have long co-existed with firms producing basic goods, for middle- and low-income consumers, even though wages differ substantially between them (Nattrass and Seekings 2012a, 2012b). Yet the National Bargaining Council for the Clothing Manufacturing Industry (established in 2002) has raised minimum wages faster in the low-wage areas, contributing significantly to job losses despite substantial support of the clothing industry by the Department of Trade and Industry (Nattrass and Seekings, 2013). Rather than creating a race to the top, the result has benefited only those firms in other low-wage countries that have gained from the destruction of South Africa's most labour-intensive economic industry.

In 2009, in the cabinet reshuffle following Thabo Mbeki's replacement as president by Jacob Zuma, Ebrahim Patel was appointed to the newly created ministry of economic development, which was tasked with co-ordinating and planning the government's economic policies. Patel was formerly general secretary of the South African Clothing and Textile Workers Union from 1999 to 2009, and national labour convenor for NEDLAC. He is deeply committed to using government resources and policies to promote high-wage, high value-added forms of production. The first policy document produced by the ministry of economic development was the New Growth Path plan, which is centred on this vision (Nattrass, 2011). The ministry's industrial policy, with its Porter-like emphasis on world class manufacturing and upgrading, also supports the plan (DTI, 2011; NPC, 2012).

There are thus clear signs of a linkage between the economic vision propounded by the trade union movement and the ministry of economic development. But there are signs that it is not necessarily a hegemonic position. For example, the minister of finance, Pravin Gordhan, recently suggested that changes to South Africa's labour dispensation may be necessary to prevent further job losses in the clothing sector—a

view subsequently endorsed by Trevor Manuel, the former minister of finance and now head of the National Planning Commission.⁸ There appears to be some difference of opinion within government about economic policy, but under Jacob Zuma's leadership there has not been any serious attempt to reconcile economic policy stances. Certainly, since Rob Davies of the SACP became minister of trade and industry, there has been better co-ordination between trade and labour policy in the sense that there have been no further unilateral decreases in tariffs, and government assistance to industry has been conditional on firms complying with labour legislation. However, tensions remain between the department of trade and industry and labour on the one hand, and the ministry of finance and the Reserve Bank on the other (both of which are regarded by the left as pursuing unnecessarily restrictive fiscal and monetary policies).

Race, Business, and the State

The potential for peak-level social-democratic forms of co-ordination has been undermined further by racialised and increasingly clientelistic relations between business and the state. The cordial relationship between the ANC and the white business elite, which had been evident during the transition to democracy, unravelled in early 1997 when the head of Standard Bank offered to assist government with its capacity problems by suggesting that senior executives be seconded to government as 'part of their commitment to transformation' (Gevisser, 2007: 686–7). Thabo Mbeki, then deputy president and increasingly responsible for economic affairs, was apparently offended by the suggestion that the new government needed assistance from white business. It was only once the white corporate sector created the Business Trust in 1998, to raise money for job creation and education, that he re-opened lines of communication by creating a working group through which he would meet with business leaders (Handley 2008: 90–1).

The situation for black business, however, was very different. After Mbeki became president in 1999, the ANC government championed BEE to encourage rapid redistribution of share ownership from white hands to black hands. This stance of the ANC had a significant impact on the economy. Just as the old white corporate sector had maintained power and control over vast swathes of the apartheid economy through inter-locking directorships and shareholdings, now a tightly connected new black elite serve on each other's boards and are closely connected to the national government (Calland, 2006: 265; Seekings and Nattrass, 2011). This is justified by an unabashed ideology that frames the promotion of a black business elite as both just and good for South Africa (Seekings and Nattrass, 2011). However, SACP critics regard this as a justification for cronyism and as a betrayal of the revolution (Turok, 2009; SACP, 2006). Ironically, the beneficiaries of BEE include the politically connected black elite and trade unions who, by virtue of their largely black membership, are able to invest pension funds and debt in BEE deals. Notable amongst these are the Mineworkers Investment Company (owned by the NUM), Kapanao ke Matla (owned by COSATU), SACTWU Investment Group (owned by SACTWU), and the Union Alliance Holdings (jointly owned by COSATU and other trade union groupings). Such participation in capitalist enterprise by the trade union movement flies in the face of organised labour's socialist ideology.

