



The spirit of small enterprise

Deregulation involves the removal of rules and regulations governing various industries and areas of the economy. STEPHEN GELB and DARLENE MILLER explore the implications of this process in South Africa.

‘Profits are what we are interested in - Profits! Profits! Profits!’

- a Barlow Rand official, on the corporation's motives for supporting Enterprise Centre.

‘It would be a good thing if the white man did not exploit us in the future’

- John Sibeko, a small businessman at Enterprise Centre.

John Sibeko owns a glazing firm at Enterprise Centre (EC), a two-storied warehouse in Kew, next to Alexandra, which houses 29 such small firms.

Enterprise Centre is a 'cluster workshop': Sibeko, like the other entrepreneurs, has been allocated a small area (about six metres by five metres) for his 'factory'. He employs two other workers - his sons who help every day after school.

Sibeko was unemployed for ten years before coming to EC, during which he occasionally helped a cabinet-maker friend. He saved R400, and using this money for rent and raw materials, he started his firm.

Enterprise Centre - set up by a Barlow Rand subsidiary called Job Creation SA - is so far the only officially deregulated 'industrial park' in South Africa. Deregulation, as the name suggests, is the process of removing rules and regulations governing various industries and areas of the economy. The most popular example for supporters of deregulation is the removal of the permit system for taxis. This, they claim, has led to the rapid growth of the black taxi industry. Other measures include simplifying the process of obtaining business licences, and removing restrictions on opening hours for shops.

This article focuses on deregulation of manufacturing production, rather than commerce or transport. In relation to industrial parks, deregulation is implemented through the Temporary Removal of Restrictions on Economic Activities Act of 1986.

Under this law, a specific area, such as an industrial park, can be deregulated by proclamation in the government gazette. Firms in that area are then exempted from most of the rules and regulations about minimum wages, health and safety conditions, employment benefits, building standards and so on.

Deregulation has in recent years become one of the central themes in the debate about South Africa's economic future. But there is little agreement over the issue, which, as *Business Day* pointed out, has 'become something of an article of faith - or hate - depending on the viewer's perspective'.

On the one hand, many in business and government claim deregulation can make an important contribution to the growth of the South African economy, and create jobs for the ever-growing army of unemployed.

Following the fashion of conventional economic analysis in the United States and Britain, excessive state intervention in the economy is seen to be one of the primary causes of economic decline and stagnation over the past dozen and more years.

Deregulation supporters argue that state-imposed controls have distorted the operation of various markets, while government spending has been too high, leading to inflation.

Cosatu has condemned deregulation policy as directly attacking gains won by workers in past struggles.

The solution? 'Free the market' to do its work unhindered. Deregulation is one element in achieving this, together with policies like privatisation, and lowering of subsidies on transport and basic food items.

The labour movement has taken a very different attitude towards deregulation. Cosatu has condemned the policy as directly attacking gains won by workers in past struggles. Deregulation will 'generally cause downward pressure on wages and working conditions', says Numsa general secretary Bernie Fanaroff.

Government and business rhetoric about deregulation has aroused the spectre of a return to 'Dickensian' conditions for the labour movement, with workers once again slaving in 'sweat-shop' conditions. While these conditions are usually associated with early capitalism, they can still be found today - in the bantustans, and in the 'successful' economies of

south-east Asia (Taiwan, South Korea, etc), presented so often by business as models for South Africa.

Big business and business-oriented 'service organisations' like the Free Market Foundation, the Urban Foundation and the Small Business Development Corporation (SBDC) have actively campaigned for deregulation. But despite this, and the recently-announced R5-million Bureau for Information advertising campaign promoting deregulation, only one industrial area - Enterprise Centre - has been deregulated in the two years of the Act's existence.

In one sense, it thus appears as if deregulation is more a question of propaganda and rhetoric than substance. But the whole question of deregulation, whether of 'cluster workshop' industrial parks or of black taxis, needs to be seen in the wider context of efforts to promote small business. Many 'industrial parks' similar to EC have been established: by Anglo American (at Katlehong and Kew), Barlow Rand and Anglovaal, and by the SBDC, a parastatal.

These projects have been allowed to operate with de facto deregulation: existing regulations have simply not been enforced. And the legal deregulation of 24 industrial parks, established by the SBDC, is now underway.

The cluster workshops are likened to industrial 'nurseries', providing hothouse-like protection for small businesses to develop from their informal sector status. Not having to meet minimum standards on wages, working conditions and hours of work could make up for their lack of capital, skills and technology, enabling them to compete with larger, more established firms in the same industry. Seifsa, which represents many medium-sized companies in the metal and engineering industries, opposed the deregulation of EC, and those of the SBDC 'parks', on the grounds that it would eventually lead to greater competition for its members.

