

# Economic Transformation

**A**s Communists, our vision for economic transformation is shaped by our conviction that the capitalist system of production, based as it is on the private appropriation of the means of production and production for profit rather than social need, is ultimately incapable of meeting the needs of working people and the poor. Our commitment to a socialist vision, in which ownership and control of the means of production is placed in the hands of working people, remains unshakeable. At the same time, we recognise that we are presently in a stage of national democratic revolution. Our slogan “socialism is the future, build it now” enjoins us to struggle, within the constraints of what will inevitably remain for some time a capitalist society, for transformations that will both benefit working people and the poor here and now and lay a basis for an eventual transition to a socialist society.

Our approach to economic transformation at the present stage of our national democratic revolution is premised on our conviction that it is both feasible and necessary to struggle for changes in the powers of economic ownership and of possession favourable to working people. These concepts were developed by Marx. The powers of economic ownership refer to the powers to allocate resources to particular uses and determine how the social surplus is to be distributed i.e. relate to issues like investment and distribution of wealth and income. The powers of possession refer to the powers to organise and control actual labour processes. As socialists our goal is to increase the influence of working people and the poor at both these levels.

## 1. The Historical context

Apartheid has been identified as a system of capitalist exploitation based on national oppression. Colonial conquest and national oppression shaped a particular path of capitalist development in South Africa. Racially discriminatory laws and practices prevented people, other than those classified as white, acquiring ownership and control of the land, mineral wealth and other major means of production. Black people were also prevented from rising above subaltern positions in either state or corporate bureaucracies. At the same time, a range of racially discriminatory oppressive laws and practices were applied to compel black people to provide cheap labour power to white capital. For many decades “cheap black labour” was regarded as a natural resource, like mineral wealth or the weather. It was only towards the latter years of apartheid rule that workers’ struggles compelled capital to grant even basic rights like recognition of trades unions. Training and upgrading the human resource potential of the mass of our working people has even to this day not seriously been put on the agenda of capital.

Apartheid bequeathed to democratic South Africa an economy enmeshed in multiple crisis. For over two decades prior to the demise of racist minority rule, economic growth remained consistently below population growth – meaning that on average our people were getting poorer. Structural unemployment grew in leaps and bounds, resulting in a situation where between a quarter and a third (depending on the method of calculation) of the working age population were unemployed in 1994. Patterns of income and wealth distribution were among the most unequal in the world, and there were major backlogs in all social sectors. All of this was summed up in the fact that the United Nations Development Programme (UNDP, 1994), Human Development Report for 1994 ranked South Africa 33 places lower on its “human development index” than it

would have been on its income per capita ranking. At 93rd place out of a total of 173 countries, South Africa was well below many poorer countries, including Cuba ranked 89th (21 places above its per capita income ranking).

The consensus reached within the alliance before the 1994 elections was that, in these circumstances, an integrated strategy to promote both economic growth development was essential. These are, in fact, not identical concepts. Economic growth refers to an increase in the output of goods and services. Development refers to an improvement in the human condition in all its aspects. Economic growth does not necessarily result in development, as the experience of many countries has shown. The Reconstruction and Development Programme (RDP) explicitly rejected “trickle down” approaches based on the view that growth should precede reconstruction and development. It argued, *“Growth – the measurable increase in the output of the modern industrial economy – is commonly seen as the priority that must precede development. Development is portrayed as a marginal effort of redistribution to areas of urban and rural poverty. In this view development is a deduction from growth. The RDP breaks decisively with this approach. If growth is defined as an increase in output, then it is of course a basic goal. However, where growth occurs, how sustainable it is, how it is distributed, the degree to which it contributes to building long-term productive capacity and human resource development, and what impact it has on the environment are crucial questions when considering reconstruction and development”* (RDP, 1994, p 6).

The SACP remains convinced that the integrated approach to growth and development called for in the RDP remains the only way forward. We reject all approaches suggesting that essential developmental transformations should be postponed until growth has been achieved. We are convinced that in the circumstances prevailing in our country, we will not be able to achieve sustainable growth unless it is rooted in developmental transformation that improves the lives of our people. At the same time, we acknowledge that economic growth is essential to achieve such transformations on a sustainable basis.

The SACP thus supports an integrated developmental growth strategy in which a number of fundamental elements are simultaneously put in place. These include programmes to promote redistribution of income and wealth, address basic needs, empowerment of historically oppressed people, and promote human resource development and democratisation, including democratisation of work place decision-making. Macro-economic policy should, in our view, be designed to create a framework for the optimum achievement of these objectives.

## **2. The Record since 1994**

If we examine the management of the economy by the ANC-led government in the period since the 1994 elections, it is evident that there have been a number of impressive achievements. The economic stagnation of the late apartheid period has been reversed and a measure of economic growth has been achieved. Essential labour legislation has been introduced. And there have been important achievements in social delivery, promoting human resource development and black economic empowerment.

However, it is also clear that many challenges lie ahead, and that we remain in the early stages of our national democratic revolution. Redistribution and social transformation need to proceed much more rapidly and extensively in the years ahead. Black economic empowerment has thus far benefited only a relatively small number of individuals, and has yet to

touch the lives of the majority of working people and the poor. Women in particular continue to be disproportionately represented among the poorest of the poor. Employment creation remains a major challenge. Although there is some dispute about the accuracy of official statistics, it is clear that there is very little, if any, net job creation, that job losses are taking place in several sectors, and that other sectors remain vulnerable. The growth we have experienced since 1994, like that in many other parts of the world, has essentially been jobless growth.

