Cosatu moves on an industrial strategy

In 2004, Cosatu's CEC resolved that the Central Committee should develop a more detailed position on industrial strategy. Such a strategy should include broad job-creating strategies for key sectors and more detailed proposals on the role of the state, business and labour in taking forward structural policies. The **Labour Bulletin** highlights some key elements in a draft Cosatu report, which will form the basis of a lengthy discussion at the August CC.

Cosatu's call for an industrial strategy arises from the recognition that:

- Colonialism and apartheid shaped the economy to support mineral exports, with very concentrated ownership and control. The result was high levels of un- and underemployment, especially in the former homeland areas.
- The market will maintain these economic structures unless the state and other stakeholders intervene actively to redirect the economy toward job-creating growth.
- Critical steps are to support labour-intensive activities and more equitable ownership, including collective ownership through the state, pension funds and co-operatives.

THE APARTHEID GROWTH PATH

The nature of the growth path from at least the turn of the century until the middle of the 1980s was characterised in terms of the production structure, class power and the state.

Production structure: Exports of gold and other minerals essentially financed the growth of import-substitution manufacturing as well as infrastructure, and paid for the imports these industries needed. To this day, minerals constitute 40% of exports, although minerals plus energy account for around 15% of total production.

South Africa was a classic resource-based economy, using its abundance of minerals and energy for large scale, often relatively capital-intensive export production. It had weak upstream and downstream linkages and did not create enough employment. But it generated substantial funds for investment. These supported substantial infrastructural development and growth in industry, largely to provide relative luxuries for the high-income group and build up defence and oil-from-coal production.

This production structure led to a particular dependence on world markets. Gold and other minerals were exported internationally. Unusually large inequalities in income limited domestic demand and skewed manufacturing production toward relative luxuries, heavily based on imports. Manufacturing exports focused disproportionately on southern Africa.

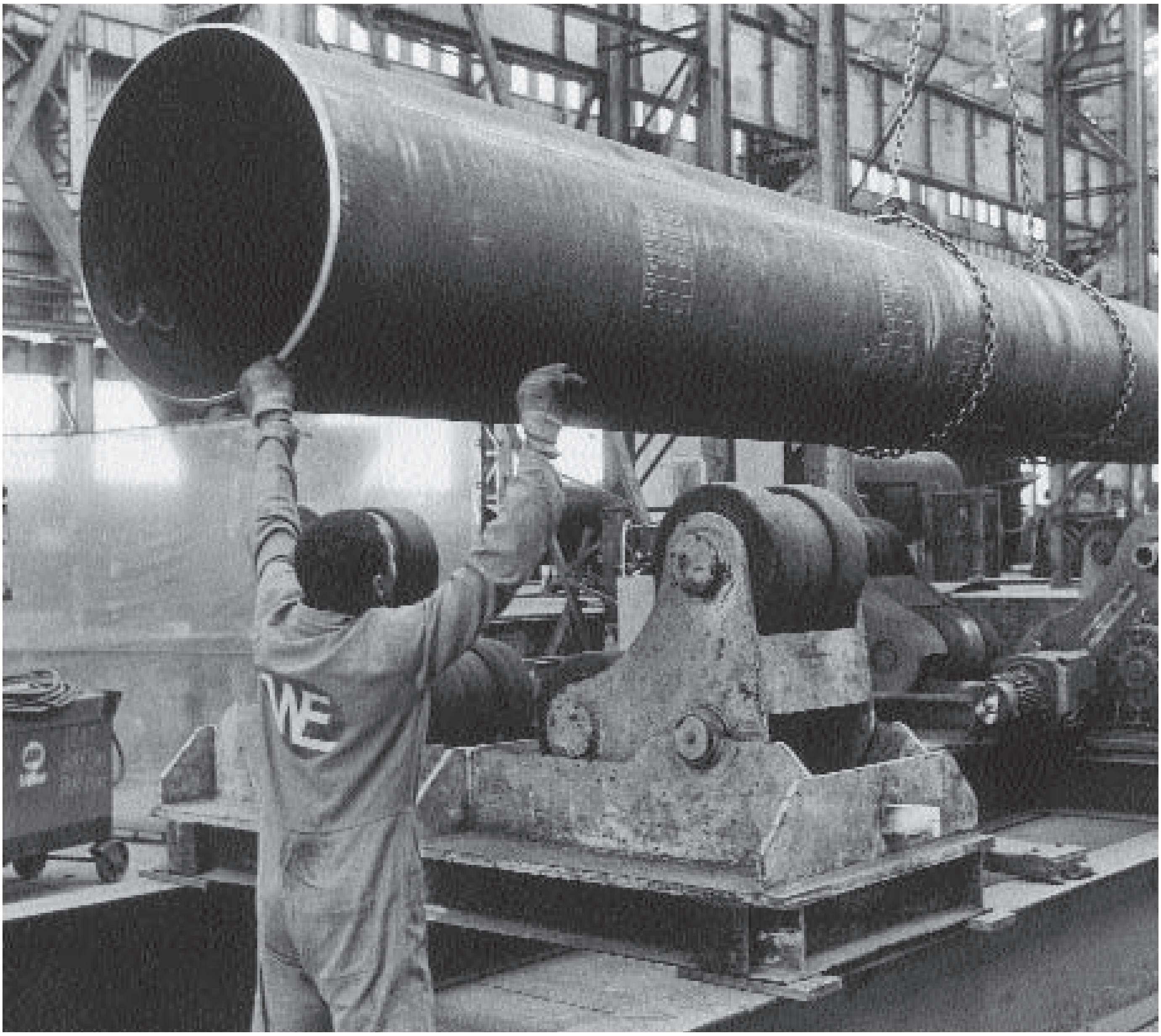
The production structure was also characterised by extraordinarily spatial inequalities, which were integral for maintaining a reserve army of the unemployed. The homelands stood apart both administratively and economically. They became impoverished regions with little formal employment; corrupt, underfunded and understaffed government services; and weak infrastructure.

