A **social market economy** *offers the best* **hope**

At its recent congress, SACTWU, the country's third largest union, outlined the difficult economic choices which workers need to make, and became the first major union to call for a social market economy*.

South Africa faces a number of critical social and economic challenges. The primary one is to provide high and sustainable standards of living for the country's people. The goal must remain at the centre of all public policy, and the different economic policies must be evaluated on how well each achieves this goal.

This goal finds best expression when there is full employment in the economy, with high paying jobs, a good social security system for all citizens covering health-care, education and housing, wide choice for individuals in how they wish to spend their incomes, with low cost, quality consumer goods readily available.

We can only achieve this goal if we have a dynamic and strong manufacturing base, with factories producing goods at a quality and price that consumers require. There are, however, a number of choices which we face in formulating an economic policy which satisfies our needs.

Protection or efficiency?

The first choice is between protection and efficiency. Through protection we erect high tariff walls around the South African economy to avoid goods manufactured elsewhere from coming in. In the short-term, it results in job security for local workers. Very soon, though, the rest of the world will retaliate and refuse to buy our goods. We then lack the foreign exchange to buy modern technology, and our industry becomes outdated, and more inefficient. Further, manufacturers hiding behind the guaranteed profits of protection are able to keep prices high and quality low. In this way our members as consumers receive poor quality, high priced products. In short, protection will lead to an economy which becomes backward, producing shoddy articles, and with a world applying pressure on us to open our economy. When we do open the economy, most factories will then be forced to

* *This article is the introductory section of a lengthy economic policy paper adopted by the Southern African Clothing and Textile Workers Union (SACTWU) at its July congress.*

shut down, since they are so inefficient compared to the rest of the world.

This leaves the option of improved efficiency. Efficiency can only be improved through major restructuring of industries and factories. In the short term, this may have negative effects on workers, with the painful process of adjusting to the needs of efficient production. It may involve changes to work practices, new technology and a decision not to compete on certain product lines.

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In the medium to long term, efficiency is the best guarantee of job security, and the best provider of high wages, and quality goods at affordable prices. Efficient enterprises require less protection than inefficient ones, and accordingly, less tariff protection is necessary. At the same time, we urge that lower protection without a preceding programme to address efficiency, will not lead to greater efficiency, only to fewer factories and fewer jobs. The social dimension of the restructuring is addressed later.

Exploitation or social equity?

The second choice is between exploitation and social equity. Many employers believe the only way to prosper is through the exploitation path of low wages, long hours of work, no trade unions, no industrial council agreements and no health and safety standards. In the short term, some factories may be able to cling on to orders through low wage policies. But in the end, this strategy cannot be sustained. It leads to increased industrial conflict and strikes. It forces trade unions to resist the introduction of efficient production methods. It provides employers with no incentives to improve technology or work organisation. Like high protection, it allows employers to hide behind the guaranteed profits of low wage policies. It reduces the buying power of workers, hence suppressing the demand for food, clothing, cars and other goods; thus lowering the domestic market for these articles.

That leaves the option of social equity through decent social standards. Reasonable and growing wages and fair social standards provide the basis of co-operation in production between workers and managers and forces companies to continually innovate and become more efficient in their use of labour and capital. It takes wages out of competition and forces competition through higher productivity, product innovation, new forms of work organisation and better quality, rather than through low wage levels. It increases the buying power of consumers, creating a greater demand for goods and thus further stimulating production.

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Nationalisation or co-determination?

The third choice is between extensive nationalisation and co-determination. A programme of extensive nationalisation entails taking over the commanding heights of the economy – banks, industry, farms and mines – and placing it under public ownership. A policy of nationalisation would appear attractive to many people who see the massive imbalances in economic power, ownership and incomes in South Africa. It would appear to give an opportunity for the masses to shape economic policy. It would deprive the current holders of power of their ill-gotten gains. Importantly, it asserts the moral superiority of public ownership against private ownership.