The SACP sees a need to consolidate and accelerate programmes of redistribution, human resource development and black economic empowerment. We need to see more rapid redistribution and social delivery. The state must ensure that human resource development, training and upgrading are given more than lip service by capital. We need not just job creation schemes, but to place the economy on a growth path on which employment creation is a key feature. Black economic empowerment must have meaning not just for a few individuals, but result in real gains for working people in both the powers of economic ownership and possession. Working people must through investments of union funds and the like begin to exercise real influence on investment decisions, in which the state must also play a central role. Initiatives like Nedlac's "Work place Challenge" must be consolidated and extended into a programme to transform work place organisation and relations in ways that empower working people in decisions at enterprise level. All of this is essential in its own right. It is also in our view the only basis on which, also, to deliver sustainable economic growth.

We are acutely aware that there is intense struggle and contestation over economic policy. The bosses, who grew rich through state intervention and patronage under apartheid, are now exerting enormous pressure on government to follow neo-liberal policies. They are being supported by an increasingly strident globally dominant ideology, known as "the Washington consensus", whose arrogant self confidence has been reinforced in the short run by the current crisis in the Asian economies.

The SACP is not indifferent to the need to carefully assess both the domestic or global balance of forces. "Men (sic) make their own history, but not of their own free will; not under circumstances they themselves have chosen ... wrote Marx. There are many circumstances that currently appear less than propitious for the kind of redistributive programme promoted by a strong developmental state to which we aspire. At the same time, we remain convinced that there is no example anywhere of a developing economy that has brought prosperity and development to its people through adherence to free market policies. We are convinced that "circumstances" should not be seen as impermeable "constraints", but as challenges to find new and creative means to attain our essential goal of placing our economy on a development orientated growth path.

### **3. South Africa's Insertion into a Globalising World Economy**

One of the major challenges facing us is how to understand and respond to the phenomenon known as "globalisation", and how in this context to optimally relate to the world economy. It is well known that our transition is taking place at a time of enormous change in the world economy. The collapse of the Soviet Union has ushered in a world that is unipolar in the systemic sense. There is



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no longer any alternative socialist bloc around which developing countries, or countries attempting a national democratic transition can, as they could at least to some extent in the past, structure their trade, aid and investment relations. At the same time, the capitalist world economy is being reshaped by powerful forces of globalisation and liberalisation.

The term “globalisation” has, in our view, to be understood both as describing certain real and objective changes in the operation of global capitalism, and as an ideologically driven policy prescription. At the level of objective changes, globalisation can be identified as a process aimed at progressively integrating national commodity, capital, financial and currency markets into a single, global market operating according to a universal set of rules. It is being driven by transnational corporations, multi-lateral institutions and governments of advanced industrialised countries in a context of major technological advances, particularly in the information and communications industries.

Globalisation is a phenomenon clearly located within the imperialist stage of capitalist development, but it does represent a new phase with distinctive features that it is important to come to terms with. Broadly speaking, the changes associated with globalisation correspond to a transition from the operation of the capitalist world economy on an international to a transnational basis. In earlier phases, although countries traded with each other to a growing extent, the bulk of their economic activities remained home-centred. From the late 1960s on, however, an increasingly transnational economy has begun to emerge characterised by a system of economic activities for which state territories and state frontiers are not the basic framework, but complicating factors. It is this transition from an international to a transnational world economy that essentially defines the present phase of “globalisation”. It has been facilitated by the introduction of new info- and communications- technologies that have made capital, financial and commodity flows much more rapid, but it cannot be reduced to technicist changes at this level alone. It is much more fundamentally a process of restructuring the entire modus operandi of global capitalism.

Globalisation has transformed the way in which the dominant forces in the global economy have come to define their interests in the world outside their own home base. These are no longer focused, as they were in earlier phases, on ensuring access to cheap raw materials in the periphery plus whatever degree of access to foreign commodity markets could be obtained that was compatible with maintaining protected access to one’s own home market. The current agenda of transnational capital now seeks a much broader and far reaching breaking down of barriers to the free movement of commodities and capital across national borders as well as the removal of impediments to the location of production processes in any part of the world. Globalisation has thus been accompanied by increasingly insistent demands for the removal of regulatory and other barriers in national states seen as impeding the freer movement of commodities, finance and capital, but notably not of labour, across the globe. Pressures have been exerted on national states, inter alia, through the rules of the World Trade Organisation, the conditionalities of international financial institutions (IMF and World Bank), and the impact of globalised currency and capital markets (which now react with frightening speed and determination against any country seen not to be conforming).

