African Communist

2nd & 3rd Quarter 2010 Issue Number 181

SPECIAL ISSUE

TOWARDS A NEW GROWTH PATH

African Communist

2nd & 3rd Quarter 2010 Issue Number 181

1 Introduction to AC Special Issue: Towards a New Growth Path
Fionna Tregenna and David Masondo

4 The Challenge of Social Mobilisation
Obed Bodibe

10 Debating Development: Paradigms Shaping Economic Proposals
Neva Makgetla

17 Building a Progressive Consensus
Ben Turok

24 Finance and the New Economic Growth Path
Seeraj Mohamed

35 Rethinking South Africa's Growth Path
Kimani Ndungu

44 The role of Industrial Policy
Rob Davies

49 IPAP and the Need for a State-Owned Pharmaceutical Company
Sidney Kgara and Sheila Barsel

57 The relevance of Regulation in a Developmental State
Reneva Fourie

61 Expanding Democratic Control Over the Mining Sector
SACP discussion paper

83 Nationalisation: A Necessary Debate
Madoda Sambatha

87 Corruption and Nationalisation
David Masondo

107 The Ideological Basis of Nationalisation
Frans Baleni

The African Communist is published quarterly by the South African Communist Party as a forum for Marxist-Leninist thought
Send editorial contributions to: malesela@sacp.org.za, or to
African Communist, PO Box 1027, Johannesburg 2000

INTRODUCTION TO AN AC SPECIAL ISSUE

Towards a New Growth Path

Fiona Tregenna and **David Masondo**, who edited this AC Special Issue, set out the framework within which debates on a New Growth Path for South Africa are taking place

We are pleased to present this Special Issue of *The African Communist* on the theme of the New Growth Path.

Debates on the need for a new growth path and what this might entail have been ongoing for some time. There is now increasing consensus about the need for a fundamental shift in South Africa's growth path, but probably less agreement about how far that shift should go and what the substance of a new growth path should be. This Special Issue of AC brings together articles on various topics related to economic policy and the growth path more generally. Topics include industrial policy; the debate on nationalisation; finance and the growth path; the role of regulation; and the challenges of social mobilisation to push the new growth path.

This Special Issue is being released before the National General Council (NGC) of the ANC. The NGC provides our movement and the SACP with another moment in history to reflect on the extent to which there has been a shift from the key pillars of the 1996 class project in the post-Polokwane period. It also offers the opportunity to review current policies and, where necessary, to begin to modify these.

Every moment in history is both a point of arrival and departure. Similarly, post-Polokwane has set a milestone in the history of our National Democratic Revolution (NDR) and the struggle for socialism. The 2007 ANC elective National Conference held in Polokwane was a point of arrival for those who were not opposed to neo-liberal economic policies and narrow Black Economic Empowerment. For them, post-Polokwane represents a period in which they will use the narrow BEE and globally discredited neo-liberal economic policies to advance their class interests. But for the working class, Polokwane marked the potential for radicalisation of our NDR to be epitomised by key political and economic policy shifts.

This Special Issue assesses the post-Polokwane period in the context of the need for a new growth path. The articles diagnose what is wrong with the current growth path and its effects on the socio-economic conditions on the working class, and put forward policy proposals that will take us towards a working class-biased growth path.

Despite significant progress in various areas, we are confronted with a

grossly unequal distribution of income and wealth, unemployment rates among the highest in the world, and rates of poverty that are completely unacceptable. The persistence – and in some cases, worsening – of these problems points to some of the ways in which we have not fundamentally shifted away from the apartheid growth path. We cannot accept that unemployment, poverty, inequality, and other problems remain at present levels. There needs to be a fundamental shift in the growth path. In turn, this points to the need for fundamental shifts in economic policy. There is no reason to believe that the continuation of the existing policies, or even incremental changes in these policies, would facilitate the type of shift in the growth path that is required.

The circumstances of the global economic crisis further support the need for shifts in policy. The crisis highlights the limitations of capitalism and in particular of inadequately regulated capitalism (especially to those who were previously insensitive to these limitations). The crisis has also led to a shift in the mainstream economic policy discourse. Policies that were previously frowned upon by many governments and international institutions have now become acceptable even in orthodox terms. While we in South Africa should not be carried away by policy fashions, we also cannot continue with the same economic policy debates as though nothing has changed.

For all these reasons, it cannot be business as usual when it comes to economic policy.

However, we need to recognise that the types of policy shifts required will only be realised if there is a shift in the balance of class power. Our post-1994 experience has shown that policy shifts and implementation are a function of balance of class power. When Gear was chosen as state policy, it was not because there were no other policy alternatives from working class organisations and intellectuals: it was about the balance of class power.

Policy choices and implementation are not beauty contests about which policy is most beautiful. Nor are they about which policy is most rational. They are about class interests and about which class has the power and capacity to express and implement its class interests through expression in policy choices. For these reasons, the policy shifts towards a new growth path will only be realised through organising and mobilising working class power.

This collection of articles is not intended to provide answers as to what specific policies are required. Rather, they provide analyses of the growth path from various angles. Cde Oupa Bodibe's article discusses some of the reasons why it is so difficult to break from the existing growth path even if that path is suboptimal; examines state-capital relations in South Africa; looks at changes in the labour force structure and new ways in which surplus-value is extracted; highlights the importance of social mobilisation for moving to a new growth path; and leaves us with some difficult questions for further discussion. Cde Neva Makgetla summarises some key features of our current growth path and the challenges for change. She then identifies three alternative paradigms among the left concerning the growth path, and highlights the benefits and risks of each. Cde Ben Turok reports on the discussion of a seminar series titled *Prospects*

for Economic Transformation. His article characterises the post-1994 legacy and offers suggestions for policy shifts in various areas of economic policy. Like Cde Bodibe, he also leaves us with some tough questions for further discussion.

Seeraj Mohamed discusses an oft-neglected issue: the role of finance in relation to the growth path. He provides a compelling critique of the role of finance, and illustrates how policy has facilitated changes which have been detrimental to economic transformation. Cde Kimani Ndungu focuses on the labour market, with emphasis on the implications of the growth of non-standard work and the high rate of unemployment for the new growth path. Going into more detail on some of the aspects covered in Cde Bodibe's article, Cde Ndungu looks at continuities and discontinuities with the apartheid labour market, the growth in non-standard work, and the challenge of giving meaning to decent work through the new growth path.

Cde Rob Davies' article deals with the key area of industrial policy. He analyses some of the limitations of the current growth path and reflects on lessons from the global economic crisis. He then discusses the approach of the Industrial Policy Action Plan (IPAP2). The contribution of Cdes Sidney Kgara and Sheila Barsel also relates to IPAP2, but focuses on the pharmaceutical industry as a case study. They convincingly argue the case for a state-owned pharmaceutical company. Their discussion of the role of the state in this area also connects to the later articles on the issue of nationalisation. In her contribution, Cde Reneva Fourie discusses the role of regulation in a developmental state. She presents the case for the need for regulation, sets out different types of regulation, and surveys the role of regulation in comparative international experiences. Of direct relevance to debates around the growth path, Cde Reneva discusses how a developmental state should approach its role as a regulator.

Finally, there is a set of articles dealing with the debate around nationalisation. The ANCYL discussion document on the nationalisation of the mines has triggered different vigorous responses within the ANC-led movement. At the core of these articles on the nationalisation of the mines is the question: what type of economic ownership will facilitate desirable economic growth? The SACP discussion paper on nationalisation is included in this issue. Cde Madoda Sambatha argues for the broadening of nationalisation and passing the expropriation legislation to enable the state to carry out nationalisation beyond the mines. Cde David Masondo's paper is a critical defense of the ANCYL's call for nationalisation of the mines. In his article, Cde Frans Baleni argues that the conditions for nationalisation are better now.

We hope that this collection of articles will bring fresh insights into the debate around the growth path, stimulate discussion, and contribute towards shaping policies. ★

Cde Tregenna *is an SACP Central Committee member and University of Johannesburg economics lecturer.* ***Cde Masondo*** *is an SACP Central Committee and Politburo member and is the YCL Chairperson.*

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

The Challenge of Social Mobilisation to push the New Growth Path

Oupa Bodibe examines the obstacles to breaking with the current growth path

Why, despite general consensus, has there been only limited structural change in the South African economy? Is it because of lack of consensus on the required policy interventions that there is lack of movement? Structural change is hard, takes time and requires bold and consistent leadership. The process in post-apartheid South Africa has been characterised by polarised debate on the right mix of policy instruments to achieve a transformed economy. The aim of this intervention is to focus on some of the underlying challenges that may be militating against progress.

In the first instance is the problem of path-dependency which creates strong incentives to stay the course. The second reason suggested is the problem of state-capital relations. Lastly, a high-wage strategy seems like an impossibility but then who should pay for the cost of social reproduction?

Very few resource intensive or primary commodity economies have managed to transform from this inherited legacy from colonial rule. The colonial power regarded their colonies as sources of raw material, places to move their surplus people or at best external markets to manage over-production at the centre. Infrastructure, administration and human resource development strategies were designed to fulfil this extractive-export economy. This is a powerful legacy to overcome.

