# COSATU's vision

## *a society worth living in*

*COSATU's economic proposals could repair a damaged state and a damaged people, argues **Karl von Holdt**.*

Our society has been devastated by its history. While formal apartheid has been dismantled, it has left us with the legacy of a society divided against itself – by race, by huge disparities of poverty and wealth, by violence.

Government's GEAR strategy has not delivered the growth and jobs that were promised. Its supporters now say that we must expect pain before the benefits of GEAR become apparent.

It is not clear, though, that our society can take more pain. What is certain is that we cannot take more pain if it is not fairly distributed. If the hardship is to be felt primarily by the same people – black people and poor people – who experienced the suffering of apartheid and the struggle against apartheid, it can only deepen the divisions in our society, possibly beyond the point of no return.

GEAR does not promise to distribute the pain fairly. It was not negotiated with those who are feeling the brunt of the economic crisis – the victims of poor healthcare and education, the rural poor, workers losing their jobs, the unemployed who have no prospect of finding jobs. Furthermore, the 'fiscal discipline' of GEAR tends to curb the ability of the state to redistribute incomes from the wealthy to the poor. The threat of increased labour market flexibility is also simply another way of redistributing income from labour to capital.

Recently the *Financial Mail* published a strange editorial, a sign perhaps of how divided our society is, encouraging greed among businessmen, especially black business people, because successful businessmen create jobs.

What South Africa desperately needs is a culture of social solidarity and social justice to overcome the antagonisms of the past, and a culture of productive work, innovation and reconstruction to overcome the legacy of the apartheid workplace.

This is why the economic vision of COSATU is so important. When COSATU speaks on economic matters, it speaks for members on the grinding edge of poverty, unemployment, and labour market insecurity. It is important for the future of us all that society pays attention to a vision of economic development that repairs a damaged state and a damaged people, that builds a common society, and that takes place through the development of people, skills and social relationships.

### Reclaiming redistribution

In COSATU's view the important question to ask of economic policy is whether it helps build a society worth living in. A complex economic vision – summed up in the idea of 'reclaiming redistribution' – is emerging from a decade of research, debate and experience within the federation. This vision combines four distinct economic strategies with sources in a rich variety of experiences in South Africa and across the world:

- an expansionary Keynesian macro-economic strategy;
- state-led economic development based on the idea of a 'developmental state';
- productivity-enhancing redistribution of skills, resources and assets;
- elements of a socialist strategy.

COSATU's recent Central Committee (CC) – a mini-congress attended by over 400 delegates from the federation's affiliates – forged these strategies into COSATU's most comprehensive and coherent economic policy programme to date. Delegates debated and refined analysis and policies outlined in the RDP, *Social Equity*, the September Commission, policy conferences, submissions by COSATU's parliamentary office, and resolutions from affiliates.

These represented the culmination of intense debate, research and experience since 1990 – and before, if one includes the influences of the Economic Trends Group and the Industrial Strategy Project.

## Expansionary strategies

The state is the biggest actor in the economy: it employs more people, spends more money and invests more than any other economic agent. The 'fiscal discipline' prescribed by GEAR strangles this activity, reducing employment and investment and shrinking market demand, with ripple effects across the economy. The high interest rate policies of the Reserve Bank – in part necessitated by the liberalisation of exchange controls – reinforces this effect, choking investment and demand. The result is economic stagnation and 'pain'.

In contrast, COSATU argues that, rather than fetishising the fiscal deficit, the central role of economic policy should be addressing the 'social deficit' of poverty and inequality. Resources for more expansionary fiscal policies could be generated with more flexible deficit targets, restructuring of the state debt – particularly the public service pension fund – and a more progressive tax policy. The reduction of interest rates is also critically important for stimulating economic activity.

These are standard Keynesian strategies for times of recession or economic stagnation. COSATU's proposals are for a *modestly* expansionary strategy that cannot be dismissed as macro-economic populism. Some of its proposals, particularly for restructuring the state debt and sources of revenue, would allow government to increase its spending without necessarily entailing a bigger government deficit.

## Developmental state

COSATU's policies for a developmental state are based on two ideas – that the state should lay the foundations for human development by providing good quality education, healthcare and other services, and that the state should actively stimulate economic development, especially industrial development.

The provision of services is not only a cost, but an economic investment in our human capacity. Healthy, educated citizens are an economic asset in building an innovative and productive economy.

The market alone will not generate industrial development. On the contrary, it is more likely to lead to deindustrialisation in South Africa, as industries are overwhelmed by competition or relocate to regions of the world with cheaper labour, bigger markets or greater technological capacity. This explains the second aspect of COSATU's thinking on the developmental role of the state: that government needs to develop an active industrial policy, co-ordinating and channelling scarce resources – capital, research and technology, training facilities and infrastructure – into targeted labour-intensive industries. This would require partnerships between government, labour and business.