Deregulation at national level has, however, been accompanied by a strengthening of regulation at global level. The Uruguay Round of the General Agreement on Trade and Tariffs (GATT), and the subsequent establishment of the World Trade Organisation (WTO), were important steps in this process. The Marrakesh agreement arising out of the Uruguay round negotiations introduced an extensive set of internationally enforceable rules, aimed at

ensuring the implementation of tariff reductions, and other aspects of the agreement. A key feature of the process evident from Uruguay onwards has been an extension of the agenda to cover much more than regulation of trade in commodities and tariffs. Included in the Marrakesh agreement at the insistence of developed countries were Trade Related Investment Measures (TRIMS) and Trade Related Intellectual Property measures (TRIPS). These extended international regulation to such areas as investment policy, the financial sector and patent law enforcement. The desire of the governments of advanced industrialised countries for further rounds of tariff reduction negotiations and a broadening of the WTO agenda to include matters like a Multilateral Investment Agreement has also been evident.

The above described processes can be regarded as real and objective changes in the operation of the capitalist mode of production. Globalisation is, however, also associated with a “prescription”. *“The prescription”, has been described by the UNDP as, “to liberalize national and global markets in the belief that free flows of trade, finance and information will produce the best outcome for growth and human welfare”. “All is presented”, says the UNDP, “With an air of inevitability and overwhelming conviction. Not since the heyday of free trade in the 19th Century has economic theory elicited such widespread certainty” (UNDP, 1997, p 82).*

At an ideological level, then, globalisation has been associated with a particular policy prescription corresponding to the interests of transnational capital. That prescription – widespread liberalisation, unilateral deregulation, privatisation and a standard, supposedly universally applicable, macro-economic policy package prioritising cutting budget deficits to less than 3% of GDP and reducing inflation to single digit levels – is variously known as “the Washington consensus” and neo-liberalism.

The SACP is of the view that the challenge confronting us is to steer a course which, on the one hand, prudently recognises the new objective realities, and power configurations, created by globalisation, while, on the other hand, resisting pressures to cajole us into capitulating to the policy agenda of trans-national capital, or the ideology of neo-liberalism. We clearly cannot afford to ignore either the opportunities or the very real dangers created by globalisation. Nor can we act recklessly in a global context in which the balance of forces is often not favourable. At the same time, we believe we must not be lulled into a view that conformity to a policy agenda, that has nowhere ever delivered either growth or development, can provide a way forward.

This is particularly the case, in our view, at the present moment of crisis that is affecting all so-called emerging markets. The fact that the countries of South East Asia that were the first to feel the effects of the down turn in the global economy, despite the fact that all had low inflation, small budget deficits if not budget surpluses and had engaged in extensive de-regulation and privatisation, has led to serious questioning of the “Washington consensus” policies even in the very institutions that spawned them. A paradigmatic crisis of neo-liberalism, with increasing calls for new “post Washington consensus” policies, has become evident. Among other things, this has led to a questioning of the desirability of prioritising efforts to push relatively low inflation levels lower still (arguing that the costs of doing so in terms of effects on growth and unemployment may outweigh the benefits); has argued that the size of the budget deficit cannot be determined by any simplistic



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accounting formula and must be informed by such considerations as where an economy finds itself in the “business cycle” and what state expenditure will be used for; and argued that proponents of privatisation had overestimated its benefits and underestimated its costs. Such approaches (associated with figures like World Bank chief economist, Joseph Stiglitz) have argued for more attention to be given to the destabilising effects of low growth and high unemployment.

The SACP’s view is that a serious assessment needs to be made of the greater manoeuvring space this paradigmatic crisis in the globally hegemonic ideology may be creating for a country like ours. Not only is it leading to a questioning of some of the previous canons of domestic macro-economic management, but also the previous conventional wisdom of trade policy.

Our country depends on its engagement with the world economy for around 50% of its GDP and withdrawing or isolating ourselves from the world economy is therefore an option that could only be implemented at great cost. The SACP accepts that a strategic and pro-active engagement with the world economy is essential.

We also accept that we must seize whatever opportunities globalisation holds out to ourselves and other developing countries. These arise from the fact that world trade is expanding, and that globalisation has been associated with a communications and info-tech revolution. The rapid expansion of world trade has created certain possibilities for a country like our own to boost its economic growth by increasing exports as well as, simultaneously, achieving a diversification of exports that could reduce our dependence on primary products. Both these goals are critical to achieving RDP objectives.

At the same time, we must be aware of the harsh reality that globalisation poses threats. The process of multi-lateral tariff reduction, set on track by the Uruguay Round of GATT, means that no country can maintain protective tariffs and regulatory barriers at the levels they were in the past – unless it is prepared to cut itself off entirely from the global trading system. As protective barriers are lowered, producers oriented towards domestic markets will face increased competition from potential imports. At the same time, taking advantage of the opportunities available through engaging in export trade has become a goal of many countries. Unlike the East Asian NICs, who began their drive for export led growth at a time when most other developing countries were following import substitution industrialisation policies, South Africa thus faces the prospect of having to attempt to realise its objectives in this regard at a time when many other countries are trying to do precisely the same. In both export and domestic markets, globalisation is thus increasing competitive pressures. Moreover, at the present time of crisis in the global economy, unregulated global currency markets coupled with the ability of speculators and hedge funds to rapidly move vast sums from one place to another, have clearly created a major destabilising force particularly for the economies of developing countries.

South Africa has strengths it can build on in developing a pro-active response to globalisation. It has a significant natural resource base, is relatively developed in relation to its neighbours, has a geographic location closer than the advanced industrialised economies of “the North” to faster growing economies of Asia and Latin America, has human resource potential and is undergoing a political transition that is strongly supported and much admired by many key players globally.