Several theories have been advanced to explain this economic structure. From the dependency theory the idea of an economic 'enclave' encapsulates the dualistic development that characterises many developing economies. From the libertarian perspective this is explained in terms of relative comparative advantage. The idea is that a country should specialise in areas of its resource endowment.

Both perspectives seem to suggest a static balance of power between the core and the periphery, and fail to explain how former developing countries like Korea and latterly China upgraded from export of raw material to diversified domestic and export-oriented economies. Why therefore some societies have not managed to escape raw commodity export economic structures whereas others have managed to thrive.

The answer to this question contains within it a conundrum. The examples

that I have so far used, Korea and China, are of countries that did not have much natural resource endowment to begin with. Secondly, some of the developed countries with a minerals base, say the Netherlands, acquired these natural resources at an advanced stage in their industrial development. How therefore did developed countries like the US and Britain 'upgrade' from agriculture to becoming industrial giants and lately knowledge economies?

South Africa without doubt falls into the category of a mineral-dependent economy for most of the last 100 years. Evidently changes have occurred over decades and recent years, but export of raw minerals still plays a vital role. One of the recent shifts in the mining sector is the platinum sector eclipsing gold production as a key commodity. Gold on other hand seems to have lost its lustre for two reasons: in the first instance is the costly exercise of extracting deep-level gold which requires expensive equipment and substantial investments that are not justified by the current global gold price; second, due to this high cost of mining gold in South Africa, China and Russia have now displaced South Africa as the leading producers of gold. This is despite the fact that South Africa still has substantial gold reserves in comparative terms.

The one explanation for the limited structural change in the economy is path dependence. Crudely put, path dependence implies continuation of a policy choice or economic structure even though in the long run it may be counter-productive. For years South Africa has relied on extracting surplus from the minerals economy – with infrastructure, services and manufacturing emerging to reinforce this growth path.

Path dependency has arisen for several reasons. At its simplest it can be caused by lack of political will to tackle the more wrenching project of social transformation. It's better to stick with what we have and make incremental changes with the hope that these will accumulate substantially to resemble a qualitative change. Introducing change will ruffle vested interests and the political elite might bargain with the economic elite to let things remain as they are with a vague hope that somehow growth will trickle down.

Sticking on a path of economic development can also be reinforced by geo-strategic considerations. In the TINA (There Is No Alternative) model South Africa had no option but to link into the global economy by succumbing to the dictates of the neo-liberal model. No surprise that economic policy is excessively focused on macro-economic balance. This is to ensure that the shallow local economic base does not go out of kilter and erode assets (especially financial assets) through uncontrollable inflation.

Commodity booms add further impetus to path dependency. During this powerful cycle the model tends to generate sufficient surplus that can be directed to social development or other purposes. But more specifically it can fuel rent-seeking behaviour across the political and economic elite structure. When this model works, during commodity super-cycles, there is a powerful incentive to stay the course: the "Why fix it when it is not broken" mentality! In this scenario the policy objective is to insert the previously excluded (a minority at that) into the wealth accumulation agenda. Narrow BEE rings familiar bells. Strategically the newly economically enfranchised somehow become a new

opposition to thoroughgoing transformation.

The narrative so far suggests a determinist and almost fatalistic view of economic transformation. The main point is that structural change will require reckoning with path dependency whatever its source. Societies do have choices. Choices are made, however, within a set of material conditions and to change an economic structure require herculean political will to confront the entrenched power of the old and new elite. At the policy level this requires breaking with the obsession of export-promotion that has dominated government economic policy in the post-1994 era. The global recession wiped out overnight global demand for South African minerals thus plunging the domestic economy into a tailspin. These events also amply demonstrated the vulnerability of a narrow dependency on export markets.

State-capital relations

Social mobilisation is one of the key pillars of driving through a developmental agenda. In that context state-capital relations are pivotal in driving a developmental growth trajectory. The state needs buy-in as well as leverage to marshal the self-seeking interest of capital for the common good. This is easier said than done. The state also requires some relative autonomy and critical distance if it is to fulfil its role as a social change agent. I deliberately ignore for now the role of labour for reasons which I hope will be self-evident in due course. This however, does not imply that labour does not play an important strategic role in economic development. The Social Democratic model amply illustrates the role of labour-state alliance in disciplining capital in the post-war Europe.

The role of capital has been one of the contentious issues to plague the tripartite alliance in the post-1994 period. In principle there is agreement that the relationship between capital, the state and the democratic movement is one of mutual dependency and conflict. However, just how much collaboration or conflict is necessary in this relationship has been a matter of debate.

Driving a new growth model requires some buy-in from capital or at least a substantial section of capital. But capital's view is schizophrenic at best. Of course, the views of business are as diverse as the issue under discussion or as there are many business sectors. At one level, the enlightened elements of capital correctly perceive the long-run danger of high unemployment, rising inequality and poverty to the long-term profitability of capital. Yet, when it comes down to policy prescriptions, big capital in particular cannot fathom anything else but conservative economic policies including the strident call to relax labour legislation. Big business assiduously promoted its economic vision on the new political leadership by cajoling and subtle threats.

Does the state have leverage over capital, especially big capital? That is, can the state mobilise South African capitalists to invest in the long term development of this country? The answer to this question is a definite no! By giving in to the agenda of big capital during most of the democratic dispensation, the state weakened its leverage over large sections of domestic capital. The democratic government now has to face the likes of Anglo-American Plc as international investors rather than as local companies. Shifting local listing to the London and New York Stock Exchanges

released local companies from the discipline of the state and labour. They are now under the direction of international investors, especially institutional investors who demand short-term returns.

The short-termism of capital, especially financial capital, militates against long-term collaboration between the state and capital. Removal of capital movement restrictions has weakened the power of the state to control short-term capital movements. Moreover, the relaxation of exchange controls has spurred capital flight by South African capital in search of lucrative deals in the global markets.

That said, capital is still vulnerable and can be mobilised to support long term growth. This requires that the democratic movement develop a more nuanced and disaggregated perspective on international and domestic capital. The fact that that many of the big companies still have substantial investments in South Africa provide some leverage that the state can use. For example, the state used this leverage to successfully argue for black economic empowerment. There is no reason why the state cannot deploy its power to argue for minerals-beneficiation for example. The state is not powerless – it is how it deploys that power that is a crucial question.

New modes of subtracting surplus and the growth path

The mining-agricultural revolution depended on cheap migrant labour to extract absolute surplus value. This was also a model that underpinned the industrial revolution of the 1940s. Within this emerged a racialised industrial relations system characterised by un-free and oppressed black labour. Africans had to be displaced from their land and their economic independence was destroyed to meet the demands for cheap labour by mining, agriculture and industry. This is the core of apartheid in the workplace that shaped South Africa's industrial relations for decades.

The new labour law regime sought to eradicate this edifice of labour control by giving workers across the economy equal rights. Formally, therefore, we can talk of eradication of the 'racialised' system of un-free and oppressed labour. What is the reality? Of chief concern is what has replaced the cheap migratory labour system as a source of surplus value? A related question is what kind of industrial system will underpin the new growth path?

Studies on this front are still tentative. 'Informalisation' of labour relations (casualisation and outsourcing) it is agreed to be the new source of extracting absolute surplus value[1]. This is characterised by low wages, precarious working conditions and short term labour contracts. The workplace has become a veritable place of insecurity. Permanent workers are worried about security of their jobs while casual and outsourced workers are the new layer of 'right-less' workers. There is a strong tendency in the economy to proliferate these non-standard forms of employment. As such the working class has been reconfigured into a 'core' with permanent jobs and a periphery full of the casual/subcontracted, informal sector and unemployed workers. The restructuring of labour is a global phenomenon that has gained momentum in South Africa as capital sought to escape the new labour regulations.

Alongside this extraction of absolute value are the high-tech industries such as autos, heavy-chemicals and steel.

These sectors tend to be highly capital-intensive and do not generate employment in sufficient quantities to mop up the unemployment problem in South Africa. The paucity of skills is a source of leverage for skilled workers relative to employers. The majority of the South African unemployed lack the necessary skills to enter these high tech industries.

This polarity – low wage employment on the one hand and skilled well paid employment on the other – partly explain the rising income inequality in the country. I am drawing these issues to pose the question: is South Africa destined for a low-wage growth strategy even if it is not desirable? Competition from other developing countries like China, India, Vietnam to cite a few seems to point to the low-wage path for South Africa. The last 20 years has seen production shifting towards these low-wage and 'un-free' labour zones. Should South Africa pursue this path as part of its growth strategy?

Therein lies a huge area of debate about the causal link between wages and growth. The neo-liberal route suggests that lower wages will translate in improved growth, and this perspective has adherents within the state and the ANC. But this strategy is to explain unemployment from a supply-side perspective – that is, if the price of labour is right then labour demand will increase. A basic fact is that demand for labour is a derived-demand. That is, labour is not demanded as an end in itself but is spurred by output growth. On this front the South African economy has not performed well. So how can we spur output growth in sufficient degree to stimulate job growth? That brings us back to the question of structural change and the basic thesis of the RDP.

The RDP espoused a strategy of growing the domestic market through a strategy of meeting basic needs. Further, it called for a redistributive strategy that would result in large transfers of income, asset and capabilities to draw in the majority of our people into the economic mainstream. The strategy also had strong regional development objectives to harness the economic potential of the SADC region as a single economic bloc. A high wage strategy requires among others changes in the patterns of labour demand away from the cheap labour system that currently characterises employment patterns in the services and manufacturing sectors.