Class structures/ownership: The production of minerals is typically large-scale and capital intensive. These characteristics tend to generate substantial inequalities in income and wealth, which apartheid aggravated.

A narrow complex of mining and financial capital dominated the economy. State-owned enterprises provided infrastructure for vast new manufacturing and benefication ventures. Commercial agriculture also enjoyed state support in a multiplicity of forms.

Foreign investment was mostly in the form of loans, holdings of gold shares, and direct investment, especially in mining, manufacturing and the financial sector. In the 1980s, however, multinationals often established arms' length relations to their subsidiaries, in an effort to disassociate themselves from apartheid. Meanwhile, the debt standstill led to a dramatic reduction in foreign loans, leaving South Africa with a very low foreign debt burden compared to other middle-income countries.

In terms of the structure of the working class, mining and agriculture relied on cheap unskilled labour generated largely through the migrant labour system. Apartheid purposefully impoverished black rural areas and created high levels of underemployment. Nonetheless, a stable, skilled and well-organised labour force developed in



manufacturing and the public-service. Public sector employees were, however, largely barred from union organisation.

Role of the state: State action greatly influenced the growth path, providing cheap labour, investment capital, subsidised infrastructure and energy, and tariff protection for domestic manufacturers.

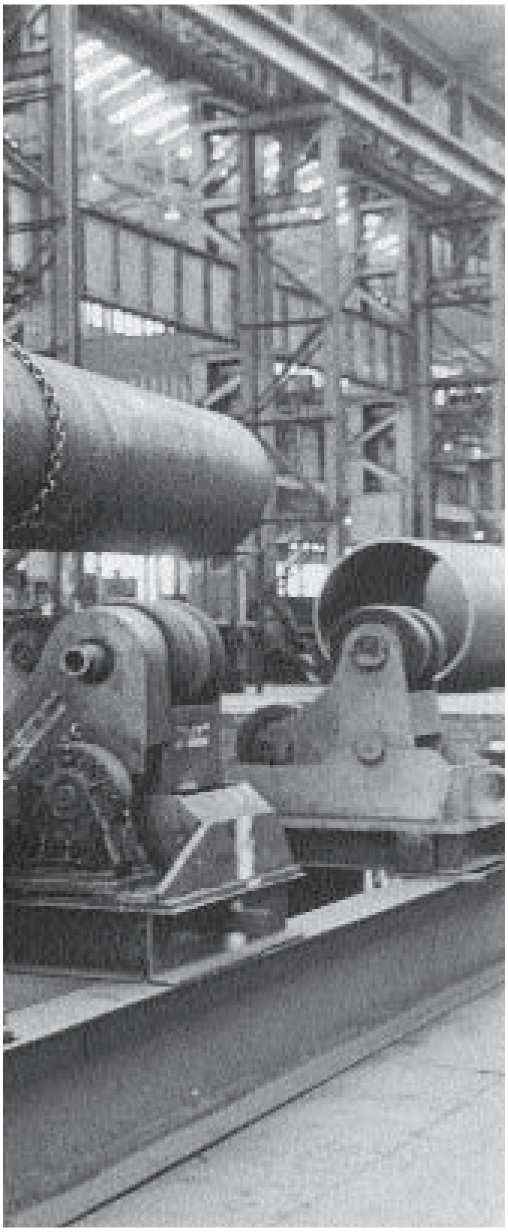
The apartheid growth path ran into trouble from the mid-1980s as a result of economic factors as well as growing resistance. Gold mining faced a decline at least from the early 1980s. In 1985, the economy suffered a massive outflow of foreign capital. The lack of recognised skills in the labour force proved an on-going problem, as did weak middle management and supervisory skills in both the private and public sector. Finally, from the mid-1980s and especially after 1994, the state ended or reduced many long-standing forms of support for (white) capital, including parastatal investment in infrastructure, tariff protection, laws that suppressed labour and agricultural marketing.

DEVELOPMENTS POST 1994

After 1994, the apartheid growth path was affected by various factors. Overall, the result was depressed investment, slow employment growth and stagnant pay.

Production structure: Gold mining continued to decline while platinum and steel production expanded. These shifts meant that minerals remained stable at 40% of exports, but mining employment dropped substantially.

Manufacturing essentially stagnated, with substantial growth only in the automobile sector. This largely reflected the re-integration of the South African economy into global markets while domestic demand remained limited due to persistent