The costs of nationalisation would however be immense. In practice this would have to be done with compensation – the international balance of forces would make any alternative impossible. Compensation would be beyond the resources of a democratic state. The international isolation which would follow, together with the flight of skills, and crucially in a world of open financial markets, of capital, would cause major damage to the economy.

The inefficiencies associated with state-owned enterprises elsewhere in the world would be difficult to avoid. The goal of greater economic democracy in state-owned enterprises has been elusive elsewhere, and no concrete proposals have been advanced to suggest that we can achieve these.

Yet, at the same time we cannot tolerate the major inequalities in power and resources in a democratic South Africa. And we cannot eliminate the need for state owned enterprises, in areas for example of natural monopolies (electricity), of great social importance (water) or vital to economic development (parts of transport infrastructure).

But an alternative to large scale nationalisation of banks, industry, farms and mines is possible. Through our struggles we can create a system of co-determination, where capital or government is unable to act in a unilateral manner.

Through co-determination we can have a joint say over economic policy at national, sectoral and company level. Decisions on macro-economic policy would need to be resolved through tripartite institutions. Wage policies for all factories in one sector would be settled through centralised collective bargaining. The flow of investment will be influenced through industry-wide restructuring policies, negotiated with trade unions. New technology and work organisation would be matters of compulsory negotiation at factory level. In short, the ability of the owners of capital to exercise their power would be limited through requirements in law that they negotiate with trade unions.

Further, trade unions need to combine their resources in provident funds and investment decisions, in order to build a base of financial equity, of control over capital. By concentrating to build an independent financial base for workers, we can influence investment decisions over our money, rather than enriching the shareholders of private banks, building societies and insurance companies. There are major gains for labour in such a programme.

Societies which have deregulated their markets have not necessarily grown fast.

The profits accruing from successful economic activity can finance trade union work in future; for trade union organisation and struggles provide the central basis of influence of our movement. The investment decisions can take into account the need to promote economic activities which create jobs, pay good wages and respect the environment. The control over finances can add to the muscle of labour in the struggle for social gains for the poor through withdrawing investment from exploitative companies, and through acquiring for workers a stake in politically significant companies such as the print and electronic media.

De-regulation?

The fourth choice is between 'big bang' market deregulation and a coherent development strategy sensitive to market forces. Market deregulation, or the 'rule of the free market' is often put forward as the main engine to develop the society. In theory, the immediate freeing of markets would allow capital, labour and other resources to flow to the areas where they can most productively be used. In practice it is not so clear, nor so simple.

Societies which have deregulated their markets have not necessarily grown fast. Many market failures – in allocating resources to education and training, in investment in infrastructure and big capital projects – have led to poorly performing economies. The premature and unco-ordinated removal of tariffs, without attempts to address structural weaknesses of local industry has wiped out employment. The failure to have financial market regulation has led to the collapse of major institutions, and of public confidence in the financial system. The system itself has often been inadequate in allocating capital to new economic activity. Markets have been inadequate in responding to the social needs of human beings – in setting decent wages and fair standards, in protecting the poor and the marginalised, in correcting the imbalances of wealth and political inequality and in addressing the problems of exploitation. Free markets, and the freedom to exploit has led to the development of major inequalities and poverty in societies, and defeated the purpose of economic policy.

The alternative has been a coherent development plan, based on market realities, and seeking to marshall resources towards the building of an efficient, dynamic economy. All governments intervene in economic decision-making. Some do so through the weaker tools of fiscal and monetary policy only. Others have active industrial policies, which create a strong support environment for companies to do business in, and thrive. Such policies address the flow of investment, the capacity of production and the availability of people and capital. It does so through a system of incentives and requirements. Where these development frameworks succeed is where they most clearly remain sensitive to market signals – sometimes longer term ones – and where they create sustainable competitive advantage. In South Africa, such a plan will work best where it actively involves organised labour. It requires too an active state, working in developing the regulatory framework and the programme for economic growth and development through tripartite structures.