Even so, suppose some sectors will continue to be locked in a low-wage cycle, then who should pay for social reproduction? The restructuring of pay packages has resulted in the displacement of the cost of reproduction – health, education, old age pensions – on to individual households and the state, away from the employers. The counterpart to the cost of doing business in South Africa is the cost of working. An ordinary worker must pay for transport, education, health care and social insurance out of a shrinking pay package. Wages have at best kept to or marginally increased above inflation, suggesting that the vast majority of workers earn below a living wage.

Conclusion

The need for a growth strategy is taken as given in this intervention. However there are two seemingly intractable conundrums that face policy makers and activities. In the first instance is the near-overwhelming power of path-dependency which militates against

progress. It is generally accepted in the development literature that social mobilisation is an essential ingredient in marshalling society behind a vision of economic development. The state faces the difficult question of how to mobilise capital behind its objectives of economic and social transformation.

Finally, is the dream of a high-wage economy just that – a chimera? The economy is locked into patterns of extracting absolute surplus value from new forms of cheap labour, mainly young African women. Global competition between big developing countries seems to reinforce the low-wage strategy in South Africa. In that context how will high-wage employment be generated in South Africa? If on the other hand, the economy is stuck in this low-wage vicious cycle – who must pay for the cost of social reproduction between employers, the state and households. These are some of the pertinent questions confronting policy makers and activists. ★

*C**de Bodibe** is an SACP member and serves on the Competition Commission*

Endnote

1. See the contribution to this Special Issue by Kimani Ndungu on non-standard work.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Debating development: Paradigms shaping economic proposals

Neva Makgetla assesses the current growth path, the obstacles to change and the frameworks within which the Left has made its proposals

"Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist." – JM Keynes

Since 1994, debates have raged in the Alliance about the direction of growth. To a large extent, the different positions have been shaped by disagreements about the nature of the core economic challenges. But they also reflect the broader economic discourse and international experience, sometimes at the cost of practical engagement with South African realities. Over-dependence on theoretical models has sometimes given rise to policy proposals that are irrelevant or unworkable in our conditions. This problem has been reinforced by the general tendency to focus on the promised benefits of proposed strategies without examining their costs or the likelihood of failure.

To support a more objective assessment of the proposals currently in the policy discourse, this paper analyses some broad paradigms that shape key differences. For context, it first describes the current challenges and the broad policy response to date. It then identifies three dominant paradigms – the anti-poverty approach, industrialisation and employment-focused - in terms of their overarching vision, implications for policies on sectors and capital, and main risks.

Current challenges

Economic strategies are designed to respond to specific economic challenges. In mainstream economic theory, however, an emphasis on growth has become hegemonic, to the neglect of equity or employment creation. And virtually no economists now engage with issues of disempowerment and alienation, which were originally central to Marxist economics.

The rationale for a narrow focus on growth has been twofold: first, that in the long run growth will benefit everyone somewhat; and second, that employment creation and enhanced equity are far easier in the context of rapid economic expansion.

The problem with focusing on growth as the core economic problem is that in South Africa, economic growth has been close to the international norm since the transition to democracy in 1994. But unemployment and inequality remain far higher than in other middle-income economies.

Economic growth in South Africa largely tracked the international average between 1994 and 2009. Only lower-income countries – most famously China – grew substantially more rapidly. Compared to other middle-income economies, growth in South Africa slightly lagged Eastern Europe but kept up with Latin America.

Despite growth, inequalities in income and economic power remained profound. In the mid '00s, the share of the top 10% in national income was higher than in almost any other middle-income country.

Deep inequalities in income were associated with extraordinarily high joblessness, deep inequalities in earned income, and highly concentrated ownership of assets.

In 2010, only 41% of working-age adults were employed, compared to an international norm of around 65%. The ILO's Key Indicators for the Labour Market (KILM) found that South Africa ranked amongst the ten countries with the lowest employment ratio in the world

Amongst the employed, the differences in income between highly skilled and other workers were unusually steep. In 2008, the Quarterly Labour Force Survey found that one in seven non-agricultural formal employees and two thirds of domestic, informal and farm workers earned under R1000. In 2005-6, the average income from work in the richest 10% of households was 32 times the average income of the poorest 60%.

Assets were even more unequally distributed than earned income. In 2005-6, the average household in the richest decile earned 94 times as much from investments as one in the poorest 60%. It received three quarters of its income from capital, compared to under 1% for the poorest 60%.

Inequality is only slightly diminished if we look at income from all accumulated assets, including pensions and enterprise profits. The richest 10% of households got almost two thirds of income from these assets, while the poorest 60% received 1%.

South Africa's unusually harsh inequalities and high jobless rates reflected both the apartheid past and the structure of economic growth from 1994.

Apartheid deprived the majority of South Africans of productive assets and skills and removed many to locations far from the economic centres of growth. The system was notoriously rooted in an effort to ensure Africans in particular had no alternative economic opportunities to poorly paid jobs in the mines and farms. From the early 1980s, however, the demand for labour from the formal sector plummeted, with mining and agriculture together shedding around a million jobs in the following three decades.

The impact of apartheid emerged graphically from the disjuncture between settlement patterns and economic growth. In the late '00s, 30% of the population still lived in municipalities located mostly within the former Bantustans. Economic opportunities and household incomes in these regions lagged far behind the rest of the country.

Social grants, support from family members and remittances were strongly redistributive, but could not fully offset inequalities in assets, pay and access to employment. In 2009, almost four million people got an old-age or disability pension at R1010 a month, while nearly nine million got a R240 child-support grant. These grants were too small to lift families out of poverty. But they formed the main source of income for a quarter

of all households, and for almost two fifths of households in the former Bantustans.

In addition, continued inequities in education and healthcare reproduced economic inequalities across generations. The worst education and medical care were still found in the poorest communities, notably the former Bantustans – which still housed 45% of all children under 15, although only a third of working-age people.

The results emerged in tertiary education. In theory, it should be a central mechanism for social mobility. In practice, inequalities in general education and income meant it still mostly reproduced inequality. Thus, in 2006, while Africans comprised three quarters of the population, they made up only 51% of university students, and a much smaller share of students in professional programmes.

The structure of growth from 1994 did little to address the high levels of joblessness generated under apartheid. In particular, the mining value chain continued to supply over half of all exports, while growth was fastest in the financial sector. Neither of these industries generated employment on a large scale or met the basic needs of the majority. Instead, the bulk of employment was created in the social and private services, retail and construction, reflecting the domination of private consumption by the rich combined with government spending on infrastructure and services for the majority.

Various factors maintained the dependence on mining and the relatively rapid growth of the financial sector.

To start with, in contrast to economic theory, in the real world economies tend to display path dependence – that is, they do not easily diversify from long-standing activities. In South Africa, both business and the state established infrastructure, institutions and skills to support mining over many decades. To develop other sectors typically required that they fast-track this kind of support system, which in turn would demand both risk-taking and significant investment.

In this context, the financial sector expanded in large part because of a rapid rise in short-run capital inflows in the '00s. These inflows, in turn, reflected high levels of international liquidity resulting first from the trade imbalance between China and the global North and later from stimulus packages across the world in response to the global economic downturn. Interest rates in South Africa remained high compared to most other countries throughout this period.

The resulting financialisation of the economy was associated with limited employment creation and deep inequalities. The financial sector itself generated only around 330 000 jobs in 2009, or 3% of the total, although it accounted for 10% of the GDP. But it facilitated and grew from large speculative inflows from the rest of the world that strengthened the rand. The result was more expensive exports and cheaper inputs, slowing growth in the rest of the economy.

Capital inflows could have supported growth if they had enhanced investment. While capital inflows funded a substantial increase in government expenditure on infrastructure in the late '00s, investment as a whole remained below 25% of the GDP. In effect, then, they paid mostly for luxury imports instead of capital goods.

As they contributed to lower inflation and falling interest rates, the capital in-

flows also fuelled the creation of credit which mostly benefited the high-income group. Data from the 2005-6 Income and Expenditure Survey indicates that some 80% of total credit to households went to the richest 10%, almost entirely for housing and cars.

Government's economic strategy from 1994 did little to challenge the underlying structure of growth. In effect, the transition to democracy built an implicit social compact: business would retain its property rights, and by extension its wealth and standard of living, while government would use its tax revenues increasingly to address backlogs in services for black communities left by apartheid.

This effective trade off laid the basis for extremely stable economic policies from 1994 to the end of the '00s, despite often heated rhetoric and debate. These policies were characterised essentially by conservative monetary policy, moderate fiscal policy (except for restrictions in the late 1990s), and only very limited measures to encourage new economic activities and investment.

This model increasingly faced two threats to its viability.

First, the emphasis on improving services for deprived communities effectively diverted resources from bulk and core economic infrastructure. Moreover, the education and skills system increasingly failed to respond to the economy's need for more professionals and artisans. In the mid-'00s, AsgiSA identified both these areas as requiring urgent attention, laying the basis above all for the substantial increase in public investment in the late '00s.