inequalities in income and wealth. Manufacturing exports continued along the well-established trajectory of minerals, heavy chemicals and auto. Increased imports undermined expansion in light industry. Imports increased in part because multinational corporations closed down local affiliates in order to increase imports from other subsidiaries.

Deregulation of agriculture led to a reduction in the number of commercial farms while concentration in storage and trading intensified. The public service and parastatals downsized employment substantially while integrating services.

Class structure/ownership: The period after 1994 saw important changes without dislodging the dominant position of big mining and finance capital – notably the four big banks plus Anglo American - in the economy.

- South African mining and financial houses largely reintegrated into global capital markets. With shrinking gold production, the mining companies began to seek opportunities overseas, rather than diversifying into other sectors in South Africa. Leading mining and finance institutions listed abroad or, in the case of Absa, were purchased by foreign companies. These trends were associated with a substantial outflow of profits and dividends.
- Many South African manufacturing companies reintegrated into multinational networks, notably in equipment, pharmaceutical, auto and dairy. In addition, given fairly slow growth overall, foreign investors in some industries simply displaced some South African producers. As a result, capacity in some sectors actually declined, while foreign direct investment was associated with relatively stagnant output. The auto industry proved an exception, with reintegration into the global value chains, especially of Germany companies, leading to a substantial increase in exports combined with higher import dependency.
- Big private capital provided relatively few opportunities for black advancement in management or ownership. In response, from the early 2000s the state began to exert increasing pressure for the sale of shares to black owners. As of 2005, who would benefit from this strategy and how it would affect the structure of investment remained unclear. In any case, the main bastion of black capital was the state. The big parastatals saw the installation of predominantly black ownership combined with commercialisation. Senior positions in state departments represented the main stepping-stone for black managers into private and parastatal business.
- Speculative investment in the South African stock market, mostly in financial and mining companies, and in government bonds, expanded substantially, especially when the gold price was high in the mid-2000s. This contributed to a higher rand from 2003, stimulating import-dependent growth but undermining manufacturing and mining production.