The state has a variety of instruments available to it for implementing such a strategy: development finance institutions such as the Industrial Development Corporation (IDC), the parastatals, as well as research and education facilities. The Reserve Bank, could facilitate the flow of cheap capital to targeted industries via differential interest rate and reserve policies. Prescribed asset requirements for retirement funds would channel capital into infrastructural and developmental investments.

## Redistribution

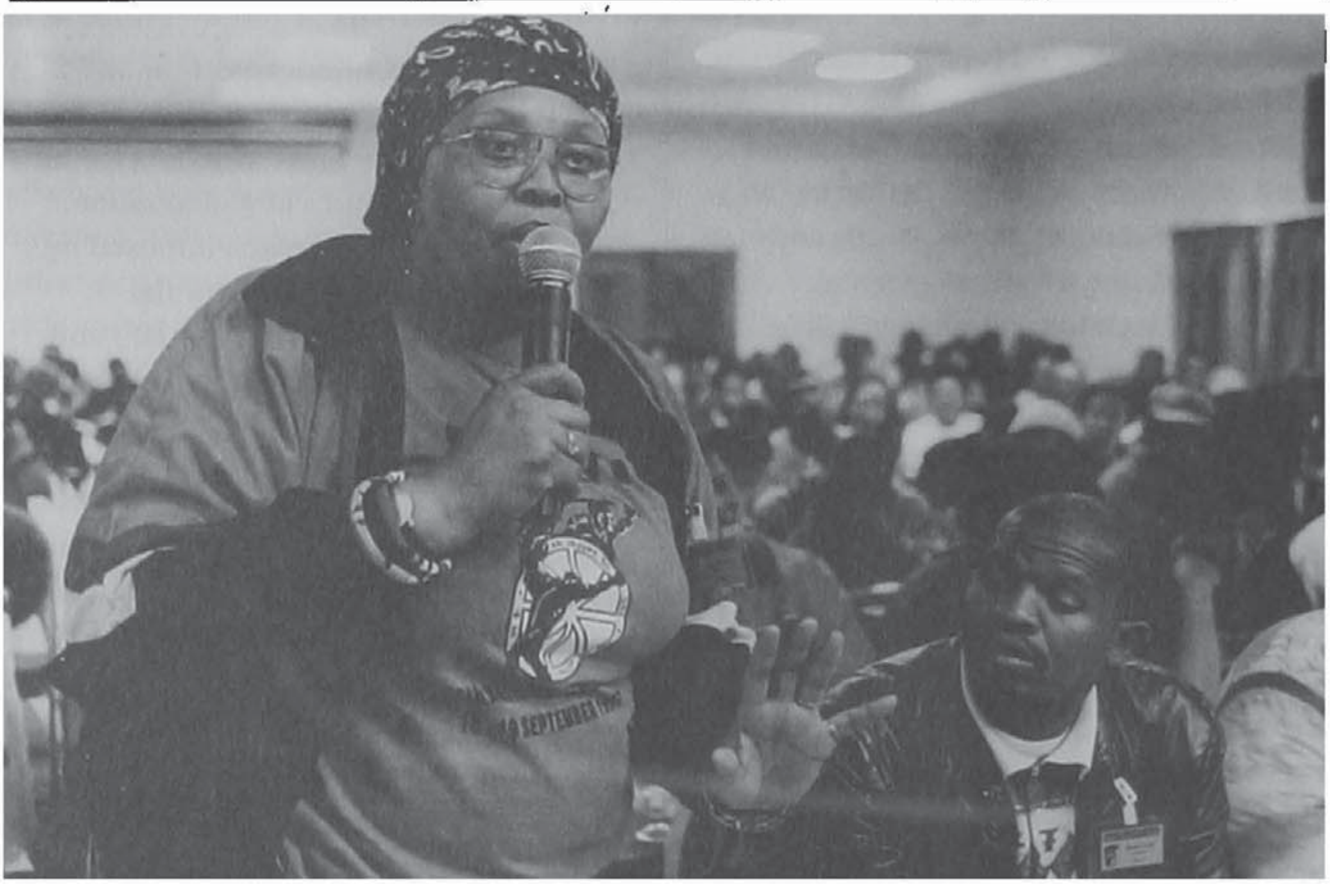
The progressive American economist, Sam Bowles, argues that there are two different possible strategies for responding to the competitive pressures of globalization. The trickle-down approach imposed by the 'Washington consensus' of the International Monetary Fund (IMF) and the World Bank focuses on reducing tax and wage costs.