According to deregulation supporters, the process has many benefits for the economy as a whole. One is the lowering of production costs: lower wages and long working hours mean small businesses can

produce more cheaply - especially for goods and services that use more labour than capital. This was poignantly expressed by John Sibeko, when asked whether he exploited his workers: 'I would be grateful if someone told me I am exploiting myself'.

Lower production costs are seen as beneficial in two ways. Cheaper consumer goods mean workers' living standards can be allowed to rise at no extra cost. And many large companies argue that South African exports can become more competitive internationally through extending the system of 'subcontracting', along lines which have been very successful in Japan and south-east Asia. In this system, some components of a larger product or particular services are no longer performed by the large firm itself, instead being sub-contracted out to small businesses.

These large companies, most notably Barlow Rand, also see considerable profit potential for themselves: the large firm has great power to dictate the price of the sub-contracted item, so that there is pressure on the small firm to keep its costs down if it is to make a profit. But reliability of supply and product quality are questions that immediately arise with the small firms.

A second motive for promoting small business is that this sector is seen to have greater potential for creating jobs than the large corporations. This argument rests on the relatively labour-intensive character of small business compared with large corporations, which use a large amount of capital per worker. The cost of creating each job - in terms of capital required - is therefore lower in small businesses.

Supporters of small business accept that these jobs involve poorer wages and working conditions than employment in larger corporations. But, suggests Johan Naude of the SBDC, 'rotten meat from the pavement is better than no meat at all'. Of course, rotten meat might kill you faster than starvation. But the issue of massive, and growing, unemployment has led some proponents of small business to emphasise its perceived job-creating capacity even above the issue of lowering production costs.

The problem is whether small



Paul Weinberg - Afrapix

Workers fear a return to 'Dickensian' conditions

businesses, especially those in EC-type industrial parks, have enough capital to pay for a significant number of jobs to be created, even given the lower cost per job in this sector. Evidence from other countries on this is contradictory.

The emphasis on strategies to reduce unemployment is not simply an economic issue. It is also part of a broad effort to achieve political stability in the longer term, this being a third factor behind small business deregulation. A large proportion of the unemployed are young people, who have also been politically militant. 'Securocrats' in the state see unemployment and other economic issues, such as the rising cost of living and poor

housing and township amenities, as a major cause of resistance during the 1980s. Their response is the broad strategy of 'socio-economic upliftment', under the direction of the joint management centres (JMCs).

Priority in resource allocation has been given to a few key townships - the 'oil spots' - including Alexandra, next door to where EC is located. The small business sector, assisted by deregulation, is seen as a primary vehicle in this process, able to provide both jobs and some goods and services appropriate to the crucial activities of housing construction/improvement and increased provision of household items. Another aspect of political stabilisation relates to encouraging the emergence

of a 'black middle class'. There are many aspects to this process, which aims to encourage divisions within the black population. But the perception of supporters of small business (and indeed by most on the left) is that informal sector entrepreneurs who succeed in making the leap to formalisation are likely to play a conservative role in periods of mass opposition. As the general manager of the SBDC expressed it, 'most black business people are guys who want to get on with the job, and even if fires are burning around them, they want to do business. If they have something to lose, they will act responsibly'.

Job Creation SA was contracted by Barlow Rand in April 1986, to create 500 permanent jobs (lasting longer than two years) over a period of three years. Twelve months were spent converting an old warehouse in Kew into a cluster workshop, and in recruiting potential entrepreneurs.

Job Creation's black employees were sent scouting through Alexandra, talking to people on the streets and in shebeens, looking over backyard fences for signs of informal sector activities, and spreading their net of contacts by word of mouth.

In the study on which this article is based, 24 of the 29 businesspeople in EC were interviewed. Two points are notable about these people: their humble origins and very limited business skills, and the tiny amounts of capital with which they started. About 70% of the entrepreneurs were employed workers - some even union members - before moving into EC. Some ran informal sector backyard operations in their spare time. Most others were, like John Sibeko, unemployed. Almost all lived in Alexandra.

The entrepreneurs appear to have well-developed production skills, but few management or commercial skills. Some are barely literate - Sibeko, for example, had considered applying for an SBDC loan to supplement his meagre capital, but found the application form too difficult. Job Creation SA is attempting to remedy this deficiency by running classes at EC itself, but these are extremely basic: one class witnessed was devoted to the distinction between sales for cash and for credit, and the dangers of the latter.

One consequence of this is that it is impossible to assess the profitability of these firms with any confidence, because their bookkeeping practices are hopelessly inadequate. This will have real implications for their viability.

For most of these businesspeople, setting up in EC was preceded by long years of saving to build up their tiny stakes of capital. Fifty-seven percent of the interviewees started with under R1 000, and 80% with under R4 000.

Neither Job Creation nor the SBDC has made capital available via loans.

The emphasis on strategies to reduce unemployment is also part of an effort to achieve political stability.