The changes in production and ownership had important implications for employment and for working-class organisation. In particular, they were associated with slow employment growth, which led to soaring joblessness especially amongst young Africans. Moreover, employment shrank in historically well-organised sectors of the economy – large companies, including the parastatals, as well as mining. It grew in poorly organised industries, notably retail and construction.

Role of the state: The state had a substantial impact on development after 1994 without however, adopting a coherent structural policy that could ensure greater equity or employment creation. Its interventions were essentially guided by three strategic decisions.

- In the 1990s, the state effectively adopted a free-market approach to economic growth, characterised by deregulation of important sectors, notably agriculture and the parastatals, weakening of foreign-exchange controls, and reduced tariffs and other forms of support for local production. In this context, the economic strategy aimed primarily to increase exports, rather than prioritising employment creation or even enhanced economic capacity. From 2000, the state argued that it had to intervene more strongly to drive development. It did not, however, develop a structural vision to drive industrial strategy.
- The government limited its own spending, with substantial budget cuts in the late 1990s. Large increases in state spending began in 2000, which helped stimulate overall growth and began to increase government investment. All too often, however, the government imported inputs, which reduced the expansionary effects of its spending.

- Within the constrained budget the government increased spending on basic services for black communities, with a substantial increase in social security spending through the old-age pensions and child grants.

These basic strategic thrusts led to a reduction in government spending on the economy while spending on social services rose. Government strategies proved inadequate to shift the economy onto a new, more equitable growth path. Instead, investment stagnated, unemployment soared, and wages remained low. In these circumstances, the share of labour in the national income declined, while the share of profits rose.

TOWARD JOB-CREATING GROWTH

A growth path that can create employment on a mass scale would require substantial shifts in production and ownership structures, which in turn would demand more targeted action by the state.

Production structure: More rapid employment creation would require a consistent shift toward more labour-intensive sectors. That in turn would involve an increased focus on the production of basic goods and services for the majority, although exports would have to continue to grow. Special measures would have to support development in the former homeland regions.

Class structure/ownership: Greater equity and incomes for the majority requires the development of new centres of economic power, in particular through the state and parastatals, a vibrant co-operative movement, and the use of pension investments to influence dominant companies, plus serious land reform and other types of support for small and micro enterprise. These measures must be integral to all BEE programmes.

Role of state: The state as it now stands is incapable of developing or implementing the coordinated programmes required to achieve fundamental redirection of the economy. An effective industrial strategy requires more centralised direction of departmental efforts to prioritise employment-creating growth plus the establishment of effective sectoral consultative structures.

In particular, the new growth path requires consistent state intervention in four key areas: to reshape the structure of production and support more complete value chains; to set an appropriate fiscal and monetary framework; to provide an adequate social wage and to ensure that the poor have increasing access to income-generating opportunities by supporting greater access to wealth and skills.

CROSS-CUTTING ISSUES

An effective structural strategy must combine some sectoral and some cross-cutting programmes. We here identify some key areas that affect all sectors.

The developmental state

The state must absolutely prioritise sustainable employment creation, which combines economic development with an expansion in decent work. Moreover, the state must have structures that can drive development through a combination of discipline and resourcing for capital. This requires:

- Strong central authority to define the broad vision for development and ensure consistent prioritisation of employment creation and improved economic capacity.
- Capacity for coordinating all government programmes, including at provincial and local level, around these aims. That means both economic and social programmes must consistently seek to support long-term employment creation.
- Capacity and willingness to develop specific programmes, especially at sectoral level, in consultation with stakeholders. Consultation should ensure sustainable and broadly supported programmes, without compromising long-term developmental aims.

Fiscal policy

Fiscal policy must remain expansionary. The resources needed to kick-start new economic activities must be guaranteed. All government procurement must ensure a strong commitment to buying local.