We also have clear weaknesses and vulnerabilities that need to be identified and overcome. Much of the inherited productive economy, and the manufacturing sector in particular, is relatively uncompetitive. Years of isolation under apartheid, and policies of import substitution industrialisation have left much of the manufacturing sector, in particular, vulnerable to foreign compe-

tition.

These actual or potential weaknesses are exacerbated by the unevennesses of contemporary globalisation. While tariff barriers are being lowered across the world, this is happening in a highly unbalanced and selective manner. Advanced industrialised countries continue to maintain relatively high tariff and non-tariff barriers in sectors where developing countries are currently most competitive, such as agricultural products, clothing and textiles and steel products. South Africa has a level of development that leads it to be seen as a potential competitor, at least in some sectors, to developed countries. Fears about the impact of our products in sectors where we are currently competitive, e.g. processed agricultural products, clearly exist in influential circles in developed countries. The experience since 1994 has indicated that we are unlikely to receive much more than we already have by way of preferential non-reciprocal access to major developed country markets. Any further benefits in terms of access to such markets access are likely to require that we grant reciprocal favourable access to our own market through the negotiation of Free Trade Agreements.

Our view is that a strategy to respond to globalisation requires that a number of elements be put in place simultaneously. First, there is a need for a clear trade strategy aimed at identifying countries and regions where we can most beneficially increase our trade, and build alliances. The SACP generally supports the government's declared policy of giving priority in developing trade and economic partnership relations to the Southern African region, other parts of Africa as well as the regions of the Indian Ocean rim and Latin America. We support both a re-orientation of our trading relations towards the South, and the promotion of equitable and mutually beneficial development integration with other SADC countries. Such moves are, in our view, both beneficial in their own right and must become a means of strengthening the capacity of developing countries to engage more effectively in the shaping of global economic relations.

Second, globalisation has made imperative the implementation of industrial and sectoral strategies. Concrete policy driven measures are needed both to respond to the competitive challenge posed by the lowering of tariff barriers and to counter the polarising and marginalising tendencies of market liberalisation. In a context where globalisation has been accompanied by a widening of inequalities within countries and where jobless growth has become a global norm, active policies to promote employment, including by focusing on services, basic needs and other non-tradable sectors, human resource development and basic needs provision are all essential.

Finally, globalisation challenges us to actively engage in a wider trade diplomacy. A process which is continuing to reproduce a division of the world into "winning" and "losing" nations, particularly in circumstances where several of our neighbouring states and a large pail of the continent of Africa seem doomed to remain "losing" nations, cannot be one that South Africa can simply be indifferent to. We need to recognise that globalisation and liberalisation have created an imperative to, on the one hand, struggle to find new ways to protect the integrity of domestic policy formulation and sovereignty, while, on the other, actively engaging in the international arena both to maximise opportunities within existing norms and structures, and become an active force seeking to bring about changes in the global environment that will benefit our own country, Africa and the South in general.

Among the issues we need to be campaigning around are:

- the uneven and unequal nature of tariff reform and liberalisation and the imperative for developing countries to receive greater real access to the markets of major trading blocs, including in sectors where they are cur-



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- rently competitive
- the polarisation inherent in the globalisation process and the necessity for greater recognition to be given to the special needs of developing countries
- the need for regulation of currency and capital markets to reduce the impact of speculative movements.

#### 4. Macro-Economic Policy

Macro-economic policy is generally understood as policy in relation to the major “macro” variables: the state budget, particularly the size of the budget deficit, the money supply and the rate of inflation and the balance of payments and exchange rate regime. As indicated above, our basic approach to macro-economic policy is to see the management of the macro-economy as an instrument of a broader development-orientated growth strategy.

The SACP accepts that achieving and maintaining macro-economic stability is an important policy objective. The experience of many developing countries has shown that progressive and redistributive policies that have ignored macro-economic constraints have often proved unsustainable. All too often attempts to promote redistribution without maintaining a degree of macro-economic stability have come unstuck with too many countries following such paths finding themselves subsequently in the clutches of IMF-imposed structural adjustment programmes, where the first casualty has been the very redistributive programmes initiated in the first place. The danger, in a context of unregulated, globalising currency markets, of fuelling speculative movements against one’s currency by injudicious macro-economic policies, also cannot be ignored

At the same time, we believe that there is no evidence to support a view that by adopting macro-economic policies and targets that are fashionable according to the canons of neo-liberalism, and maintaining these at all costs, we will appeal to foreign investors or appease speculators. As the Presidential Commission to Investigate Labour Market Policy observed, “..comparisons among nations indicate that the factors which foster high levels of domestic and international investment, especially direct investment, have surprisingly little to do with the size of the public sector, tax concessions, the trade balance or rate of inflation. Rather it is the absence of high levels of social polarisation, extreme inequality and the social tensions occasioned by these, and the presence of adequate human resources and growing aggregate demand which appear to drive the investment process” (Presidential Commission, 1996, p 26).