The first major BEE piece of legislation was the Preferential Procurement Framework Act, 2000, which required that the government favour tenders from black-owned companies. Further BEE legislation was promulgated in 2003 to promote sector-specific 'charters' specifying targets for BEE deals (Hirsch 2005; Gqubule 2006; Turok, 2008: 155–7). This was backed up by legislation, for example the Minerals and Petroleum Development Resources Act of 2004 which requires mining houses to become BEE compliant if they wish to renew their mining licences. The basic model for a BEE deal is that black investors buy a discounted stake in a company (sometimes through holding companies or Trusts) financed through a combination of bank loans (sometimes underwritten by the company involved), expected dividend flows, and increases in share price.⁹ In return, the company is able to gain informal access to the black political elite and lucrative government contracts.

In February 2007, the government gazetted new Codes of Good Practice for so-called 'broad-based' BEE in an attempt to spread the benefits more widely.¹⁰ The codes widened the range of business practices, such as affirmative action and employee share ownership, for which firms could earn BEE points.¹¹ Because the BEE status of supplier firms affects the BEE status of those firms which contract them, BEE compliance is now being strongly transmitted through value chains. In the process, the business environment has remained racialised, although now to the advantage of politically-connected black business people rather than white business people.

Increasingly, the connections between the ruling elite and BEE beneficiaries have raised the spectre of corruption and nepotism—with the attendant worry that South Africa may be moving towards a more patrimonial variety of capitalism. In the mid-1990s, the treasurer of the ANC, Thomas Nkobi, favoured the creation of a party-aligned business structure. Although this was never endorsed as official policy, Jacob Zuma's advisor, Shabir Shaik, went on to create Nkobi Holdings (of which the ANC had a 10 percent stake), a conduit later shown to have received payments from companies in return for lucrative contracts. The contracts were mostly in the arms industry but also included government contracts such as the supply of South African drivers' licences (KPMG, 2012: 27). Other shady investment vehicles of this type exist and the South African media regularly make public exposés of corruption, when tender processes have been abused and contracts awarded to individuals with close ties to government. As Robinson and Brummer concluded in 2006, 'the murky relationship between money and politics has been at the heart of almost every major scandal faced by political parties and the government since 1994' (2006: 2). Infamously, there has been a steady drip of revelations in the media about the corrupt arms deal, in which inter alia millions of rands were channelled through Nkobi Holdings to Jacob Zuma. Shabir Shaik was found guilty in 2005 on two counts of fraud and corruption for his profiteering in the arms deal through Nkobi Holdings. Jacob Zuma was depicted by the judge as having a 'generally corrupt' relationship with Shaik. Subsequent attempts to prosecute Zuma failed as the prosecuting authority folded in the face of political pressure.

The arms deal is one of the most contentious issues of post-apartheid South Africa. It has resulted in civil society mobilisation in favour of full disclosure, resignations from parliament by disgusted ANC members of parliament, and various public

interest lawsuits. Part of the justification for the arms deal was that the firms awarded the armaments contracts would deliver offset investments, meaning they would promise to invest in other parts of the economy, thereby creating jobs. Alec Erwin, the erstwhile minister for trade and industry, was one of the most fervent supporters of the arms deal, supposedly because the offset deals could boost South Africa's industrial policy (Green, 2008: 474–5; Feinstein, 2007: 232). However, less than a quarter of the 12,000 offset-related jobs anticipated were actually delivered (Feinstein, 2007: 232).

The numerous examples of graft, corruption, and abuse of state power in the allocation of contracts has harmed South Africa's reputation in the business and international communities. So too has the erosion of trust in South Africa's police service. Jackie Selebi, the national police commissioner from 2000 until 2008, was convicted of corruption and sentenced to 15 years in jail (though he was released after serving less than a year) and South Africa's criminal investigation and prosecutions authorities have been plagued for more than a decade by political intrigue. Figure 6 (p25) plots the Heritage Foundation's changing index of perceived corruption and other aspects of business freedom.¹² Perceived freedom from corruption improved in the late 1990s, but there has been a sharp trend decline since 1998. So while fiscal and trade freedom (measured in terms of trade liberalisation and orthodox fiscal policy—both of which shape the macro environment) trend upwards, the micro business environment (corruption, controls on investment, BEE, and labour laws as a barrier to entrepreneurship) has trended the opposite way. World Bank governance indicators are even more negative about post-apartheid South Africa's ability to control corruption. As shown in Figure 7 (p25), perceived regulatory quality and especially control of corruption have been trending sharply downwards in the 2000s.