Second, the model did not lead to sustained employment creation on the necessary scale. The relatively rapid growth of the mid-'00s generated two million new jobs, but half of them disappeared in the subsequent downturn. As a result, the share of the working-age population with employment in 2010 was the same as it had been in the early '00s. But without a significant improvement in employment, improvements in government services, while substantial, could not overcome the deep inequalities and poverty inherited from apartheid.

The persistence of joblessness, poverty and inequality through the democratic era fuelled debates on the left on how to achieve better outcomes. The next section explores the dominant perspectives in these debates.

The paradigms behind the economic debates

We here outline three paradigms that shaped economic debates on the left: the anti-poverty perspective; industrial policy; and a focus on employment creation and equity. In each case, we identify the overarching logic; the implications for the production structure and capital; the promised benefits; and the main risks. The aim is not to detail the debates, but rather to suggest broad differences in perspective and theory. This schematic presentation leaves out important nuances and compromise positions in the hope of clarifying the social and economic logic that underpins current debates and policy proposals.

Anti-poverty

Activists focused on alleviating poverty tended to argue for a greater use of government revenues, derived from taxes on the formal sector as well as borrowing, to improve services and grants in historically impoverished communities. In effect, this vision would upscale the existing implicit pact that treated the ex-

isting economy essentially as a source of resources for redistribution through the state rather than seeking to transform it to create more opportunities for the majority.

This perspective does not require that the state influence the structure of production or ownership. By extension, it should just seek to support growth across the economy, which given path dependency would likely sustain the existing dominance of mining and finance.

The strategy promises immediate improvements in the living standards of the poor, say the bottom third of the population, mostly through social grants (which are relatively easy to roll out) and housing. In the longer run, proponents argue – in line with the RDP – that improved incomes and living standards for the poor will transform the economy to ensure more inclusive and sustained growth. On the one hand, they will provide poor households with the infrastructure, skills, health and financial stability needed to find productive employment. On the other, increasing incomes for the poor will strengthen demand for basic goods and services, stimulating production and generating more employment opportunities.

A major benefit of this approach from the standpoint of the state was that it did not require explicit intervention in the economy. It relieved the government of responsibility for transforming the economy, with the associated risks of failure and potential conflict with business. Instead, government could focus on the more agreeable task of improving the lives of its constituents through the more conventional public functions of providing basic services and housing.

The fundamental risk in this strategy is that redistribution through the state proves inadequate to support new kinds of economic growth and by extension enhanced employment. In these circumstances, unemployment would remain high while government revenues would depend largely on the state of the global economy. As a result, the provision of services on the hoped-for scale would remain contested and precarious, with cutbacks looming whenever the world economy slowed down.

In the event, experience from 1994 suggested two core obstacles to the establishment of a virtuous cycle in the economy through government anti-poverty programmes. First, the scale of transfers remained too small to provide the hoped for step-up in conditions for the poor and, by extension, in demand. Second, the relatively strong rand meant that new demand for manufactures, especially clothing, appliances and household furnishings, was met largely by imports rather than domestic production.

A final risk of the anti-poverty strategy is that the conventional mechanisms for delivering government services tend to demobilise communities, rather than galvanise them. Historically, government has delivered services to individuals and households, which have little say in the process. The end result is that people often see themselves as competing for benefits rather than working together to allocate scarce resources in their collective interest. Conflicts over government services can easily emerge, together with the conviction that beneficiaries are undeserving or corrupt.

Industrialisation

The industrialisation approach, captured primarily in the government's Industrial Policy Action Plans (IPAP 1 and 2), argues that government should focus on

encouraging the production of manufactured goods especially for export. This strategy has the potential for accessing larger markets in order to drive mass-based production, which in turn will secure more rapid growth and higher employment. The approach is modelled on the relatively rapid development experienced in Asia especially in the 1960s and '70s.

The core of the industrialisation strategy is that the state should focus support on conventional manufacturing, notably capital goods, transport and electronics, as the keys to international competitiveness. In South Africa, adherents have also called for investment in light industries such as clothing and food processing, in order to generate more employment, as well as in beneficiation of mining production. In contrast, they often argue that the services and production to meet domestic demand are inherently less competitive, less productive and hence less desirable.

The strategy requires that government collaborate closely with industrial capital, while reducing support for mining, farming and finance. That, in turn, demands that the state be able to intervene effectively and decisively in the economy. In particular, it must be able both to identify priority activities and to mobilise infrastructure, skills and regulatory instruments to support them in the face of lobbying from other groups.

Proponents of industrialisation argue that only manufacturing can generate stable, secure employment and drive growth in the longer run. Their evidence is largely historical and international, since industrialisation has been crucial to growth in virtually every developed economy. In addition, knowledge-intensive manufacturing sectors typically generate better-paid and more skilled employment than mining, agriculture or many services, although often on a relatively small scale.

The industrialisation strategy promises great rewards, but also brings significant risks.

First, the strategy requires the state to manage economic growth. That means it must accept responsibility for failures as well as successes. Politically, especially in highly divided and inequitable societies, it has proven difficult for governments to take on this risk. The result has generally been limited funding for new activities as well as an inability to align state functions to support them.

Second, the strategy assumes that global demand for manufactured exports will remain for the foreseeable future. In the event, the recent economic downturn pointed to the possibility of a sustained decline in demand for manufactured imports by the global North. China seems likely to remain a major source of growth in the coming decades, but it has generally imported mostly commodities and services from South Africa, rather than manufactures.

Third, virtually all developing countries see the export of manufactures to world markets as a major source of growth in the future. As a result, South Africa has ended up supporting the same sectors subsidised by other states, notably auto, pharmaceuticals and clothing.

Finally, and perhaps most fundamentally, the industrialisation strategy is designed to support sustained long-term economic growth rather than employment creation or equity. As a result, it focuses government attention on industries that cannot create much employment in the medium term, however necessary they are to long-run growth, while

ignoring more labour-intensive activities in agriculture, the services and construction. Moreover, the focus on exports can lead to proposals to hold down wages to support competitiveness.

Focusing on employment and equity

The recent ANC discussion document on the economy argues that the state should refocus economic policy more explicitly on equity, with employment creation as the central mechanism to that end. It proposes four interlinked strategies: measures to enhance overall economic efficiency through improved regulations, infrastructure and skills; support for employment-creating activities; support for broader ownership and social mobility; and improved social security and active labour-market policies.

In this view, in the short to medium term the state should support agriculture, services, light manufacturing and construction especially to meet domestic and regional needs, since these sectors can create employment fairly rapidly. It should support industrialisation as a longer-term goal rather than an immediate priority. To enhance economic equity, it should also support forms of collective ownership as well as more equitable access to quality education. In contrast, narrow BEE is presented as imposing significant costs on the economy without generating adequately benefits for the majority in return.

The employment/equity strategy promises a substantial decline in joblessness as well as greater social cohesion in the medium term. But it also involves significant risks. Above all, as with the industrialisation strategy, the state may proved too paralysed by sectional debates to prioritise clearly and mobilise resources to support employment-creating activities. Moreover, if it gets the economic calculus wrong, it may end up building permanent subsidies for white elephants into the budget.

A further risk is that the focus on employment creation may lead to a failure to support knowledge-intensive industries and exports. Once full employment is achieved, the economy may be locked into low productivity activities and slower growth and lack the capacity for more advanced production.

Conclusions

A review of the logic underpinning economic debates in South Africa points to the continued dependence on international experience and theory rather than detailed analysis of our own circumstances. Certainly the history of other countries and abstract economic analysis are crucial for coming up with ideas for addressing the unemployment and inequality that plague the South African economy. But they must be tested to see if they fit South African realities and assessed for their risks as well as their promised benefits.

A particular challenge is that economic paradigms typically ignore how political power shapes the options and risks for development. To be successful in a capitalist democracy, however, any strategy must both unite the majority and provide sufficient incentives for capital to maintain investment. By extension, it will likely end up more complicated, nuanced and compromised than any academic policy proposal. ★

Cde Makgetla *is a Deputy Director General in the Economic Development Department*

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Building a Progressive Consensus

Ben Turok reports on the Prospects for Economic Transformation seminars

The New Agenda, DBSA, FES Seminar series began in November 2009 under the title *Prospects for Economic Transformation*. The aim was to set out the broad parameters of the structure of the economy and to determine what needs to be done to change that structure in the interests of economic transformation. It was argued that unless that structure was changed the various socioeconomic adjustments being made would not fundamentally change the lives of the majority of our people.

Four seminars were planned, *The structure of the economy*, *The value chain*, *Potential resources for development*, and, *Is a great leap forward possible*? A great deal of discussion went into developing a consensus. This was largely achieved though several important issues were left for further consideration. Building an agreed position among South African economists about what has to be done, even among likeminded progressives, is difficult. This is partly because the economy is complex, and because the political implications of policy decisions are so sensitive. This is why we have yet to establish a national consensus around many major issues. Nevertheless the seminar showed considerable convergence on key policies.

The difficulty of arriving at agreed positions is illustrated by the plethora of economic policy documents that have emerged over the last two decades variously called the Four Scenarios, RDP, Gear, AsgiSA, Inclusive Growth, Growth and Development, Redistributive Growth, Restructured Growth, New Growth Path and many others. All this is indicative of intense debate about economic policy. It also shows that we are not short of policy ideas, though we fall short of agreement.

