Democratic Economic Growth

The debate about future economic strategies and development paths for South Africa is being conducted in terms of two separate concerns – redistribution and growth. The former is a response to the need to redress the extreme inequalities in distribution of income and wealth, and the related disparities in living standards, for which South Africa is notorious, and which have historically been expressed essentially in racial terms. The latter is a response to South Africa's economic crisis – the severe decline in growth performance over recent years – which has coincided with, and been linked to, the change in the political balance which has now finally brought the society to the brink of constitutional negotiations.

The economic crisis of the 1970s and 1980s has been a 'supply-side' crisis in the broadest sense of the term. The decline in growth originated in problems on the supply-side of the South African economy – in the process of production. Only during the course of the crisis did inadequate demand become a factor. As a result, future growth cannot be based simply on an expansion of demand, for example through the redistribution of incomes. There will have also to be restructuring of the supply-side to lower costs of production.

TWO ALTERNATIVES

South Africa appears to be facing two alternative paths for future growth. Each articulates itself in terms of a "growth-plus-redistribution" framework, but reflects the interests of different combinations of classes and groups. This is because the respective growth paths embodied in each accumulation strategy have strongly contrasting implications for the nature, extent and time-scale of redistribution. For this reason, it is difficult to conceive of a "compromise" **between** the two alternative accumulation strategies, as distinct from the "compromise" **within** each strategy between different social groups.

The present government and business are already implementing what can be labelled a neo-liberal export-oriented growth strategy. This separates redistribution from the growth process. The engine of growth is identified as the expansion of export markets, with the emphasis placed on the extended processing in South Africa of commodities presently exported in semi-processed form. Social inequality would, in this scheme, be addressed by the redistribution, to the most impoverished and excluded groups, of some portion of the 'dividend' resulting from this growth. The mechanism for this would be primarily budgetary, though the 'trickle-down' would be somewhat accelerated, especially through the use of the already-established Independent Development Trust ('Steyn Fund') and similar institutions.

The neo-liberal export-oriented strategy would likely reinforce and extend a dualistic structure of society, by widening income inequality within the black population. Some groups –urbanised middle classes and skilled workers – would be incorporated within the "compromise" underlying the strategy, but large sectors of urban and rural poor would be excluded, obtaining benefits only from the secondary redistributive mechanisms, to a limited degree and over an extended time-scale. Under these circumstances, the long-term prospects for political stability would be reduced.

DEMOCRATIC GROWTH

The basis for an alternative strategy for future accumulation is an attempt to address **directly** and in combination the two problems of low economic growth, and of unemployment and extreme relative poverty, in contrast to the separation between redistribution and growth reflected in the export-oriented approach. The central focus of the democratic growth strategy is the expansion of labour-intensive basic consumer goods industries, for the domestic market in the first instance. This strategy aims to achieve growth through a more extensive and rapid redistribution of incomes and wealth, resulting from employment creation and expanded production of basic consumer goods. The underlying synthesis of group interests would include not only the employed working class and the mass of urban unemployed, but also the middle classes (black and white).

The crucial issue is that this strategy cannot be premised on a direct redistribution of incomes, whether as "high wages" for organised labour, or as an income subsidy for the unemployed. This route would simply exacerbate a cause of the growth crisis, which as noted, originated on the supply-side of the South African economy, and thus lead quickly to supply bottlenecks and higher levels of inflation, eroding any potential real gains.

Instead, the emphasis would be on the redistribution of **investment**, rather than consumption. This implies, first, a substantial increase in the level of productive investment, made possible by drawing funds out of financial markets. At the same time, the composition of productive investment would need to be shifted away from its current emphasis towards those industries and sectors producing basic goods and services and so targeted for expansion in the context of this growth strategy.

Housing construction is perhaps the most important single sector to be targeted for investment, though much analysis remains to be done about the growth potential, and macroeconomic constraints upon, strategies to expand this sector. There is also a need for further debate about which sectors and industries are appropriate as direct targets for expansion. One alternative would be to direct resources towards labour-intensive light industries in the formal sector, such as food, clothing, furniture and so on, to try and take advantage of potential economies of scale. A contrasting approach is that investment should focus upon the provision of infrastructural services, such as electricity and telephones, in the black townships, which, it is argued, would encourage the growth of "informal sector" manufacturing micro-enterprises producing basic goods, and expanding employment.

THE ROLE OF THE STATE

'Redistributing investment' immediately raises the question of the role of the state in the economy, perhaps the central issue in debating future accumulation strategies. It seems self-evident that the future South African state, like the state in a diverse range of other national economies throughout the history of capitalist development, will play a substantial role in stimulating and shaping the society's economic progress. One reason for this is that this accumulation strategy requires a fundamental shift of direction in our economic development. This can be achieved only if the state is central, because it is only that state which has the necessary command over resources, capacity to undertake the risks involved, and means to counter the opposition of powerful but inevitably recalcitrant private economic interests.