The rational strategy for white business in this environment is to act defensively, and for individual capitalists to look after their own narrow interests. This can possibly be achieved through continued unbundling and disinvestment and by engaging in BEE deals and the like in order to obtain government patronage through the back door. The rational strategy for black business is to accumulate capital on a parasitic basis (obtaining shares in return for political favours and connections) rather than participating in the productive sector of the economy, where conflict with labour is inevitable. Those that do venture into the productive sector are likely to lobby the government for additional support, such as tariff protection and bail-outs.

In short, there are strong indications that a form of crony capitalism is developing with a peculiarly South African twist, in which organised labour lobbies government on behalf of employed workers and its own investment interests. However, unlike in Zambia and Ghana where this is a serious problem (Handley, 2008), the South African economy is large enough for there to be many other routes for aspirant capitalists to make money—even though BEE regulations may act as a tax on that effort. Furthermore, there exists a dynamic civil society which has resisted the government, notably on AIDS, poor education delivery, and corruption in the arms deal. Even so, it is worrying that government is increasingly placing restrictions on business, especially as a response to criticism. The recent condemnation of First National Bank executives for critical commentary on the government and ANC by young people posted on its website is a case in point—and does not bode well for democracy.

FIGURE 6: BUSINESS FREEDOM INDICES (HERITAGE FOUNDATION)

SOURCE: [HTTP://WWW.HERITAGE.ORG/INDEX/EXPLORE.ASPX?VIEW=BY-REGION-COUNTRY-YEAR](http://www.heritage.org/index/explore.aspx?view=by-region-country-year)

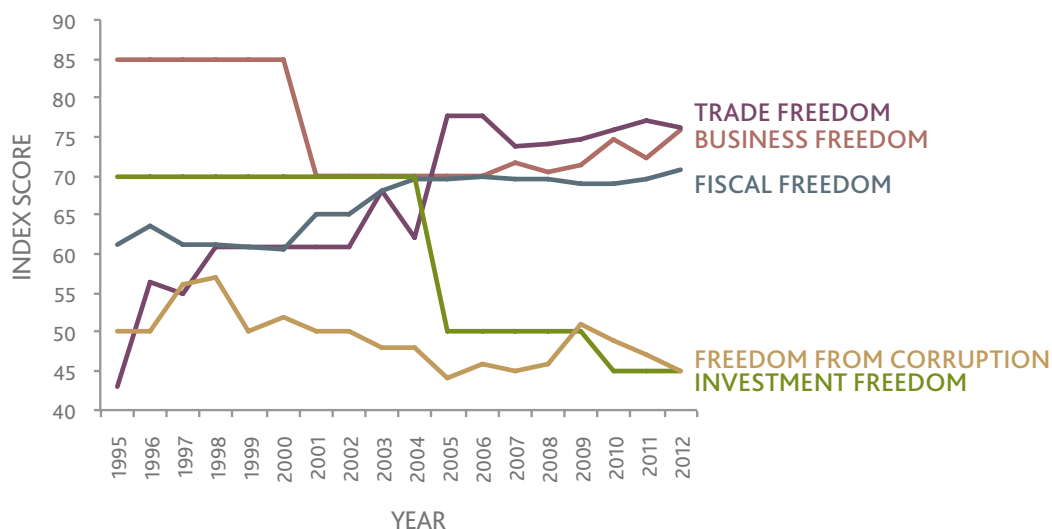
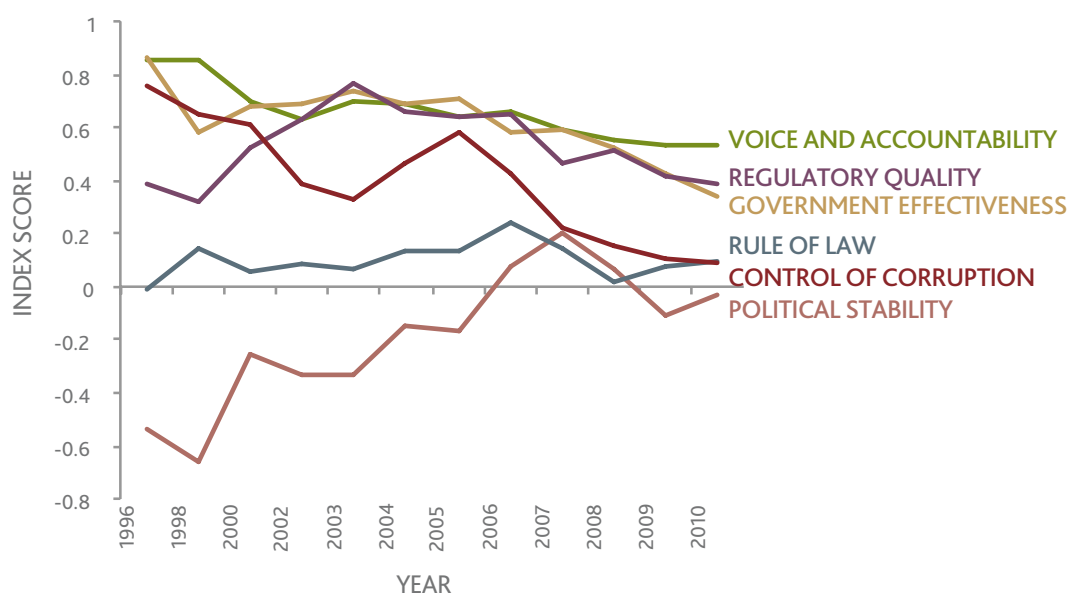