It is also increasingly apparent that the agenda before government is too large and complex and that there is no publicly visible driving centre. Transforming and restructuring so complex an economy is unlikely to succeed without a strong central agency to provide coherence of policy and coordination of implementation. Even the private sector is notable for an absence of identifiable common purpose.

The final session of the seminars attempted to bring together the rich ideas presented at the seminars. We all agreed on the title *A Developmental Growth Path* which seems to capture the spirit of the

discussion since it includes the key notion of development, the essential ingredient of growth, and the need to move in a new direction. The need for a new agreed direction, or path, is accepted by all except those who remain defensive about the road travelled since 1994, although even there a certain softening can be seen. In a recent comment, Minister of Finance Pravin Gordhan, hopefully reflecting a Treasury view, spoke of "a new model to create jobs and eliminate poverty".

The seminars agreed that a developmental growth path should not be conceived in incremental terms but as a qualitative break. Given the rigidities of past performance, it implies economic restructuring. Without restructuring there can be no significant development.

The transformation of the economy presents a formidable challenge, yet we have no choice but to proceed. The essential point is that the structure of the economy has remained unchanged for a long time and the main beneficiaries remain a small cluster of corporations and individuals with a large element of rent-seeking that is profits substantially above normal market returns on investment. The share of profits in the national income climbed from 41% in 1994 to 45% in 2009, with a corresponding drop in the share of remuneration. In 2005-6 the share in the national income of the poorest 50% was just under 5%, even after social grants.

The result is growing inequality, severe and persisting unemployment and unacceptable poverty.

There is evidence that living conditions for many have improved somewhat as a result of government actions in the provision of social services and welfare grants, summed up in the phrase "social wage". Some economists are critical of this phrase and hold that conditions for the poor have deteriorated. Nevertheless there is substantial agreement across the country that the overall conditions for the poor are unacceptable.

Remarkably even the most conservative voices agree that the system is not sustainable. It certainly does not reflect what the forces struggling against apartheid had in mind.

The legacy since 1994

The South African economy experienced modest though sustained growth over the post-apartheid period. Growth accelerated between 2003 and 2007, but slowed substantially thereafter as the financial crisis hit. The nature of that growth has been questioned, but it is clear that it did not result in a substantial "trickle down' effect. Furthermore, the structure of the growth path contained imbalances which inhibited all-round rapid economic development. Hence unemployment, inequality and poverty remained substantial.

It is agreed that growth since 1994 was partly led by consumption by the affluent and the consumption-driven sectors of the economy grew at double the rate of production-driven sectors with significant job creation in the consumption sectors. This consumption-driven growth was based on private credit extension leading to unsustainable levels of household debt. There is however some debate about the significance of jobs created in the services sector and what may be expected in this sector in the future.

Consumption-driven growth has been increasingly supplied by imports leading to a growing trade deficit which

has been increasingly financed by external short-term portfolio capital inflows which have in turn prevented currency adjustment to bring the current account into balance.

Worse, of the massive growth in private credit extension since 1994, only a tiny proportion (less than 6% in 2008) went into 'bricks and mortar' fixed investment. This was partly due to a lack of investment capital due to the flight of mining and other capital abroad, so that our industries contracted having lost access to those surpluses and technological capabilities. This leakage was facilitated by the relaxation of exchange controls by the treasury and also contributed to macro-economic instability. As a result industry was starved of capital and unable to develop important linkages throughout the economy. It is not surprising therefore, that even at the peak of this consumption-driven growth path, the economy grew slower than the average for medium income developing countries and unemployment did not fall below 22.8%.

This confirms that unemployment is structural and cannot be overcome without new fundamental policy choices.

There is a strongly held view that there was excessive zeal in pursuing a narrow version of macro-stability focusing on financial indicators which caused instability in other macroeconomic variables.

Since 1994, short-term portfolio capital inflows have been associated with inflows into mining and mineral related stocks on the back of the global commodity boom. These inflows are associated with relatively high South African interest rates, that is, the carry trade which is highly speculative gambles on the global financial markets. Volatile short-term capital inflows and outflows are liable to contribute to a series of financial shocks which destabilize the economy.

There is also evidence of the effect of excessive financialisation in the system and rent seeking at the expense of investment in productive assets. New research is unfolding the consequences of these tendencies for the real economy, especially as it is accompanied by high levels of collusion between a relatively small cluster of corporations. The single fastest growing sector was Finance and Insurance, more than doubling its share in GDP between 1994 and 2008 – from 6 to 13%, without a corresponding increase in private investment and savings rates.

Production-driven sectors have been dominated by relatively capital-intensive mineral-energy products, with limited diversification, so that our export basket remains dominated by mining and electricity-intensive resource processing products.

This growth path is (on a per capita basis) one of the most carbon-emission intensive in the world so that there are increasing risks to our exports through mounting pressure for eco-protectionism measures in developed economies.

Monopoly pricing of key inputs disadvantages productive activities and consumers.

Recommendations

The seminar series generated a position which can be summarized as follows:

a. A developmental state needs to be constructed, with a strong core institution capable of driving development. The state must be able to harness substantial state and private finances which could be used for concessional

capital for investment. It might then choose to direct this capital to productive sectors in the real economy, recognizing that the value chain goes way beyond mineral extraction and manufacturing industry.

b. The productive sectors would be incentivized to focus primarily but not exclusively, on the domestic and regional market, with the added impetus given by a strong local procurement policy.

c. None of this would work without a different kind of public service and state owned enterprises. Existing institutions require major reform, enlarging and reskilling. This also applies to the private sector.

d. In order to ensure that the process includes the widest possible participation, social capital, in all its forms, would have to be mobilized and capacitated.

e. Arguably, without the above, growth may continue, but it will not be truly developmental.

f. It is also essential that the process is not undermined by excessive caution in government and by private sector rent seeking. The financial sector would have to be subjected to close scrutiny and regulation.

Industrial policy

There has been considerable debate about what we mean by "productive". One view is that our manufacturing industry has been seriously eroded and this must be remedied urgently since it is the foundation of wealth creation having very significant multiplier capabilities. The present dependence on mineral extraction has to be overcome without losing the foreign revenue it brings. A properly resourced industrial policy focused on sectors with high employment and growth multipliers is critical to resuscitate the production side of the economy and render consumption-driven services jobs more stable and viable.

It is also essential to the stabilization of the trade balance to drawing on appropriately sequenced trade policies which promote competitive import replacement. Such policies would be based on both supply-side and demand-side interventions supported by emphasis on labour-intensive industries and the related services. The importance of promoting labour-intensive industries cannot be over-emphasised.

Another view is that manufacturing industry is less important in the present information age and that the wider services sector is able to boost employment far more rapidly. Adequate recognition needs to be given to investment in that kind of productive arena.

Yet another view is that without the capacitation of the whole of society no amount of investment in special areas is likely to create a stable, successful society. However, since we cannot do everything at the same time, where do we start? And how do we sequence available investment?

Review of macroeconomic policy

The analysis leads to the unavoidable conclusion that we need a major review of our macroeconomic policies, including fiscal and monetary policies. It is clearly insufficient to concentrate on the "financial fundamentals" without equal attention to the real economy and the socioeconomic factors, especially employment and decent work.

This is not to reject the view that the stability of key macro-economic variables is essential, that variables such as

the budget deficit and inflation must be kept at reasonable levels and that an important threat to stability are external financial shocks. But these are not the sole considerations in macro-economic policy.

The financial sector

A major issue centres around the rapid increase in financialisation in the economy. New measures should be introduced to reinforce the impact of the Consumer Credit Act, including measures to curb the use of credit cards and the consumption of luxury goods, especially those which are imported.

While there is a broad consensus that there should be a more competitive and stable currency, limited progress has been made in identifying all possible instruments. Accumulation of foreign reserves is an important measure. However, capital controls which discourage the movement of short-term speculative capital flows in and out of the economy should also be identified.

The global financial crisis has caused a substantial rethinking about the essentials of neoliberal economic orthodoxy. If economists globally are calling for a rethink, South Africa can hardly abstain since our needs are so much greater.

There is unfortunately evidence of strong resistance by the private sector to invest in productive sectors beyond mineral extraction. Private investment in productive activity generally did not increase as much as in other comparable countries. Also, there has been a very significant shift abroad by some of the major corporations and a continuing leakage of capital and capacity to other countries. At the same time the development finance institutions have not been recapitalized for decades and have therefore adopted conservative investment policies to sustain their capital base. Government needs to be more proactive here.

While there is a persistent refrain about the low level of savings available for investment, the Public Investment Commission which depends largely on government pension funds invests mainly in stocks and shares. The proposal that a larger portion of these funds be directed into productive sectors is on the table.

The power of asset managers

We need a far better understanding of what funds, public and private, are available for investment, how investment is processed, and who decides. The point is that we need to harness substantial funds for a variety of State-linked Institutions and Agencies, including concessional capital to expand the economy. We need an organogram of how funds flow, who takes decisions at what point and why this may be significant. There is a new recognition of the critical role played by asset consultants and investment managers in giving shape to overall investment in the economy.

Sasol may be a good example, because Sasol is big, it puts a lot of money into the SA economy and it makes a decision that it lives with for quite a long time. So, the way they make those decisions are very important. It's also very significant when they take projects off the table.