There is very little machinery and equipment - one welding shop was started with only a blowtorch, the work being done on the floor. A year later, enough capital has been accumulated for this 'firm' to build itself a worktable from its own scrap metal.

These operations employ very few workers - nearly a quarter had no employees, and three quarters between one and three workers. This means that for EC as a whole, the number of jobs 'created' - moved from the informal to the formal sector - is around 70, if the entrepreneurs' jobs are included.

Alfred Letsoale, who makes burglar bars and security gates, explained that 'I am not getting a worker until I can afford one. I rather work hard myself'. And as John Sibeko noted, he 'exploits himself' - and his family. This is a common feature.

One reason for the use of family, rather than hired, labour is that cash

flows tend to be highly erratic, sometimes being too low to cover wage costs. Only family members can be expected to tolerate going unpaid. Wage levels for employed workers tend to be relatively low by unionised standards: 18 of 28 workers surveyed (64%) earned less than R80 per week, or considerably less than R2 per hour.

The range of products and services on offer from EC firms varies widely, but most operations are directed either towards home construction and maintenance (carpentry, glazing, electrical contracting, etc), or to furniture (production and upholstery). About four-fifths of the firms are consumer-oriented. Not surprisingly, 80% of the firms sell their products in Alexandra, and all sell in townships.

Seventy-five percent of the entrepreneurs felt the selling prices of products produced by EC firms were at or below those of more established producers. But this may be a highly subjective view.

At this stage of EC's development, there is minimal sub-contracting. Only one-sixth of the firms do any at all, and none of them do it exclusively. There are five welding firms which produce security doors and burglar bars, and sell to both consumers and firms.

There has been a high rate of failure among the firms, even in the short period of EC's operation. Only six entrepreneurs (a quarter of those interviewed) have survived for more than a year, and interview responses suggested that only three of the original group of firms remained in EC.

The entrepreneurs at EC have emerged from the working class by dint of high levels of personal sacrifice and a determination to 'improve themselves'. For many of them their advance into self-employment is likely to be only temporary, as the high failure rate indicates. At this stage, there is little or nothing to distinguish them from ordinary workers.

The 1849 description of small employers in the north of England is apt: 'The "little masters" are just the same as if they were the fellow workmen of those they employ. They dress in much the same way; their habits and language are almost identical, and when they go "on the

spree* they go and sing and drink in low taverns with their own working men. They live in houses a little better and bigger than the common dwellings, but managed inside in much the same way'.

In quoting the above, social historian John Foster suggests further that 'all the little master had was his skill... He remained part of the work group, and his family worked beside him'. He was from the local area, and had no reason to escape from the immediate community of manual workers on his street.

Enterprise Centre is only one of a number of small enterprise deregulation initiatives. Although all are recent, some preliminary assessments can be made.

Thusfar these initiatives have a very mixed record of success in formalising informal sector production, and face substantial obstacles. Lack of capital and management skills are the most important of these. It is unlikely that these will be overcome in any adequate way as long as the broad approach to small industry remains dominated by a free-market orientation, as expressed in deregulation.

Removing some perceived handicaps, and then letting firms sink or swim in the open market, is not adequate. Greater intervention, by both

the state and large institutions, is essential. This would have to be directed to provision of skills and easier access to capital. Without enhanced and active support of this kind, the new firms seem destined to remain fragile, barely clinging to survival.

The potential of these newly-formalised firms to create jobs is very limited. Notwithstanding the SBDC claim to have created 180 000 'new' jobs, significant progress on the unemployment front is unlikely to be achieved along this path - at least for many years to come. Similar considerations apply to sub-contracting as a way of lowering overall production costs and improving international competitiveness.

As a result, trade union concerns about this aspect of deregulation seem to be misplaced. It is unlikely that unionised companies will be able to cut their workforces and shift parts of their production into small firms in deregulated areas. It is even less possible that a more general downward pressure on wages will arise from undercutting through the spread of the latter type of operation. Small industry will not necessarily impact directly on unions' organisation and power on the shopfloor.

The threat posed by the emergence of small industry to trade unions,

and to progressive political organisations, is more general. The major potential of this strategy lies in its contribution to political stabilisation via township upgrading and redistribution. These small firms seem capable of playing some role in meeting demand for housing and household items. And if the effective demand within these markets expands, the survival chances of these firms will grow.

To the extent that the strategy of redistribution is successful, it is likely to lead to wider class divisions within the black population as a whole. It may also increase divisions within the working class - around employment, living standards and residential areas.

The emergence of further political divisions between different strata is not inevitable, but deregulation and the redistribution strategy increase their possibility.

** This article is based on a research project carried out earlier this year in the Industrial Sociology Department at the University of Witwatersrand. The research group consisted of Darlene Miller, Desiree Daniels and Nadia Goga. The project was supervised by Stephen Gelb of the Labour and Economic Research Centre.*

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