Macro-economic policy targets should not, in our view, always have priority over other policy objectives. There are often real choices and trade offs to be made between maintaining macro-economic targets and meeting social objectives. The growth implications of a particular macro-economic policy stance is also important. For example, it is clear that curtailing state expenditure can have contractionary effect on the economy as well as holding back delivery programmes. Similarly, maintaining high interest rates may reduce inflation but will certainly hold back many small enterprises. The SACP believes that these choices and trade offs need to be clearly identified, and that they should not always be resolved in favour of maintaining macro-economic targets. We need to recognise that there is a social, as well as a budget, deficit. The budget deficit needs to be maintained within sustainable limits. Improved financial management is clearly also essential to achieve effective delivery. But the impact of budget deficit reduction targets on the social deficit needs also to be evaluated. Macro-economic policy also has gender implications. Women are disproportionately

represented among the poorest of the poor, and are particularly affected by budgetary and other macro-economic policy decisions. The SACP supports the efforts of groups like the Women's Budget Initiative to assess the gender implications of budgetary policy.

Our overall approach to macro-economic policy can be summarised as follows:

- First, we believe that macro-economic policy, like all other areas of policy, should be formulated through inclusive, consultative processes. We are, likewise, of the view that macro-economic policies and targets should be subject to periodic review, in which the social and economic consequences as well as costs and benefits of continuing to adhere to set targets should be assessed in the context of economic and social conditions.
- Second, macro-economic policy must be a subordinate element within a broader development orientated growth strategy. Where there are choices and trade offs to be made, these should be clearly identified and not always resolved in favour of adherence to macro targets.
- Third, there must be a willingness to attack macro-constraints in innovative and creative ways, that acknowledge the need to transform historical ownership patterns and promote redistribution. For example, a number of proposals have been made to reduce the public debt burden by reforming public sector pension funds, and seeking relief from "odious" apartheid debt. These must be seriously examined and not simply dismissed out of hand.
- Fourth, we believe that we must avoid exposing ourselves unnecessarily to the vagaries of speculative movements in global markets. In this respect, and in the light of the so-called Asian crisis, we believe there is a need to review the policy of progressively removing exchange controls, and devise an approach which takes account of the vulnerability of even fundamentally sound economies to the vagaries of speculative pressures.

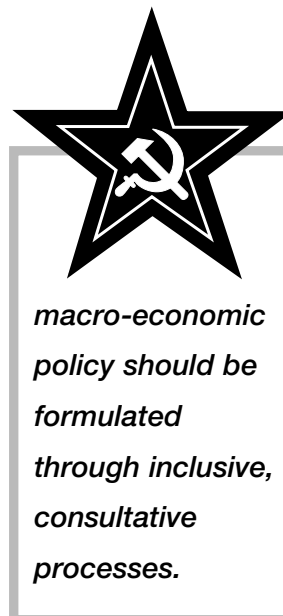
## 5. Tariff and Industrial Policy

Tariff reduction is by now an established global phenomenon. As indicated above, it is inherent in the process of global integration known as globalisation. Tariff reduction is, however, proceeding highly unevenly and selectively.

While the ideology of neo-liberalism holds that maximum liberalisation of tariff and regulatory regimes is as good for the party undertaking such measures as it is for potential entrants into a newly liberalised domestic market, this simply does not inform the practice of the major trading blocs, all of whom continue to defend and protect important vested interests. Developing countries have thus found themselves pressured into significantly "opening up" their national economies and substantially reducing real levels of protection, only to encounter continuing real protection, taking various forms, in advanced industrialised countries.

According to the UNDP, non-tariff barriers in at least 20 industrialised countries became more rather than less restrictive in the decade 1982-1992. By 1992, these "global market restrictions and unequal partnership" were costing developing countries about \$ 500 billion by 1992 – an amount equivalent to around 20% of their combined GNP and more than six times their total expenditure on development priorities, such as basic education, primary health care, safe water and the elimination of malnutrition (UNDP, 1992, 6).

Although the implementation of the Marrakesh agreement is leading to the



removal of some of these non-tariff barriers (while converting others into tariffs), its effects too are highly uneven. A study by the OECD has suggested that the major beneficiaries of the Uruguay round will be North America and Europe and that Africa, including South Africa, will be net losers at least in the short and medium term (see *Third World Economics*, 1-15/11/1993).

In agriculture, textiles, steel products and other sectors in which developing countries currently enjoy competitive advantages, non-tariff barriers and subsidies in developed countries and regions, many of which were condoned as a price that had to be paid in order to secure the Marrakesh agreement, have resulted in a playing field that is far from level. For example, the producer subsidy equivalent for European Union agricultural products is 50% compared to 15% in South Africa. These subsidised EU products compete with those from South Africa and other developing countries not only in the EU market, but also in third country export markets and even the domestic South African market. According to the UNDP advanced industrialised countries spent \$ 182 billion on agricultural subsidies in 1995. Since *“no effective disciplines on export subsidisation were agreed to in the Uruguay Round...”* the UNDP concludes that *“in the real world, as distinct from the imaginary one inhabited by free traders, survival in agricultural markets depends less on comparative advantage than on comparative access to subsidies. Liberalising local food markets in the face of such unequal competition is not a prescription for improving efficiency, but a recipe for the destruction of livelihoods on a massive scale”* (UNDP, 1997, 86).