There needs to be strong linkages between BEE transactions and broader developmental goals such as higher levels of employment, production and value-adding processes. R500 billion of transactions have been done today under BEE of a total stock of about R1.2 trillion and

approximately 50 % are currently well under water.

There are strong arguments about the economy becoming more competitive. However we need to distinguish between what needs to be done to be more competitive in global markets and how competition should be encouraged domestically.

Local procurement

We need to ensure that the state encourages increased publicly influenced local procurement in a context of enhanced long term competitively priced inputs. The state needs to take strong action through competition law to enhance competition in the economy to break existing monopolies. Anti-competitive practices and structures are required, particularly actions to encourage price reduction of goods bought by poor working class consumers.

Local procurement promotes local manufacturing industry and the related downstream activities to grow employment and therefore demand which will impact positively on the trading account. There is a potential tendency for local procurement to lead to higher prices for consumer goods, especially if the policy brings in higher tariffs for imported goods, but this needs to be weighed against the benefits of job creation. Unemployed people prefer jobs to cheap consumer goods.

Local procurement also boosts national pride and confidence, important elements in building a democratic developmental state.

The public service

There is abundant evidence that the public service and some public institutions are performing well below the desired levels. Many areas operate in a bureaucratic manner and provide shoddy services. The public service needs to introduce more rigorous competence testing and support where skills are deficient. There seems to be insufficient commitment to transformation and output.

We require a shift in the public service towards excellent service delivery and capacitation through a combination of a meritocratic recruitment process with skills upgrading in the context of a strong effort towards transformation. Skilled personnel from the private sector could be introduced to fill existing gaps. However the education system must produce far greater numbers of graduates at all levels, in science, maths and technology. Since there is an acute shortage of professional skills, serious efforts must be made to fragment professional tasks so that they can be performed by lower level technicians. China's earlier policy of barefoot doctors was an excellent example for developing countries.

We require far more emphasis on proper accountability.

The frequent comments by public representatives on the damage done by corruption in the public service must be accompanied by severe punitive measures. The flagrant violation of the requirements of the PFMA to disclose tender preferences, business links and other abuses has to be tackled head on.

Regional markets

We failed to prioritise the regional market in SADC after 1944 and now efforts to create regional unity are being undermined by the European Partnership Agreements. Greater efforts are required to encourage regional integration.

Social capital

Traditional African societies had enormous social cohesion with some residual manifestations and loyalties. Also, during the struggle years political and labour movements as well as civil society formations built a powerful sense of solidarity, much of which remains intact. However these attributes are not being mobilised for development despite frequent claims that we are pursuing "people-centred and people-driven development". The culture of popular participation in projects needs to be introduced at every level.

Agriculture

Some corporations impact on the agricultural system, and on the food value chain, raising consumer prices. How to curb these phenomena is one of the most serious challenges for government.

So what should be done?

A new confidence about the South African economy is emerging based on more concrete research about our natural resources. We are indeed a resource rich country, according to Citicorp, the richest in the world. But the country and its people do not benefit proportionally from the use of those resources, and that lies in the realm of public decision making. As Ha-Joon Chang has admonished us, we are far too risk-averse, and engage in bean-counting rather than in promoting a new expansionary vision for the economy and our people. This is worthy of serious discussion.

So:

What do we do?

With which resources?

In what priority?

In what sequence?

And by whom? ★

***Cde Turok** is an ANC veteran, former SACP CC member and political prisoner. He is an MP and editor of* **New Agenda**.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Finance and the New Economic Growth Path

South Africa's financial policies have played a key role in inhibiting economic transformation, writes **Seeraj Mohamed**

The reform of the South African financial system and international financial relations should be central to the discussion of a new economic growth path for South Africa. We cannot talk about solutions to unemployment, poverty and inequality and industrial and economic development without assessing the role of finance in shaping the evolution of our economy. We have to be clear about the role we want finance to play in our future development and our new economic growth path. Unfortunately, most of our economic policy discussions treat the financial sector as if has very little impact on the rest of the economy. We treat the financial sector as if all they do is take deposits and hand out loans in an objective fashion. We seem to have bought into the rhetoric that South Africa has a 'sophisticated financial sector' without asking 'sophisticated for what'?

I am always puzzled by the lack of attention given to finance in our South African economic policy debates. Maybe we should put many of our economic policy discussions on hold until we have taken time to examine and discuss the South African financial system and how we can reform it for economic development. My view is that we cannot really develop and successfully implement macroeconomic policy, industrial policy, policies for small business and cooperatives, and even poverty alleviation policies without considering reform of the financial system. The financial sector has grown in economic and political importance and influence over the past few decades in South Africa and globally. We know that the domestic private financial sector has a huge impact on the allocation of capital in South Africa. We know that global financiers, speculators and credit ratings agencies have a huge influence over international loans and investments to South Africa. Their speculative activities affect the exchange rate, inflation, interest rates, and asset prices and have the potential of destabilising our macro economy. Further, we know that many governments, including our own, have tempered their economic policies to appear credible to the financiers. For example, the public statements that the Growth Employment and Redistribution programme adopted in 1996 was not open for discussion or negotiation was a clear signal to 'the markets'. Government was saying that they would not pander to populist pressures to increase deficits

and engage in inflationary social spending and investment in development. Instead they were saying that they would keep the deficit in check and ensure that inflation did not reduce the real returns of the financial sector and investments by the wealthy.

This paper will consider the influence of South African financial system, particularly the private financial institutions and our international financial dealings on the South African growth path since 1994 and more particularly over the past decade. The two main aspects of finance considered will be the impact of capital flows on the economy and financialisation of non-financial corporations. The paper will argue that financialisation causes the misallocation of capital that reduces accumulation and steers economies onto an unsustainable path with increased financial crises. The conclusion warns against accepting simplistic arguments by mainstream economists about the reasons for low investment in South Africa. It says that a deeper understanding of the link between finance and industry is important and that reform of the financial system is necessary to steer South Africa onto a new economic growth path.

Exchange rate liberalisation, capital flows and the wrong growth path

The 12 financial crises in developing countries during the 1990s, including the Asian financial crisis, provided clear support to the contention that uncontrolled capital flows, particularly short-term capital flows (commonly referred to as 'hot money') into and out of countries, creates economic risks that may increase a country's macroeconomic fragility and lead to financial crisis. The idea is that an increase of short-term capital flows to a country increases liquidity in that economy, which has to be absorbed somewhere in the economy. Governments can choose to stop that money from entering and freely circulating in an economy. If that money enters the economy it usually causes an increase in financial liquidity and increased access to debt in that economy. This debt could be used to finance increased household consumption and home and car borrowing, fixed investment by businesses or short-term speculative investments in financial and real estate markets by households and financial institutions.

The balance of payments consists of a trade account (of goods and services) and a financial account of capital flows (consisting of long-term foreign direct investment, short-term portfolio flows and other flows, which are mostly short-term foreign bank loans). Usually, foreign capital flows into a country when a country has a trade surplus (i.e., it exports more than it imports). However, widespread financial liberalisation has allowed movement of speculative capital across the globe. As a result, countries could receive large capital flows without necessarily running a trade surplus. When there is a large surplus on the current account it causes an imbalance in the balance of payments and more often than has to be offset with increased imports. Further, inflows of capital will have the effect of strengthening the domestic exchange rate. Therefore, there will be a negative impact on exports and a bias towards imports. When foreign capital flows are associated with increased debt driven-consumption by the more affluent, as has happened in South Africa, there will be increasing imports of luxury goods. The increase in our trade deficit over the past few years

has not been due to import of machinery and equipment linked to productive investment but to consumption.

Countries such as the US, Britain and South Africa have market based financial systems, where businesses usually depend on savings, retained earnings or stock and bond markets to finance their longer-term fixed investments. They may also have access to state development financing, such as that provided by the Industrial Development Corporation. On the whole, the private banks and financiers are less interested in long-term industrial investments but will provide short-term loans to businesses. Countries such Germany and Japan have bank based financial systems where the banks are more likely to provide longer-term finance to business and to develop longer-term relationships with borrowers. Therefore, one would expect that a sudden increase of liquidity in the financial system in the US, Britain and South Africa to be very differently allocated to that in bank based financial system countries like Japan and Germany. The financial inflows in market based financial systems, such as South Africa, would be more likely to flow to short-term loans for consumption and speculation in financial and real estate markets while in bank-based systems a proportion of those funds would be more likely to go towards fixed investments. However, even in bank based financial systems there would be a problem with using funds that become available due to short-term foreign capital inflows for long-term fixed investment. There would be a maturity mismatch where the banks are using short-term borrowing to finance long-term loans. Therefore, hot money inflows are more likely to be associated with lending for consumption and speculation.

Our experience in South Africa supports this contention. In my 2006 paper assessing the impact of capital flows on the South African economy since 1994, I argued that the surges in short-term capital flows into the South African economy from the mid-1990s were associated with increased consumption, speculation and capital flight from the South African economy rather than increases in productive investment (Mohamed, 2006)[1]. I also made a link between the large capital inflows and the currency crisis in 2001.