FIGURE 7: GOVERNANCE INDICATORS (WORLD BANK)

SOURCE: [HTTP://INFO.WORLDBANK.ORG/GOVERNANCE/WGI/INDEX.ASP](http://info.worldbank.org/governance/wgi/index.asp)



The rational strategy for organised labour is to continue lobbying the government for pro-labour policies and to involve itself in BEE deals. What this means for the prospects of a more co-ordinated variety of capitalism emerging in South Africa is uncertain. Iheduru (2002) points out that organised labour's involvement in business deals (so-called comrade capitalism or business unionism) blurs the lines between workers and owners, thereby giving workers a material stake in the economy, and helping build a black business class. He argues that this will make cross-class compromises more likely and be good for 'social concertation'. But as long as unions continue to reject wage restraint and insist that it is the job of government to mobilise development-state type policies supposedly to boost productivity and move firms up the value chain, then class compromise is unlikely. Indeed, it can be expected that unions would demand industrial policy support if companies run into trouble. For example, from 2011 to 2012, at least R66.7 million was provided by the department of trade and industry to Seardell, a clothing and textile producer part-owned by SACTWU, for modernisation, upgrading, and financing of additional capacity. Ironically, this large injection failed to stem the tide of job losses as SACTWU continued to push for higher wages.

Conclusion

Post-apartheid South Africa appears to have CME-like labour regulations entrenched alongside growing neo-patrimonialism. But it also, somewhat paradoxically, operates in a more liberal economic environment—at least on some level. For example, Figure 6 shows that between the 1990s and the 2000s South Africa's fiscal and trade freedom increased—largely because of trade liberalisation and fairly orthodox fiscal and monetary policies. The problem for businesses—especially those in the internationally competitive labour-intensive product markets—is that the combination of high and rising labour costs and trade liberalisation has adverse implications for profitability (Nattrass and Seekings, 2012). The situation depicted in Figure 5 shows that the profit share has risen for remaining firms (many would be operating in higher wage, higher productivity niches), but that this has come at the cost of growing capital-intensity and stagnant employment. Racial inequality has declined sharply in the post-apartheid era, but unemployment coupled with no support for the unemployed has resulted in the persistence of both poverty and inequality, albeit in new, class-based forms (Seekings and Nattrass, 2005). It is a variety of capitalism which provides CME-like support for those who are employed and patrimonial and increasingly corrupt support for sections of black business while effectively excluding those who are predominantly unskilled or unemployed from the benefits of growth.