The SACP believes that in such a context we need to adopt a cautious and prudent approach to tariff reform. We accept that in the current global context protectionism of the sort applied in previous years in South Africa is no longer an option. We acknowledge, too, that a minimalist approach to tariff reform can engender a false sense of complacency. At the same time, we are convinced that there is no evidence to support a view that there are major benefits to be gained by being seen to be more free trade than the norm. Trade negotiations with major trading blocs need to be approached, in our view, with a perspective which recognises that they will involve hard nosed bargaining in which our negotiating partners will act in defence of powerful vested interests. Any trade agreement with major trading blocs that involves us having to make tariff reductions beyond those required of us by the Uruguay Round agreement must, we believe, result in a clear net benefit for us in terms of additional preferential market access. We must also be willing to defend our own vulnerable sectors against competition from subsidised products by making effective use of countervailing and safeguard measures. In international fora, we must press for greater real access by developing countries to markets of the major trading blocs, including in sectors where they are currently competitive. We must also demand greater recognition in multi-lateral or bilateral trade negotiations to the principle of asymmetry, in which the less powerful economy has more time to implement less onerous tariff reductions than the stronger.

Tariff reform – meaning reduction and/or removal of tariffs – whether undertaken in response to international obligations or our own initiatives must, moreover, be accompanied, and indeed preferably preceded, by the implementation of active industrial and sectoral development policies. Every successful example of industrialisation has, we believe, been based on an active industrial policy.

Industrial and sectoral development policies should, in our view, aim both to produce a strategy, and coordinate and mobilise resources for a sector to restructure itself on a new sustainable basis. Successful industrial policies necessarily require a degree of targeting, or selection, of priority sectors. The

experience of countries that have had relatively successful industrial strategies, shows that it is often necessary to target sectors for support that are not currently favoured by “the market”. While expanding our manufactured exports is a key policy objective, industrial policy should not, in our view, one sidedly target sectors with export potential to the exclusion of sectors producing basic needs goods or sectors with high employment potential. We need an holistic approach in which a basic-needs, redistribution and demand-led component to industrial growth and development is accorded sufficient priority. Sectoral policies are also urgently needed for non-tradable, service industries, which often have the highest employment creation potential in the short term.

Industrial and sectoral policies must involve the state making available concrete and tangible support. The SACP, in general, agrees that direct subsidies to capital are inappropriate, and favours more focused and effective measures that promote transformation and change. We believe that we must be willing to accept that, in some cases at least, the role of the state must go beyond facilitation and support. State leadership, involving pressuring and cajoling capital, as well as taking active steps to transform ownership patterns are also essential.

A major objective of industrial and sectoral policies must be to promote Human Resource Development (HRD) and take further initiatives like Nedlac’s Workplace Challenge. Although there appears to be consensus that the only basis on which we can confront the challenges facing us is by raising the skills and capacity of our people, capital has shown that on its own it is largely unwilling to do more than pay lip service. We therefore support proposals to impose a levy on employers to support state run training programmes.

We are also convinced that the challenges of globalisation require a major shift towards more inclusive and participatory forms of workplace organisation and decision-making. Firms and industries relying on traditional authoritarian management styles are often finding themselves losing out to firms and industries employing new styles of organisation and management which are more participatory and empowering of workers. Many of the examples of “world class manufacturing” from Japan and elsewhere remain, of course, constrained by capitalist relations of production, but they do involve a degree of self-organisation and joint decision-making by workers that goes far beyond norms prevailing in South Africa. As communists we welcome and encourage initiatives seeking to introduce more participatory and empowering forms of workplace organisation – initiatives we would eventually seek to take beyond the limits imposed by capitalist production relations.

## **6. Job Creation and Black Economic Empowerment**

As indicated earlier, one of the major challenges facing us at the present phase of our national democratic revolution is to drastically reduce unemployment. While it is true that official statistics do not reflect the full extent of employment, and employment creation, in the country – by not capturing employment in subcontracting activities, the “informal sector” and some government programmes – job creation is clearly not taking place at a pace fast enough to absorb the large number of new job seekers, and job losses are already occurring and/or threatened in many sectors.

The roots of the present unemployment crisis are clearly located in structural features of the economy bequeathed to us by apartheid. But we need also to acknowledge that the economic growth achieved since 1994 has not been suffi-



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ciently job creating.

The phenomenon of “jobless growth”, it should be noted, is a phenomenon not unique to South Africa. It is occurring across the world. Indeed, one of the ironies and contradictions of the present phase is that we are being compelled by the pressures of globalisation to adapt to globally competitive norms in order to provide a sustainable basis for job creation. Yet the very norms around which we are being forced to restructure are themselves job shedding.

Much of the “unrecorded” employment creation not captured in official statistics is, moreover, reflective of a trend which, in our view, needs careful monitoring and intervention if it is not to have a negative impact on working people. A significant pail of the employment creation not recorded in official statistics results from outsourcing or contracting out of tasks previously performed within formal sector enterprises. Again this is part of a global trend. While this trend towards outsourcing clearly has some potential to boost SMMEs and contribute to widening of the productive base of the economy, left to operate on the basis of unfettered market forces, it also has inherent within it the distinct danger for working people of substituting higher quality jobs in the formal sector by “informalised” lower quality jobs at lower, wages.