My argument was that large surges of short-term capital flows can easily be reversed and could quickly leave the country. Therefore, the risk to the economy of increased short-term inflows is capital flight by foreign investors. This capital flight can occur because they become worried about conditions in the host economy that could lead to low or negative returns on their investments. For example, when short-term foreign capital flows into an economy lead to increased speculation in stocks and real estate markets the prices for these assets will increase and bubbles may form in these markets. Investors may correctly fear that the bubbles are unsustainable and, therefore, withdraw their money from the host economy. There is a problem of 'self-fulfilling prophecies' in financial markets where a fear that a price will decline or a bubble will burst will lead to initial selling of that assets, which could then easily turn into 'herding behaviour' and panic selling of those assets.

Foreign investors significantly increased their portfolio capital flows (investments into stock and bond markets) into South Africa during from the early-

1990s and particularly after 1994 (see figure 1). Net portfolio flows (inflows minus outflows) grew from 1.5% the size of GDP in 1996 to 4.5% the size of GDP in 1997. The Asian financial crisis seemed to have scared these investors and there was a drop of portfolio flows to 2.7% the size of GDP in 1998. It seems that some of the money from speculators that left Asia during the Asian financial crisis may have been moved to South Africa in 1999 and portfolio flows more than doubled to 6.4% the size of GDP in that year.

These speculators may have realised that the surges in portfolio flows to South Africa from 1996 would cause bubble dynamics in the stock market. In 2000 there was a shift of money out of the country and net portfolio flows was -1.5% the size of GDP. This shift of money out the country seems to have created a panic by 2001 the size of net portfolio flows was -6.6% of GDP. The impact of this capital flight out of the country was a currency crisis. The exchange rate of the rand to the US dollar dropped 35% in 2001. The impact of this massive rand depreciation was inflationary because the rand price of imports, including important imports such as oil, to the country increased. The response of the South African Reserve Bank was to push up interest rates by 4% during that year. The SARB was using higher interest rates to curb domestic economic activity, such as consumption, investment and employment creation, to reduce inflation caused by a massive exchange rate depreciation set off by a reversal in portfolio flows. They proved what a blunt instrument inflation targeting is.

Important macroeconomic variables, such as the exchange rate, inflation and the interest rate, were significantly affected by the relatively easy movements of hot money into and out of the country. Therefore, I have been arguing that it is inaccurate for members of Government to have argued that South Africa has had macroeconomic stability. As long as we allow easy and relatively uncontrolled movement of capital into and out of South Africa we will continue to have volatility in key macroeconomic variables and macroeconomic instability because the South African economy will continue to be a playground for speculators and their hot money. This volatility and instability has a tremendous negative impact on South African businesses that want to make long-term plans to export, invest in production and increase employment. It creates a preference for liquidity that drives money away from long-term productive investment and employment creation towards short-term speculative activities that have the potential of exacerbating and exaggerating the ups and downs of business cycles as a result of the boom and bust nature of the markets that attract speculators. Further, the growth of financial markets and the increased use of derivatives and securitisation create vulnerability to increased systemic risks in the economy, especially when financial markets and capital flows are inadequately regulated and controlled.

After 2002 there was another increase in capital flows to developing countries. One of the reasons for this increased flow of capital was due to money leaving US stock markets when there was the crash of the Dotcom bubble. Financial speculators were searching for higher returns in other countries (much of this capital left US stock markets and moved into speculation in US real estate markets and securitised debt

markets, which set off the bubble in US real estate markets and the conditions for the subprime crash). The increased flow of hot money to South Africa from 2003 led to an even larger growth in net portfolio flows to the country than during the 1990s. Net portfolio flows were 0.5% of the size of GDP in 2003 and by 2007 they were 7.3% the size of GDP in that year (see figure 1). This massive increase of liquidity into the South African economy set off a boom in stock and derivatives markets and an escalation of debt driven consumption (see figure 2 for stocks and figure 3 for derivatives). The index (where 2005 = 100) for all share prices in South Africa grew from 62 in 2003 to 188 in 2007 (about 3 times) The outstanding value of futures contracts (a financial derivative) was 63.5% the size of GDP in 2003 and by 2007 it had skyrocketed to 267.2% the size of GDP.

The surge in hot money flows had the effect of strengthening the rand exchange rate against the US dollar and other currencies, which pushed down inflation and allowed the SARB to reduce interest rates. These changes in macroeconomic variables and the massive increase in liquidity resulted in a huge increase in private sector debt. SARB data shows us that credit extension to the private sector grew from around 60% to over 80% of the size of GDP in those years respectively. However, private business enterprise fixed capital formation grew from 11% of the size of GDP in 2002 to about 16% of the size of GDP in 2008 (see figure 4 for a comparison of private sector debt and private business enterprise fixed investment). The big question is what happened to all the rest of that lending to the private sector.

One area where debt grew tremendously was households. Household debt to disposable income in South Africa grew from 51% in 2002 (an average of lower than 60% throughout the 1990s) to around 78% in 2008 (see figure 5). It is worth remembering that a large proportion of the population remains unbanked and without access to credit. Therefore one can assume that most of the increased debt to households went to more affluent households. The result of this increased debt was increased consumption by those relatively affluent households with access to credit. South Africa also experienced a real estate bubble and a record increase in car sales. At the same time, there was as mentioned above a large increase in share prices and a bubble in the stock market. An analysis of the SARB's flow of funds data shows that a very small percentage of private sector credit extension went to fixed investment from 1990 to 2008 (see figure 6). During the period 1990 to 2007, except for two years, corporate levels of fixed investment were lower than their net acquisition of financial assets. In short, short-term capital flows into the South African economy led to increased liquidity and a large increase in private sector debt. This big increase in debt was not used to invest in productive activities but led to debt driven consumption in more affluent households and an overall higher level of speculation in real estate and financial markets.

The implications of relatively uncontrolled movements of capital into and out of the South African economy have had a huge impact on the nature of economic growth and have reshaped the South African growth path. Fine and Rustomjee (1996) argue that the South

African economy developed around the minerals and energy complex. The institutions and infrastructure that existed in the country favoured mining and minerals sectors and economic sectors with close linkages to these sectors. The liberalised financial markets and the financialisation of South African corporations have affected the economic growth path since the 1990s. I will discuss financialisation of the corporations below. The changes due to policy decisions to allow relatively free movements of capital into and out of South Africa have transformed the economy, which Fine and Rustomjee described as centred around an MEC during the 1990s. Increased flows of hot money into and out of the economy favoured the growth of services sectors linked to increased debt driven consumption and financial and real estate speculation and led to decline in manufacturing sectors and productive services.

Figures 7 and 8 show employment in the services and manufacturing sectors respectively. Figure 7 shows that during 1990 to 2008 there was significant employment growth in only 2 services sectors, wholesale and retail services and business services. Figure 8 shows that there is no significant employment creation in manufacturing but job losses in almost all manufacturing sectors. When we consider investment and growth in capital stock we find that most investment and capital stock creation was in the services sectors and that capital stock growth was very low and more likely to be negative in manufacturing sectors. A comparison of capital stock changes from 2000 to 2006 (using Quantec data) showed that capital stock declined in 17 and grew in 11 manufacturing sectors. The sectors where capital stock grew were more likely to be sectors where there were strong economic linkages with the mining and minerals industries. The sectors experiencing loss in capital stock we often sectors with weak linkages to mining and minerals processing and were often sectors that were more labour intensive. The current South African growth path is one that favours services sectors linked to debt driven consumption and increased financial speculation. It is also one where there is declining investment in manufacturing and increased dependence on sectors linked to the MEC. Value added in manufacturing really grew only in commodity manufacturing sectors.

Financialisation and corporate restructuring

An important aspect of the South African growth path that shows the growing importance and influence of finance on the South African growth path is financialisation. The term 'financialisation' entered into heterodox economics literature to describe the impact that finance now has over all our lives and the economy as a whole. Epstein (2006) defines financialisation as "… the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies (p.3)." Greta Krippner (2006) wrote that financialisation refers to a "pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production." The increasing movement of capital across national borders discussed above is part of global financialisation.

Financialisation affects all aspects of our lives as it is a process where an

attempt is made to commodify and quantify a price for most things in our world. There has been widespread privatisation of basic services, such as water, sanitation and electricity, and old age pensions, health care and insurance and many other services that had been provided by the state has supported and financed financialisation. Institutional investors, including pension funds and insurance companies, hedge funds and private equity funds, that are financed from workers' monthly contributions are important drivers of financialisation. The power to decide where our savings for old age and insurance contributions are invested provides these institutional investors with a huge amount of power in global financial markets. These institutional investors have been able to assert influence over nonfinancial corporations (NFCs) through their power as investors and shareholders. Institutional investors form the vanguard of the shareholder value movement that operates in developed economies and increasingly around the world.

The shareholder value movement has imposed a shorter-term perspective on NFCs with a view to increasing short-term returns on their investments (Crotty, 2002). They have aligned the interests of management, particularly executives, with their own short-term interests through increasing the share of executive remuneration linked to bonuses in the form of share options. Today, in many corporations share options and other profit-linked bonuses make up the largest part of executive remuneration. Benefiting from remuneration tied to short-term profits has made management more focused on increasing short-term profits rather than growth of their businesses through long-term investment.