A more egalitarian approach would emphasise 'productivity-enhancing redistributions' that simultaneously increase productivity and improve living and working conditions by redistributing resources, skills and assets from an elite to the majority of the population.

COSATU's economic policies include a number of proposals that embody such an approach:

- the emphasis on providing resources for training and education;
- developing a national health service;
- closing the apartheid wage gap;

*A housing parastatal could boost the delivery of houses.*



*COSATU CC, June 1998. Themba Kgase debating policy.*

- the proposal for a basic income for the poor, paid by the state;
- worker control of retirement funds;
- the redistribution of power in the workplace.

## Social sector

The CC took this debate further to focus on the redistribution of productive assets. The September Commission report, issued last year, proposed that COSATU develop a 'social sector' of worker, community and union-owned productive assets in the form of retirement funds, worker- and community-owned companies, union investment companies, co-operatives and collective Esops (employee share ownership schemes).

There was a spirited debate on this proposal, with some unions expressing scepticism because such strategies could co-opt unions into nurturing capitalism rather than seeking its overthrow. It was also pointed out that the mere fact that investment companies are controlled by unions, or that retirement funds have worker trustees, does not mean that they belong to a 'social sector' if they adopt the same goals and investment strategies as capital.

By the end of the debate, all affiliates had agreed that the development of a social sector could be a powerful strategy for achieving working class goals in the economy and carving out a sphere of production under the collective control of workers and communities rather than private capital.

However, this would only be achieved if the enterprises and investment activities in the social sector have very different goals from those of private business, and remain committed to the aim of rolling back the control of capital over production and investment.

The affiliates agreed to exclude collective Esops from the definition of a social sector, since they generally entail workers owning a minority stake in the company they work for.

Several unionists made the point, though, that the debate on the goals of Esops could not be ignored, as some unions have become involved in them during the process of restructuring of state assets – for example, the Airports Company and Telkom.

Despite the limitations of minority ownership of Esops, the vision of a social sector agreed upon by the CC could serve as a useful guide to the sort of goals that unions involved in collective Esops could adopt.

## Union investment companies

The agreement on a social sector also influenced the debate on another highly contentious topic – union investment companies. COSATU general secretary, Mbhazima Shilowa, introduced the debate by reminding delegates that initially union investment companies were established simply because there were opportunities for profitable investment, and that the unions had not developed a strategic perspective on the goals of investment activity. This led to a situation where "we have actually engaged in investments in a way that undermines workers' goals." The time had come to develop a strategic perspective in line with the union movement's goal of increasing the ability of workers to control their own destiny.

The CC agreed that the goals of union investment companies should be informed by COSATU's vision of a social sector, and should be seen as an instrument for transforming the economy 'into a socialist and worker controlled economy'. Short- to medium-term objectives should be:

- job creation;
- investment in the productive sector of the economy rather than speculative financial investments;
- providing benefits for members;
- changing current patterns of ownership, control and corporate governance;
- developing a model democratic workplace.

The CC also agreed to a code to prevent their involvement in investment companies from disrupting union organisation by ensuring that

- the priority for union funds is to build effective organisation;
- unions retain worker control by relying on member subscriptions rather than profits on investments;
- union officials should not gain financially through inside information;
- investment decisions should not be taken in secrecy from members;
- investment companies should not draw on workers' retirement funds to finance deals.

The CC also resolved that, although a functional separation of investment companies from union structures was necessary. They should be aligned with union goals and principals. A COSATU investment council should be established, consisting of representatives from unions and union investment companies, to monitor compliance of investment companies with COSATU principles.

## Elements of socialism

The CC followed the September Commission in defining COSATU's economic policies as 'socialist-oriented' because they emphasise "meeting the needs of citizens and furthering the culture of solidarity, community and social responsibility, opening up the space for economic democracy and the redistribution of wealth, incomes, assets, opportunities and power".

More concretely, two aspects of

COSATU's economic vision can be regarded as central to COSATU's socialist aspirations. The role of the state, as a redistributive instrument in meeting the needs of all citizens, is the essential basis for establishing a culture of solidarity, community and social responsibility. Where the market allocates poverty to large groups of citizens, the state can redistribute resources to ensure decent living conditions.

The role of the state as an instrument of economic development can also advance social goals. Where the market defines economic development in terms of the profitability of companies, the state can define economic development in terms of the economic activity and well-being of all the citizens in the society.

Secondly, COSATU's vision of a social sector owned and controlled by workers, communities and unions clearly has a socialist inspiration. In Shilowa's words, the CC was "defining a vision for the social sector as a way of socialising the means of production".