The answer given to the unemployment challenge given by our class adversaries is to uncritically welcome this trend and supposedly encourage it by promoting “labour market flexibility” – understood as widespread exemption from labour legislation and a general reduction of labour standards. It is suggested that the main reason why employment creation is not proceeding more rapidly is because labour laws such as the Labour Relations Act and Basic Conditions of Employment Act, while benefitting those in employment, have created disincentives to employers to take on more labour. Government and the alliance are accused of pandering to the demands of organised workers to the detriment of the unemployed.

The SACP rejects with contempt suggestions that by extending basic rights to workers in employment, workers are responsible for creating unemployment. Unemployment in South Africa is a product of the particular path of capitalist development embarked on during the apartheid period, which is proving to be unsustainable under the changing global and national circumstances. We remain firmly of the view that engaging in a race to the bottom over labour standards offers no way forward, and that the strategic choice for South Africa has to be to work actively to raise the human resource capacity of our people. Trends like outsourcing need to be influenced by policy to ensure that potential benefits in terms of broadening the base of the economy are not outweighed by losses to working people in terms of incomes and job quality.

The SACP welcomes the fact that there is now general recognition that new initiatives are needed to deal with the unemployment crisis. In the short run, we support the initiation and extension of labour intensive public works and infrastructural programmes coupled with training for the unemployed. We believe that a concerted effort to significantly reduce unemployment, particularly but not only among the youth, must be a national priority.

In the longer term, we see the solution to the unemployment crisis as lying not in specific schemes, but as being linked to the broader growth path. As indicated earlier, we believe that it is imperative to place the economy firmly on a development orientated growth path. While the promotion of manufactured exports is an important objective, and while the competitive pressures of the global economy cannot be ignored, placing the economy on a higher employment creating growth path requires more than simply acting to raise competitiveness and promoting sectors with export potential. Policy must also seek to promote basic needs producing sectors and non-tradable service

industries, which we suggested above have higher employment creating potential – at least in the short run. Central to placing our economy on a development orientated growth path is the empowerment of working people and the unemployed. Engaging in a race for the bottom over labour conditions with countries with unacceptably low labour standards is no solution. Rather, we must act more effectively to promote an all round improvement in the human resource potential of our people through training programmes, and transforming workplace relations in ways that unleash the creative potential of working people. In sectors where lay offs are inevitable, retraining and re-skilling must be accepted as an obligation of capital.

The promotion of Small, Medium and Micro-Enterprise (SMMEs) and black economic empowerment must also be pursued with greater determination. While we believe it is a mistake to see SMMEs as the salvation to the unemployment crisis in the absence of other transformations, it is clear that small scale trade and petty commodity production provides a livelihood to many of our people, and that the growth of the sector has significant potential to provide more jobs. As indicated above, we do not believe that this will or should occur by lowering labour standards to unacceptable levels. Processes of contracting out must be guided by policy which aims to maximise social benefits and encourage investment by the enterprise contracting out in human resource development in sub-contracting SMMEs. Problems confronting the SMME sector like high interest rates and lack of access to financial resources and other services must also be addressed as a matter of urgency.

The SACP supports black economic empowerment as an essential component of national democratic transformation. As a party of the working class we are concerned to see that the benefits of this reach beyond a few individuals and that black economic empowerment means something significant for working people and the poor. One of the challenges facing the party and the unions will be to influence the ongoing process.

In this regard, the SACP is convinced that more attention needs to be paid to the promotion of cooperative and collective ventures. Shortly before his death in 1923, Lenin came to regard the promotion of cooperatives as one of the most important tasks in building socialism in the Soviet Union. He saw cooperatives as a particularly appropriate form of collective organisation in a context where market relations dominated (as was the case in the Soviet Union during the period of the New Economic Policy or in South Africa at the present phase of our national democratic transformation). In his essay, “On Cooperation”, Lenin saw cooperatives as a potential vehicle to “learn to build socialism in practice” in a way that could appeal to poor peasants and other small producers. He also called for cooperatives to “...*be politically so organised that [they] will not only generally and always enjoy certain privileges, but that these privileges should be of a purely material nature (a favourable bank rate etc). The cooperatives must be granted state loans that are greater, if only by a little, than the loans we grant to private enterprises, even to heavy industry etc*” (Lenin, 1976, p 421).

The SACP is convinced that there is enormous potential in South Africa for cooperative and other collective, community based ventures. These would have enormous benefits in their own right. They would enable many of the most marginalised in our society, including rural women and people involved in small scale, survivalist activities to combine resources and create a basis for



*employment  
creating growth  
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than raising  
competitiveness  
or promoting  
exports*

the more effective channelling of resources. As a party committed to a socialist vision, we would also see such activities as having the potential to provide a practical learning experience that could be built on in an eventual socialist transformation. The SACP thus calls for black economic empowerment programmes and funds to create space for the development of cooperative and other collective ventures. We call too for such ventures to be given a degree of practical support and preference in state support programmes.

## 7. The Role of the State in the Economy

As Marxists we recognise that no perspective on the role of the state in the economy can be developed in the abstract without reference to the mode of production, stage in the development of our struggle, the balance of forces etc. Our views on the role of the state in the present phase of our struggle for national democratic transformation and at a later phase of socialist development may thus differ significantly.