Tariff reform too, cannot be done through liberalisation alone. Active industrial policy measures must be the engine driving tariff liberalisation. Such policy measures need to address the supply side problems of industry which results in high cost, low quality products, with long delivery cycles. It is on the basis of a society seeking to build competitive industry in particular market segments and products and clarifying the incentives it will put in place to stimulate such activities, that the level of tariff protection, and the period of liberalisation should be determined.

A social market economy best offers the hope of achieving the goal of high and sustainable standards of living for our people.

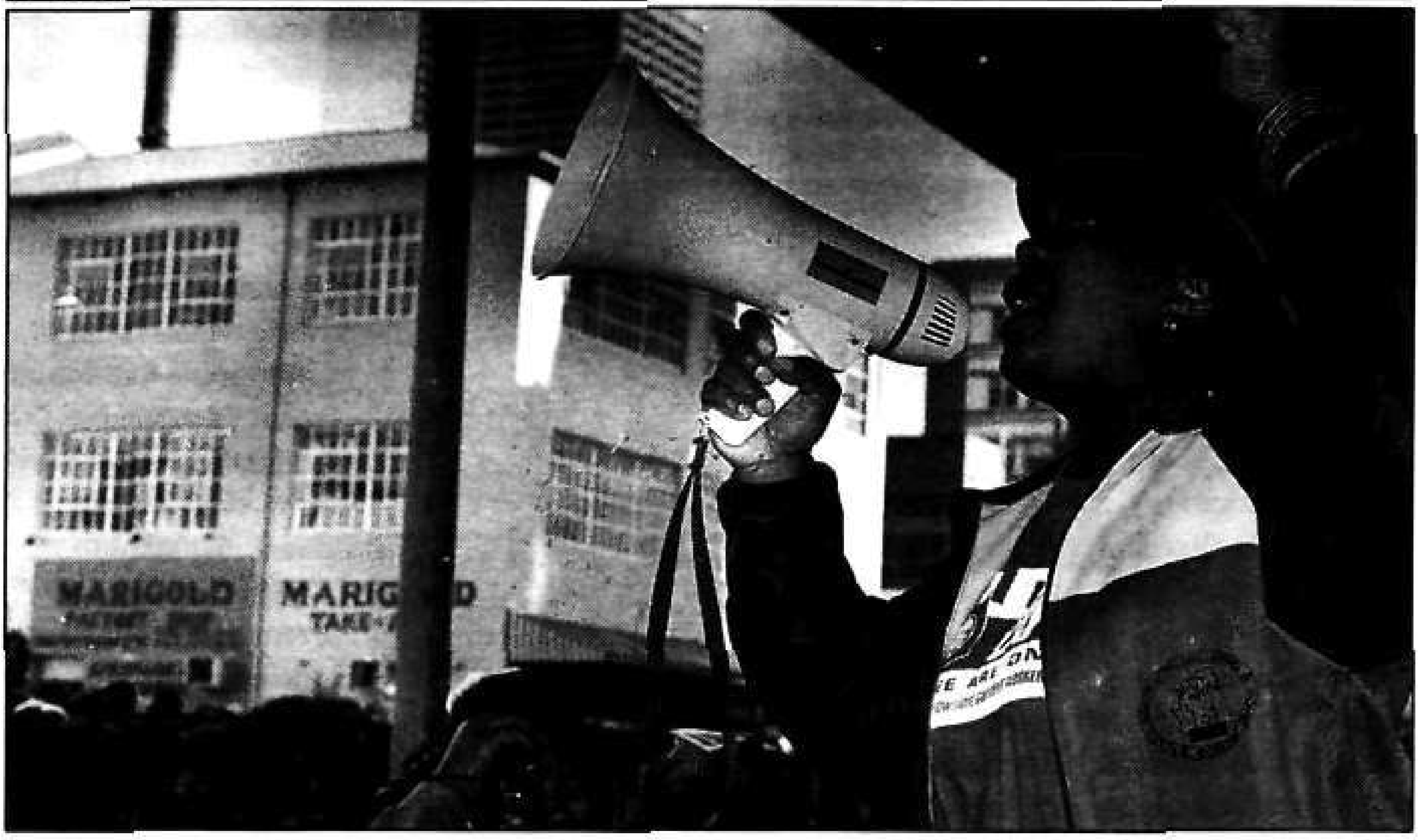
State regulation vs self-regulation?