One aspect of state intervention must be the planning of target rates of change for essential macroeconomic variables, such as output, employment, and prices, especially to enable shifts of emphasis within the overall growth path. Thus, as the South African economy approached a state of full employment and satisfaction of basic consumer needs (which will undoubtedly take many years), it would become necessary to shift the emphasis of investment policy.

Beyond this, however, the form of state intervention would not be determined on general principles, but on the basis of strategy and policies developed on a sectoral basis, for sectors identified for intervention. In other words, state intervention would be targeted and selective, rather than overarching, as was the case for the eastern European approach to planning.

Underlying this approach is the view that, since all economies are 'mixed', combining markets and plans, the policy issue is not to find a single optimal (statically efficient) combination between the two processes, but rather to manage their interaction over time, in order to achieve dynamic efficiency, that is, to manage the adjustment of resources allocation over time so as to reduce the costs associated with these shifts. This requires continuous planning and transforming of the market environment within which firms operate, to guide firms' activities in line with wider social and developmental objectives.

NATIONALISATION

In this context, calls for, and debate about, the merits of nationalisation can be seen in a new light. On the one hand, decisions about the state's direct role in the provision of goods and services are located within a much broader set of considerations of its capacity to influence the use of economic assets which it does not immediately own. For example, it may be most efficient for social infrastructural prerequisites for formal sector development in urban areas to be delivered by newly-established or extended state corporations. On the other hand, the expansion of production along more conventional formal sector lines could not be based upon large state corporations. Hence, actual nationalisation – in the sense of the state taking over ownership of assets currently privately-owned – is likely to be appropriate in only a limited number of situations, if at all.

On the other hand, the state would have to intervene quite actively in the private sector investment process to ensure that resources were channelled in the desired directions by private firms themselves. This would require a co-operative relationship between private firms and state planning institutions, with firms involved in the sectoral planning process (as indeed should organised labour be). Firms would, however, have to accept a subordinate role in this process, in exchange for the planning process creating a basis for profitable production. If state-private sector interaction is characterised by conflict rather than co-operation, the outcome can only be dynamic **inefficiency,** and continued stagnation.

In an economy like South Africa's, with the private sector dominated by a few large conglomerates, the prospects for this accumulation strategy will hinge on the policy adopted towards the conglomerates, together with their response. For the 'redistribution of investment' to be successful, the conglomerates cannot be left in their present form. The central reason for this is that the conglomerates dominate the provision of external finance to industrial firms, financial linkages within the various conglomerates constituting the nexus of this process. The subordinate position of the banks to non-bank financial intermediaries within the conglomerate structure reinforces the latter's relative immunity from even conventional forms of state control over financial flows. An illustration of this was provided by the conflict in early 1990 between the SA Reserve Bank and the commercial banks over prime interest rates and off-balance sheet lending, where the Reserve Bank had extreme difficulty gaining acceptance for its efforts to limit monetary growth.

FINANCIAL SYSTEM

Comparative experience from both the advanced capitalist economies and the east Asian NICs suggests that the capacity of a state to intervene in, and direct, private sector investment depends critically on the nature of the financial system transforming savings into investment. The crux of the issue is the relative weights of bank credit provision and capital market processes in providing firms with external funds, required over and above retained profits for fixed capital investments. In economies, such as West Germany, Japan or Taiwan, where banks are critical in providing finance to industry, and capital markets are less developed, the state is able to shape industrial development through central bank regulation of bank lending policies. This is in contrast to the US and UK economies, where the dominance of the stock markets and the resulting diffusion of capital mobilisation makes state intervention extremely difficult.

Notwithstanding that there might be benefits (economies of scale and of information) arising from the existing high degree of corporate concentration, redistribution of private sector investment in South Africa will require the state to restructure the financial networks which are the essential basis of the conglomerate form. This would best be carried out **not** by nationalisation, but rather by using anti-trust policy to dissolve the holding companies, which are the critical feature of South Africa's conglomerate structure. At the same time (though this would not be the primary objective), the controlled sale of the holding companies' shareholdings in operating companies could achieve a more equitable distribution of asset ownership, especially if affirmative action was used to promote black ownership of business. Such an anti-trust policy would result in the private sector remaining powerful productively, but being far less concentrated, and thus more likely to be subject to state intervention.