South Africa's failure to create sufficient jobs to address the unemployment crisis is posing serious challenges for economic policy and social policy. Recent attempts to boost youth employment through a wage subsidy scheme met with strong resistance from organised labour, which has remained implacably opposed to the idea that jobs should be created through lowering the cost of employment. Despite growing concern about job losses (notably in the clothing manufacture industry) bargaining councils continue to use the legal system and local sheriffs to shut down firms which fail to pay the negotiated minimum wage (Nattrass and Seekings, 2013). Calls by the minister of finance and the head of South Africa's Planning Commission for a more employment-friendly labour relations system reflect a growing disquiet in government circles about the role of institutions in exacerbating unemployment. Even so, the NDP shies away from recommending any changes.

One option is to move in the direction of a CME and introduce social welfare for the unemployed—which will lower inequality but increase the tax burden. However, this is resisted by business and organised labour because South Africa's relatively narrow tax base means that all income earners will have to pay higher taxes. Another option is to move in the direction of a LME with regard to labour laws while retaining statist components (e.g. industrial policy) where they are effective, but this option is also strongly resisted by the trade union movement. The framing of those who propose labour-market reforms as 'neo-liberal' and as 'sell-outs' makes it very difficult to have a productive discourse about how best to build an inclusive political-economy in South Africa.

Finally, South Africa's adversarial labour-relations pose major challenges for any co-ordinated solutions involving class compromise. Most worryingly, violent strikes disrupted the mining industry in 2012—most notoriously in August when striking miners were killed by the police. The once-powerful NUM, which brokered profit-sharing deals in the gold mining industry in the early 1990s, appears to have lost ground to a rival union with a particularly adversarial approach to wage setting. This situation has all but stalled investment in South African mining. The Western Cape agricultural industry has also suffered from spontaneous and organised protests demanding that the minimum wage in agriculture be doubled. This led to a 50 percent increase in the legislated minimum wage in agriculture throughout the country. This is likely to increase productivity and capital-intensity in agriculture, but at the cost of further job losses. In neither the mining nor the agricultural wage disputes have any efforts been made to link wage demands to profit sharing arrangements or job retention. Although there are some employee share ownership schemes in mining and agriculture, they are rare. Overall, there appears to be no immediate prospect for a more co-ordinated, social-democratic variety of capitalism in South Africa. The best possible scenario is growth in co-operative arrangements and in informal production.

While there are serious concerns about the level of violence in South African labour relations (especially in the mining industry, and more recently in the agriculture industry), crime, policing, and the rule of law more generally, there appears to be no immediate threat to democracy. Although the ANC has an unassailable majority in parliament—which gives the country the flavour of a one-party state with its attendant internal jockeying for power, civil society remains vibrant and acts as a further check on government. Civil society groups have mounted successful legal challenges to government policy, such as the fight waged by the Treatment Action Campaign to change AIDS policy (Nattrass, 2007), and there has been activism over the arms deal, policing, and education. Such activism reflects South Africa's level of economic development and significant educated middle class and elite groupings: structural factors that are not going to disappear any time soon. In this sense, the Lipset hypothesis is alive and well in South Africa. Even so, the alliance between the ANC and COSATU is cause for concern, as it is a site of power and policy making outside of democratic processes. So too is the increasingly crude wielding of power by the state over business.

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- ² See <http://scnc.ukzn.ac.za/doc/HIST/freedomchart/freedomch.html>
- ³ Interviewed in *The South African Labour Bulletin*, vol.16, no.2, (1991): 19.
- ⁴ Personal communication with NUM officials in 1994.
- ⁵ <http://www.COSATU.org.za/show.php?ID=2534>
- ⁶ Interviews with business representatives and the spokesman for, and executive director of, Nedlac (May-October, 2008).
- ⁷ Discussion 16 October 2008, Johannesburg.
- ⁸ See: <http://mg.co.za/article/2011-08-25-cabinet-no-pravin-we-wont-relax-sas-labour-laws>
- ⁹ Interview with a broker of BEE deals, February 2009.
- ¹⁰ Government Gazette 29, 617, 9th February, 2007.
- ¹¹ Information on legislation, charters, BEE scorecards etc can be found on the Department of Trade and Industry website: <http://www.thedti.gov.za/bee/beecodes.htm>
- ¹² See <http://www.heritage.org/index/book/chapter-1>

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