Sector Job Summits

moving to a new growth path

The title of the Reconstruction and Development Programme (RDP) was chosen to put the emphasis on reconstruction – above all, the need to transform the economy to ensure that it benefits the majority of our people. In recent years, however, reconstruction has taken a backseat to the vision of a more efficient, competitive economy that business and some circles in government seem to think will result automatically from free markets and restrictive fiscal policies The Gear strategy, tariff cuts, and pressure to weaken labour rights all align with this vision It underlies the call to make South Africa 'the leading emerging market'

This approach has been associated with massive job losses To deal with rising unemployment we need to return to the concept of reconstruction One way to give it more substance is to analyse the changes we need in the overall growth path of our economy.

The concept of a 'growth path' is a way to highlight the main drivers of growth in an economy Its key dimensions are:
- The relationships between the main economic sectors
- The nature of the dominant markets – in particular, whether the economy focuses on exports or domestic needs, on luxury goods or basic necessities
- Class and economic power – that is, the nature of ownership and control
- The role of the state.

Neva Makgetla outlines the problems facing the South African economy and proposes a new growth path as a way to restructure the economy and ensure that workers benefit.

South Africa's growth path

Until the middle of the 1980s, South Africa's growth path was essentially shaped by minerals exports and apartheid rule.

Sectors

Exports of gold and other minerals financed the growth of import-substitution manufacturing and infrastructure. Initiatives to deepen industrialisation largely centred on domestic refining of metals, with little downstream fabrication of minerals or beneficiation of agricultural products In short, South Africa was a classic resource-based economy, using rich minerals and energy – and low-paid workers – to produce exports, without creating many jobs

Markets

Gold and other minerals were exported internationally. Mass poverty limited domestic sales. Manufacturing produced mostly for the high-income group both at home and in the rest of southern Africa. As a result, regional exports made up a disproportionate share of manufacturing sales.

Class power

Mining-based economies typically display capital intensity and large inequalities in incomes and wealth. In South Africa, apartheid aggravated this tendency. The migrant system supplied cheap labour to the mines and farms, based on the impoverishment of the black rural economy.

A few big companies dominated mining, finance and manufacturing. State-owned enterprises played an important role in mobilising finance and infrastructure for huge new manufacturing and minerals ventures. Commercial agriculture enjoyed extensive state support. Foreign investment was large compared to the rest of Africa, especially in mining and the financial sector.

The state

State action largely built this growth path. The state provided cheap labour, investment, cheap infrastructure and energy, and tariff protection for domestic manufacturers.

This growth path ran into trouble from the mid-1980s. Gold mining faced a decline at least from the early 1980s. In 1985, foreign banks abruptly withdrew their loans from South Africa, leading to a huge outflow of capital. In response, parastatal investment plummeted. A few years later, as apartheid ended, foreign companies began to increase their sales in South Africa. Starting around then, and increasingly after 1994, the state ended or reduced support for (white) capital, including infrastructure, tariff protection, laws that suppressed labour, and agricultural marketing.

Adjustment to the new environment has seen big employment losses and generally low investment. As the article on employment data details, agriculture, mining and the state sector have lost hundreds of thousands of jobs. Manufacturing also lost jobs, especially in equipment and clothing production. These losses were associated both with increasing imports and with the introduction of new technologies to enter export markets.

At the same time, faced with new political and economic realities, business cut investment. In the 1990s, investment remained below 20% of GDP – far too low to bring about rapid economic growth or job creation.

A new growth path

Through the Sector Job Summits, COSATU wants to define a new growth path for South Africa, one that will create jobs, meet the basic needs of all our people, and ensure stable economic growth. Experience from around the world, and especially from South East Asia, demonstrates that economic expansion needs decisive interventions to ensure more equitable distribution of incomes and wealth.

Sectoral strategies

Sectoral strategies must lead to increased investment in relatively labour-intensive industries, rather than the production of refined minerals for export as in the past. Today, minerals make up just over half of all our exports. But minerals production creates few jobs and strengthens big capital. Over the long run, our industrial strategy must support investment in industries that generate more employment and open space for smaller-scale production.

Jobs can be created by both

- potentially competitive activities, that can produce for export or to replace imports Relatively labour-intensive competitive industries include food production and processing, manufacturing using minerals and chemicals, many services, including tourism and communications, and cultural industries,
- non-tradable sectors – that is, activities that are inherently limited to domestic production and consumption They include construction of housing and infrastructure, basic food and services and commuter transport.