COSATU's vision of a social sector means that its commitment to socialism need not remain purely rhetorical. Union involvement in retirement funds, union investment companies, rural development and co-operatives means that the social sector vision can be implemented in the present. Of course, neither COSATU's proposals for the role of the state, nor its vision of a social sector, need necessarily lead to socialism.

These socialist 'elements' in COSATU policies could be accommodated within a capitalist economy as readily as they could form the embryo of an alternative economy driven by the imperative to meet the needs of all. Whether the latter potential is realised will depend on the long-term strength of a democratic socialist movement.

## What prospects?

Taken together, COSATU's policies constitute a powerful critique of GEAR, and a set of viable alternative policies. Advocates of economic orthodoxy should not be over-confident that GEAR is the only viable strategy in today's globalizing world, nor that COSATU's is a voice in the economic wilderness. There is an increasingly broad consensus in South Africa that GEAR's growth, investment and employment targets cannot be achieved, especially in the light of the Asian economic crisis, and that a rethink – modest or substantial, depending on the commentator – is required. Doubt about GEAR is evident even among some in the conservative financial press.[1]

Nor is lack of confidence in the prescriptions of economic orthodoxy confined to South Africa. The Asian crisis has forced a rethink on the desirability of the unregulated mobility of financial capital, and the World Bank's chief economist has thrown doubt on all the major assumptions of the 'Washington consensus'.[2]

The world needs a new approach to economics, and the kind of economic thinking emerging from COSATU – the mixture of traditional Keynesian demand management with an interventionist developmental state and productivity-enhancing redistributions – may well turn out to be the economics of the future. The strength of this approach to economic development lies in its basis in real productive activity and social needs, rather than in a narrow concern with financial markets.

## The Tripartite Alliance

The clash between the ANC and COSATU over GEAR has obscured the fact that the economic policies of the ANC and COSATU are compatible in many respects. Government attempts to expand access to water, healthcare and education, for example, are consistent with the idea of a developmental state. So are industrial initiatives such as the strategic development initiatives (SDIs), and the investment programmes of Eskom, Telkom and the IDC. Productivity-enhancing redistributions are also integral to government efforts in education, healthcare and labour legislation. The redistribution of assets – including black economic empowerment, collective Esops and the national empowerment fund – is also an element of government strategy. However, the 'fiscal discipline' and high interest rates imposed by GEAR tends to undermine progress in these directions by strangling public sector activity.

The federation has emerged from its CC meeting with a consolidated economic position, and more convinced than ever that it is necessary to assert its own view and challenge the GEAR strategy. The ANC, on the other hand, is feeling the pressure of GEAR's failures, and its impact on the state's ability to deliver.

There is tension within the ANC over economic policy, as the destructive impact of 'fiscal discipline' on the state becomes clearer. These tensions, which reach from the grassroots to the national leadership, are manifest in ongoing internal contestation, as well as occasional public disagreements such as that between general secretary Kgalima Motlanthe and finance minister Trevor Manuel after the ANC Legotla earlier this year. ANC president Thabo Mbeki's confrontational attack on the SACP for criticising government economic policy should also be seen as addressed to an internal, dissident ANC constituency. It is worth comparing this speech with Mbeki's diplomatic and abstract speech to the COSATU CC a week earlier. COSATU is evidently regarded as a powerful force that needs to be treated with caution.

It is likely that the range of internal and external pressures on the ANC will result in the modification of GEAR, rather than its explicit abandonment. At this stage, though, the accommodation between the different economic perspectives in the Alliance is more likely to be a grudging compromise than a wholehearted endorsement of a shared strategic perspective.

Several of COSATU's proposals can be implemented without fundamentally affecting government's deficit targets, and may in fact be grasped thankfully by the ANC as a way of improving service delivery without overspending: restructuring the state debt, adopting flexible deficit targets, and increasing taxation on the wealthy – which meshes with Mbeki's own call for a solidarity tax. More flexibility with regard to GEAR would create more scope for the implementation of some of the other proposals made by COSATU.

But COSATU's economic policies do not all depend on agreement being reached in the Alliance before they can be implemented. COSATU has power and leverage at a range of levels – in collective bargaining forums, at NEDLAC, in the parastatals and the public service, on the boards of pension funds, and in relation to different state departments and institutions. In all these places it can contest and influence economic policies and their implementation. It is a matter of political will and organisational capacity. ★

## Footnotes

1 *For example, the editorial in Financial Mail 26/6/98, and the feature articles by Business Day economics editor Greta Steyn on 22 June and 2 July*

2 *Joe Hanlon, 'We do not have all the answers' in Mail & Guardian, 19-25/6/98.*

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