An interesting and important historical parallel in this regard is action taken by the United States Occupation Force in Japan after 1945. The **zaibatsu** conglomerates (which strongly supported the Imperial Japanese government during the war) were broken up via the banning of their holding companies, and the resale of their shareholdings. Although conglomerates re-emerged in Japan during the 1950s, after the Occupation had terminated, their structure was quite different from the pre-war situation, since the banks were now at the centre. The 'new' conglomerates were thus subject to the economic leadership of the Japanese state, and played an important role in the 'Japanese economic miracle'.

Will it be possible for a democratic and non-racial government in south Africa to undertake such dramatic action? In fact, a confrontation with the conglomerates might be inevitable. Even a "gradualist" approach involving higher rates of taxation and the reintroduction of prescribed assets may, in the context of the overall accumulation strategy, prove to be more than the conglomerates are prepared to stomach. It needs to be emphasised also that it is not only that the composition of investment needs to be transformed, but also its level increased. It cannot be assumed that private sector investment will automatically increase from its abysmally low levels of the past 15 years, in the context of a moderate post-apartheid government trying to move cautiously away from inherited neo-liberal policies towards a more development-oriented approach.

CHALLENGING CONGLOMERATES

Two points are worth underlining in relation to an attempt to challenge the conglomerates. First, the approach sketched above retains, and indeed enhances, the role of the (transformed) private sector. The other point is that the dissolution of the conglomerates could provide an important element to link the interests of the middle classes, including small and medium-sized businesses, with those of the working classes (employed and unemployed).

What are the implications of this strategy for the rate and time-scale of economic growth? To begin with, it should be emphasised that expanding and redistributing investment will immediately result in economic growth – this is a strategy for accumulation, not simply for expanding consumption. At the same time, it must be recognised that some increase in consumption levels over the short-term must reduce the overall surplus available for growth. Adding to this is the need to expand the delivery of services (education, health, welfare) to those sectors and areas where they are currently in limited availability. This is a major political demand, and expectations will have to be met to some degree.

Employment creation through labour-intensive industrial expansion will also involve some trade-off with productivity growth deriving from increased applications of technology, at least until the labour surplus is absorbed. For all of these reasons, a first response to the issue of the rate of economic growth might suggest that a somewhat lower rate would be achieved, than by a path which placed stricter limits on aggregate consumption growth. This might also be considered a price worth paying for achieving greater equity.

To leave this question here owuld be to remain trapped in a static framework, however. What needs to be taken into account in addition are the productivity enhancements and dynamic efficiency gains derivable from the sectoral planning approach. This allows the more rapid diffusion of new forms of organisation of, and methods of, production, as well as the avoidance of wasteful competition and duplication of effort. Comparative experience suggests that this approach presents a much more promising route to cost savings and restored profitability, than neo-liberal efforts relying on 'getting prices right'. Viewing the growth potential of this accumulation strategy from this dynamic perspective, then, suggests that it could offer at least as much in terms of a growth dividend for South African society as a whole, as the current government/big business view, while far surpassing the latter in terms of the scale and pace of increased equality. □

Note:
This is a shortened and revised verison of a paper presented at a workshop on 'Economic Policy for a Post-Apartheid South Africa", convened by the ANC and COSATU in Harare, April 1990. The complete paper is available in **Transformation** 12 (1990). Sole responsibility for the views expressed here rests with the author.

BIBLIOGRAPHIC NOTE
The argument about economic crisis is fully elaborated in my overview chapter in S. Gelb (editor), **South Africa's Economic Crisis** (David Philip Publisher: Cape Town, 1991), and in the other chapters of this volume, an edited version of a report prepared for the Congress of South African Trade Unions (COSATU) by the Economic Trends Research Group.

The democratic economic growth strategy has some features in common with the 'inward industrialisation' view propounded by Professor Jan Lombard of the SA Reserve bank, and others. See JA Lombard et al, **Industrialisation and Growth,** Mercabank Focus on Key Economic Issues (Johannesburg), 36, 1985.
Interesting discussion of the relations between plans and markets can be found in G. Hodgson, **Economics and Institutions** (Polity Press: Cambridge England, 1988); and in M. Best, **The New Competition** (Polity Press: Cambridge England, 1990).

Relations between the state, the financial system and industrial investment are discussed by J. Zysman, **Governments, Markets and Growth: Financial Systems and the Politics of Industrial Change** (Martin Robertson: Oxford, 1983); and R. Wade, 'The role of government in overcoming market railure: Taiwan, Republic of Korea and Japan', in H. Hughes (ed) **Achieving Industrialisation in East Asia** (Cambridge UP: Cambridge England, 1988).

Details of the US anti-trust policy in post-war Japan can be found in GC Allen, **Japan's Economic Recovery** (Oxford UP for the Royal Institute for International Affairs: London, 1958); and EM Hadley, **Antitrust in Japan** (Princeton UP: Princeton NJ, 1970).