The fifth choice is between extensive state regulation and self-regulation. Black South Africans have been denied democracy and access to political power for so long that there are great expectations on a future democratic government. Citizens may want government to set decent minimum wages, regulate social standards in the work-place and secure access to food, shelter and a decent standard of living for all. We may want these because of inequalities in the power between employers and workers.

No doubt government has a role to help set standards. There is a vital need for a democratic government to address the provision of basic infrastructure, and the needs of the people for housing, education, health and social infrastructure. However, a society characterised by strong state regulation in all economic activity, and particularly over industrial relations issues, may find that it stifles economic activity, undermines the democratic organs of civil society and concentrates immense power in the hands of state bureaucrats. Decisions may be made which are not appropriate to the needs of particular communities, groups of workers or economic sectors.

That leaves the option of self-regulation. Self-regulation allows trade unions and employers to set standards and determine wages. It is able to take into account the needs of all economic stakeholders through the regular negotiation of agreements. Self-regulation can only work well in the context of a proper set of institutions and rights. For labour it requires a system of centralised bargaining in each industry to set wages and conditions of employment, to develop industrial policies for growth and efficiency, and to promote equity. It requires strong collective bargaining, the right to organise and the right to strike. With this set of rights, the imbalance in power between labour and capital is corrected, and a vigorous system of bargaining becomes the basis of self-regulation.

A democratic government would accordingly facilitate this self-regulation through a programme of legislation on worker rights and the inclusion of basic rights in the founding principles of South Africa's new constitution. The state has a role further in those sectors where business and labour is not sufficiently organised to regulate their affairs (for example, in agriculture where the level of unionisation is very low). And obviously the state will have an important role for matters which are not best self-regulated, or cover major interest groups outside of the two parties in the labour market.



A social market economy

In short, the choice is between, on the one hand, the short term expediency of protection, state regulation and nationalisation, exploitation and market deregulation, or, on the other hand, the sustainable path of efficiency, self-regulation and co-determination, decent social equity and a coherent development plan. This second option, of a social market economy best offers the hope of achieving the goal of high and sustainable standards of living for our people.

The practical implications of these choices are clear.

- At an economy-wide level it requires that we actively build the National Economic Forum, and other tripartite institutions, as the means of securing for workers the right to shape economic decisions.
- At factory level it will require an empowerment of workers and shopstewards, to take part in decision-making in production, and in factory restructuring.
- To the emerging black small business community it puts the challenge of growth with social equity, not growth at the expense of workers.
- To government it means that the engine of development is the formal manufacturing sector – whilst outwork and the formal sector will exist, the key to economic prosperity will be the promotion and development of the formal sector which creates industrial culture and infrastructure. The fairytale, naive belief in promoting informal sector activities as the solution to South Africa's problems would need to be replaced with a programme to correct the structural weaknesses of our manufacturing base, and building on the strengths which we have.
- For the regional economy, it means policies which develop all of Southern Africa, through trade, investment and other instruments; but development based on social equity – respect for worker rights in all Southern African countries and improving standards of living for all people in the sub-region.
- Crucially, it means coherent policies at industry-level to restructure the clothing, textile and leather industries. Such restructuring must have a strong social dimension, to ensure that workers are not discarded or their needs ignored in the process. The social dimension must include state and employer financed arrangements for workers displaced by restructuring. ☆