The focus on non-tradable industries requires a substantial shift from current policy Generally, outside of municipal infrastructure, government does not see production of basic necessities for the poor as important for growth

Markets

In terms of markets, COSATU wants a shift toward meeting the needs of the poor True, South Africa must sell to world markets because we have to import important inputs, including petroleum and capital goods But international markets remain unstable, speculative and subject to unfair trade practices

Investing more to produce basic goods and services for the domestic market should establish a more stable basis for growth At the same time, it should gradually lower the cost of wage goods like food, infrastructure, transport and household appliances.

In this context, we must find ways to expand trade with neighbouring countries in ways that strengthen and stabilise their development without undercutting South African workers Currently, these markets are highly unstable, but important for manufacturing exports

Class power

In terms of class power, the new growth path must begin to establish new centres of capital and build a more skilled labour force in the context of far higher levels of employment

We need to expand collective ownership through the state sector and co-ops, as well as supporting small and micro enterprise We must review current proposals to restructure state-owned enterprises and municipal services These policies now aim mostly to increase competition and bring in private partners They will likely improve infrastructure for the top end of business and the rich, but make it harder to get infrastructure to the poor. We also need to establish a framework to support producer and consumer co-ops Finally, we must accelerate land reform and transform the banking sector

For growth to benefit the majority of our people also requires the establishment of a high-productivity, high-wage labour force This is only possible in the long run if the economy is restructured to expand employment on a mass scale, with broad-based skills development.

State

The new growth path requires a strong developmental state In addition to the normal roles of state of ensuring security and basic administration, the developmental state has four key roles First, it must establish an effective development strategy that benefits the majority of the population Above all, that means supporting the new growth path defined here

The Sector Job Summits must define how government should intervene in each major industry to implement a broader development strategy Critically, as far as possible, each sector must protect and create quality jobs, meet the basic needs of the majority; ensure more democratic ownership and control; and support rural and regional development as well as improving the position of women.

Government can support economic reconstruction by:

- ❑ developing a shared vision for major sectors with business and labour, with specific commitments on that basis;
- ❑ devising skills development programmes geared to new sectoral developments;
- ❑ funding sectoral activities or investment, through incentives and/or tax relief, as well as measures to cut the cost of credit;
- ❑ expanding markets through government procurement, tariff policies and Buy South African campaigns, as well as by assisting with marketing systems and strategies;
- ❑ taking measures to reduce production costs by re-organising work and upgrading management, and by increasing state investment in infrastructure and production.

Second, the developmental state must provide a social wage – that is, free services and grants in addition to earned household income – to combat poverty directly. Critically, the social wage must combine health, education, policing and housing in ways that support economic growth. That would provide an important stimulus to the economy, both by increasing demand and by ensuring a more productive labour force.

Because of the restrictive fiscal policy followed under Gear, virtually all the social-wage functions faced substantially reduced funding between 1996 and 1999. As a result, levels of service are often too low to support growth or employment. For instance, electrification in rural areas is often limited to enough to provide light, not cooking or the use of productive equipment.

Third, the state must improve the income-generating opportunities available to the poor by enhancing access to both assets and skills. Strategies for improving the distribution of wealth includes land reform; support for co-ops and micro enterprise; strengthening social capital and the public sector; and housing programmes All of these programmes must be strengthened and accelerated.

The current skills development strategy provides an important starting point. But the Skills Education and Training Authority (SETA) plans must be linked in closely with sectoral strategies More generally, we must ensure consistent implementation of the strategy, ensuring that all South Africans have access to training and qualifications

Finally, the developmental state must ensure the democratisation of governance and the economy. This follows in part from measures to challenge the power of existing centres of capital. But it also requires the transformation of the state itself, to ensure a more open, participatory democracy, as laid down in the Constitution.

The way forward

The deep-seated ills of the South African economy cannot be resolved overnight. Nor can we expect that government or business will take up measures to support reconstruction in the interests of the majority in the absence of pressure from the people themselves. The critical question will clearly become the extent to which labour, in particular, can both

- ❑ mobilise around demands for restructuring the economy, and
- ❑ define and defend proposals for a new growth path as an alternative to the current near-exclusive focus on engaging with international markets. ★

Neva Makgetla is COSATU's policy co-ordinator: fiscal, monetary and public sector