Monetary policy

Interest and foreign exchange rates must be designed to support increased investment and growth in exports. That generally requires a reduction in real interest rates to levels comparable or lower than South Africa's main trading partners. It is critical that the state require development finance institutions, especially the IDC, to support its structural initiatives. In addition, targets for the Reserve Bank should include the current employment and growth targets.

Infrastructure

The current commitment to increased spending on infrastructure is an important step. Still, infrastructure spending remains focused on mega projects and, in townships, on cost recovery – policies that will do little to foster employment creation or small enterprise. The infrastructure strategy should be reviewed to reduce the cost of living for workers (and by extension the cost of employment), support the development of agriculture and food processing, and support retail and production in historically black areas. Specially, this requires

- increased cross-subsidisation of municipal services;
- greater subsidies for commuter transport and densification of housing;
- a review of investment and tariffs for rural freight transport; and
- increased development of retail and industrial sites in townships.

Skills development

While the national skills strategy sets a crucial framework for skills development on a mass scale, it has not succeeded in ensuring that lower-level workers have access to qualifications and career paths. We need a stronger analysis to understand the reasons for these shortcomings.

Unionisation

To ensure growth brings about decent work requires that workers entering newly created jobs also join unions. The labour laws never work primarily through government inspections, but rather through union monitoring and action. Government must do more explicitly to support organisation in

vulnerable sectors, rather than relying on its own power to set standards.

SECTORAL STRATEGIES

Cosatu has long argued that specific sectoral strategies are needed to restructure the economy toward more equitable, job-creating growth. This is a long-term process as it takes at least five to ten years to change the sectoral structure of the economy substantially. Effective interventions must be geared consistently and systematically toward the new growth path. Far-reaching restructuring of the economy cannot be achieved if we frequently change direction because of lobbying or hopes for short-term gains.

Sector strategies must ensure, as far as possible, that every major economic sector:

- protects and creates sustainable employment;
- meets basic needs better, by cutting prices or improving the quality of goods used by the poor;
- contributes to development in the former homeland areas and in neighbouring countries; and
- supports greater equity in ownership, employment and skills development.

A critical task is to identify industries that are both relatively labour intensive and sustainable – that is, able to grow substantially for the foreseeable future. Generally, considerable state support will be required to help these industries take off while achieving more equitable outcomes.

This approach differs from the current government strategy in that:

- It sees the domestic market as an important source of growth for labour-intensive production, rather than focusing on exports.
- It does not glorify high-tech production, rather arguing that production of basic goods for the poor in South Africa and the region at least may provide an important source of employment growth.
- By extension, it requires a low exchange rate as well as measures to reduce the cost of living in order to make possible competition with Asian suppliers who typically undervalue their currencies and hold down wages.

THE WAY FORWARD

While Cosatu has done a lot of work on industrial strategy, some gaps still remain. The areas that require further work relate to the need to discuss structures for developing and driving structural change and secondly, work to be done by affiliates around their sectors as some have more advanced proposals for their sectors than others. Stronger positions need to be developed around public and private services and food and agriculture, iron and steel and construction.

The development of sector strategies was supposed to be driven through tripartite consultation. Processes for developing sector strategies has occurred through sector summits, which have often been slow and have placed huge burdens on unions because of their long-drawn-out and technical engagements.

A critical problem has been the failure of the state to take a leading role. Government officials in sector strategies tend to be lower level. They neither demand rigorous prioritisation of employment and equity, nor themselves table strong proposals. Furthermore, the national government has set no visible guidelines or priorities for provincial or municipal development strategies.

In these circumstances, sector strategies have succeeded only where business has made a genuine commitment to sustainable development. This occurred, for instance, in the financial sector and the chemical industry. In other sectors, it has taken very long to reach agreements, the contents are often not very specific, and business and government have largely ignored them.

The weak role of the state in sector strategies can be contrasted with its ability to drive BEE charters. The main difference appears to be the willingness of government to define both extremely clear priorities for BEE and strong incentives – essentially government procurement.

In light of these experiences, a critical demand must be that the role of the state in industrial strategy be defined more clearly.

LB

This is an edited version of a draft paper, which will form the basis of discussion on industrial strategy at the Cosatu CC in August.