Defining the role of the state in the economy is, of course, also a matter of major ideological contestation. The ideology of neo-liberalism holds not only that the state's role in the economy should be limited, but that it should perform a much narrower range of tasks and functions than most capitalist welfare or developmental states performed in the past. Initial versions of this ideology focused on "rolling back" the state, advocating deregulation and privatisation, and arguing that "the private sector" was inherently more efficient and capable of carrying out tasks historically performed even in capitalist societies by the state. Later versions have come to acknowledge that there is, indeed, an important role for the state in the economy, but see this as largely being to create an environment conducive to capital accumulation. Deregulation and privatisation continue to be strongly emphasised in relation to the provision of social services, labour market policy etc, but states are pushed to play an active role in enforcement of property rights, macro-economic management and tariff liberalisation.

This ideology has informed the dismantling of previously existing socialist systems in Russia and Eastern Europe, the welfare state in most countries of Western Europe (including Scandinavia) and the adoption of structural adjustment programmes in many countries of "the South". It is held that these policies are the optimum, and indeed only, route to achieving growth and development in a fiercely competitive globalising world economy.

Such a view, however, ignores the experience of those capitalist countries in East Asia that have achieved a significant degree of economic growth. A study on "highly performing East Asian economies" commissioned by the World Bank, after a sharp debate with Japan over support to developing countries for industrial policy state interventions, was forced to concede that "*...in some instances, government interventions resulted in higher and more equal growth than otherwise would have occurred*" (World Bank, *The East Asian Miracle*, 1994, p6). Of course, this can be of no more than general significance. Simply emulating and copying what exists (or existed) in countries that often had little democracy, repressive labour laws etc cannot be the way forward for South Africa. What the East Asian experience does highlight, however, is that those countries that have achieved a degree of success in promoting economic growth have deviated significantly from the neo-liberal model. Indeed, there is no example of a developing country achieving high growth, let alone improving human development, on the basis of a minimalist state.

The SACP's overall perspective on the role of the state at the present phase of our national democratic revolution is informed by the following considera-

tions:

- the capitalist market is inherently polarising – “market forces” produce winners and losers, and tend to marginalise the poor and distempered.
- the globalising world economy, into which we are becoming increasingly integrated, is characterised by acute unevennesses, imbalances and inequities. The dominant forces that have structured the emerging international rules based trading system are transnational corporations and the governments, of advanced industrialised capitalist countries.
- The RDP goals will not be achieved without an active role of the state and popular mobilisation. Arising from this, the SACP’s vision can be summed up as a developmental state orientated towards working people and the poor. Such a state’s role could be identified as including at least the following:
  - The provision of essential social services – health, education, welfare. Experience across the world has shown that profit seeking institutions will simply not provide such services to the poor. The SACP would want to see such services increasingly provided as basic rights on the basis of need, rather than income, in accordance with its vision of decommodification. It would also want the list of such services to be progressively increased, to include as soon as possible, for example, the provision of basic housing to low income people.
  - The creation of conditions to achieve development orientated growth, through an integrated programme based on the four pillars of the RDP – basic needs provision, human resource development, building the economy, and democratisation and participation. The RDP base document recognised that the state had a key role to play in each of the various areas. Among those that remain of key significance are – raising the skills and capacity of our workforce through skills upgrading and training, an active industrial policy which identifies sectors and clusters to be promoted and defended, infrastructural development and an active labour market policy that rejects a global “race to the bottom” and recognises that South Africa needs to respond to the challenges of the global economy by raising the overall level of skill and productivity of our working people.
  - The promotion of redistribution. Without active policy intervention, “market forces” will neither achieve a more equal distribution of income and wealth, nor empower historically oppressed people. In this regard, it is noteworthy that programmes of land reform and affirmative action accompanied, and were an integral part of, growth strategies of many Asian countries.
  - Responding to market failure. Market forces often produce outcomes contrary to developmental goals and objectives. Unemployment and jobless growth are examples of this in our own country. Active state intervention to counter such trends has been recognised as essential in many, even capitalist countries.



None of the above indicates precisely what combination of public and private ownership, or what relationship between the state and non-state (private sector) in particular projects or programmes, ought to be striven for. The democratic government inherited from the apartheid order a state system not geared towards promoting development, and indeed dysfunctional in this regard, and holding a range of assets with little relevance to the tasks of

reconstruction and development. Restructuring the state and its assets is a legitimate, and indeed necessary, task. Restructuring of state assets, however, needs to be seen as a term referring holistically to at least the following:

- reorganising and transforming state departments and entities;
- developing new capacity to meet the new challenges;
- establishing new entities and/or acquiring new state assets in strategic sectors, such as housing, where private capital and the market clearly will not respond adequately;
- disposing of historically acquired assets that no longer meet current policy objectives.

The SACP will continue to press for the concept “restructuring of state assets” to be seen in this way and not become debased, as our adversaries would like, into merely the local euphemism for privatisation. While we are not opposed either to the disposal of assets that no longer meet current needs, or to strategic partnerships that can be shown to bring concrete benefits, international experience has shown that the privatisation of major state services results generally in higher prices and a curtailment of services to poorer consumers. We are also convinced that there are areas, like the provision of low cost housing, where attempts to woo capital have produced limited results. In such cases, we support active consideration being given to the creation of new state enterprises.