The shareholder value movement through their power to buy and sell shares in large corporations and their influence over management has imposed changes on corporations that have led to massive global corporate restructuring. First, the shareholder value movement favours firms that dominate global markets. They therefore, prefer to invest in companies that buy up competitors and have promoted increasing concentration of global markets. They prefer to invest in corporations that focus on their core business (i.e. that focus on 1 type of product). As a result, there has been widespread corporate restructuring where corporations have unbundled to sell off non-core businesses and embarked on acquisition drives to buy up other firms in their core business areas.

The result of the power and influence of the shareholder value movement has been to drive huge global corporate restructuring that has led to increased concentration of global markets. Figure 9 shows the rapid and huge increase in global mergers and acquisitions, which is one indication of the size of the global corporate restructuring. Figure 10 shows the rapid and huge increase in mergers and acquisition activity in the South African economy, which follows the global trend and indicates that there were high levels of corporate restructuring in South Africa. Today one or two large corporations and their internationally recognised brands dominate most global markets. Nolan (2003) points out that this concentration occurs not only in the corporations that control the global brands that dominate global markets. He shows that the corporations that supply the lead corporations and form part of their production value chains are

also increasing their dominance in their specific global markets.

Milberg (2007) says that the increasing control of global value chains by lead corporations has helped financial corporations that are the key shareholders in those lead corporations to extract a larger share of the revenues and profits of those value chains. So, even if the financial corporation is situated in a developed country with relatively low levels of economic growth, low rates of return in industry and increasing relocation of its industries abroad, the financial institutions and shareholders through their shareholding in the lead corporations that dominate global value chains are able to extract high returns. They often benefit from cheap labour and low cost of primary commodities in developing countries. These low costs help keep the lead corporations input costs low and their profits high. In this respect, financialisation has entrenched an unjust global division of labour where the majority of developing countries remain the suppliers of low-value added raw materials and cheap labour in manufacturing assembly while the developed countries dominate global markets by controlling intellectual property rights, the design, marketing, branding and distribution of goods and services around the world. This division of labour occurs in a context of increasingly concentrated global markets where the lead corporations in value chains assert more power to restrict commodities prices and wages earned in developing countries.

There was a massive restructuring of South African corporations during the 1990s. Many of these corporations started a process of unbundling and rebundling their South African assets with a view to increasing their global role. They obtained permission from the new democratically elected government to move their primary listings abroad. They argued that listing abroad would increase their ability to raise investment capital that could be invested in South Africa. Our experience has been that there were increased movements of South African capital abroad by the corporations that have listed offshore. They have been more involved in building their global assets while investing relatively little in South Africa (Roberts et al 2004).

The political changes during the 1990s and the talk of increasing development and even the possibility of building a developmental state provided an important reason for the increased movement of money abroad by large corporations and their wishes to list abroad. Once they listed abroad they became foreign investors in South Africa and their assets in South Africa were recognised as foreign assets. Since the South African Government was eager to attract foreign investment, the large corporations that dominated the South African economy, even though they had a long histories of benefiting from racist oppression and exploitation in South Africa, would not face the risk of contributing more to South Africa's development or losing their assets because of their role during colonial and apartheid rule in the country.

Once these large South African corporations had listed abroad and made efforts to become global economic players, they fell under the influence of the shareholder value movement. Institutional investors became their largest shareholders. These corporations initially resisted pressure to focus on core business, but ultimately most had to concede to this restructuring. In the

process of restructuring and becoming increasingly internationalised and part of global value chains, these corporations were forced to unbundle their South African subsidiaries that were not part of their core business. Many of these large corporations were part of the minerals and energy complex and also finance. As a result of their restructuring they would become more focused on mining and minerals processing and financial services. Their non-MEC subsidiaries would be unbundled and sold off or would be left to close down. In this way, the internationalisation and restructuring of the largest South African corporations, has supported a shrinking of the South African industrial base and made the economy more dependent on the mining and minerals industries while the other parts of industry were weakened and contracted.

Another aspect of financialisation of corporations is that many corporations now receive a larger part of their incomes and profits through their financial subsidiaries and through increasing use of financial speculation. Crotty (2006) and Froud et al (2007) argue that the shareholder value movement's increased pressure for higher, short-term returns in a world where there is more intense competition in increasingly concentrated global product markets (particularly with increasing manufactured output from Asia) has forced NFCs to find other sources of income to increase their profit rates. Crotty also argues that the increased incidence of fraud and misreporting of profits by corporations is a sign of this pressure on corporations.

A number of studies have found that financialisation of NFCs leads to lower levels of investment and accumulation. Orhangazi (2008) studied the US economy and found decreasing levels of investment in productive activities. Stockhammer (2007) found that European countries where corporations are more financialised had a bigger drop in investment. The move towards short-termism has caused management to look for higher returns in financial markets rather than through fixed investments. Even though, there has been massive global corporate restructuring, increased concentration of global markets and increased integration of global value chains, these events occurred in a context of growing markets for corporate control and the ascendance of the shareholder value movement. The alignment of management interests with that of the shareholder value movement meant that levels of fixed investment declined and NFCs became more dependent on financial speculation. Further, the financial institutions skimmed off a larger share of the profits for themselves and used their power over the large corporations that dominate global value chains to extract higher profits through efforts to push down wages and prices for raw materials from developing countries. The largest and most influential South African corporations have restructured and internationalised and increasingly integrated into global value chains. I mention above that South African corporations have invested more in net acquisition of financial assets than fixed investment from 1992 to 2007 (except for 2 years). Further, institutional investors make up the largest shareholders in most of the largest South African corporations.

Conclusion

The combination of the influences of relatively uncontrolled movement of

capital across South Africa's borders and the financialisation and internationalisation of South African corporations has had an important influence on the South African economic growth path since the 1990s. Capital in South Africa has been misallocated to consumption and speculative activities. Accumulation has been in sectors that benefited from these activities. Capital has not been allocated towards increased economic and industrial development, building and diversifying the productive base of the economy and creating more employment and opportunities for decent work. Our discussions about steering the South African economy onto a new economic growth path cannot continue to ignore global and domestic financialisation and its impact on the South African economy. We have to move beyond simplistic arguments to explain poor investment performance in South Africa. We cannot continue to argue that there is low investment because South Africans do not save enough when we know that the financial sector misallocates finance in our economy.

We cannot continue to argue that the reason for low investment in productive activities is low profits in those sectors. We have to understand the complexity of financialisation to explain declining investment in productive sectors and increasing levels of financial speculation. Further, we have to recognise that the macroeconomic instability and uncertainty caused by increasing flows of speculative capital around the globe and the increasing quest for high short-term returns deters long-term fixed investments and pushes capital into liquid speculative financial assets. We live in a world where there is a large incentive on executives of corporations to misrepresent the profitability of their firms (a good example was Enron) and have the ability to use financial instruments and shell companies to mislead shareholder. Further, the increased integration of global value chains means that the actual source firms of profits can be hidden through transfer pricing and other measures. As a result, the actual reports on profitability may be misleading.

Finally, we have to realise that this trend of increasing financialisation, increasing extraction of the surplus by financial institutions, increased speculation and less fixed investment and accumulation is unsustainable and leads us onto a path towards more financial crises.

We can reduce and reverse the financialisation of our economy and corporations by reforming our financial system and implementing effective regulations and controls for finance and cross border financial flows. Further, a larger role for state owned development finance institutions guided by developmental economic and industrial policies will reduce the influence of private finance and foreign capital flows and help to correct the misallocation of capital in our society. Reversing privatisation of basic services, health care, education and other essential services and provisions for old age and health insurance will reduce the capital flowing to institutional investors and their power.

Finally, we have to challenge mainstream economists who tell us that liberalising trade and financial markets increases the efficiency of firms and roots out uncompetitive firms and through this mechanism improves allocative efficiency in economies. We know that the current model of financialised capitalism has led to dramatically high levels

of inefficient allocation of capital. The increased concentration of global markets, the high level of integration of value chains, the dominance of certain corporations in global value chains and the growth of the shareholder value movement that has driven corporations towards pursuing high, short-term returns raises serious doubts about the contention that openness and competition roots out inefficient firms.

We have to understand the interaction between the financial sector and industry if we are to promote investment. We have to ignore simplistic mainstream economics arguments based on assumptions that financial markets are efficient. We have to reform our financial system if we are to move our economy onto a new economic growth path. ★

Mohammed *is Director of the Corporate Strategy and Industrial Development Programme at the University of Witwatersrand*

Endnotes

My co-author Kade Finnoff and I examined illegal capital flight by South Africans from South Africa from 1980 to 2000 (Mohamed and Finnoff, 2005). We found that capital flight was higher during the 'more politically stable' post-apartheid period (1994-2000) than during the period 1980 to 1993. It seems that the increase in short-term capital inflows after 1994 supported capital flight in two ways. First, it increased access to credit, which would help finance the flows and second, it strengthened the rand exchange rate which meant that the value of rands leaving country were worth more abroad.

References

Crotty J (2002) The effects of increased product market competition and changes in financial markets on the performance of nonfinancial corporations in the neo-liberal era. Working Paper no. 44. Amherst: Political Economy Research Institute, University of Massachusetts.

Epstein G (2005) Introduction: Financialization and the world economy. In Epstein G (Ed) Financialization and the World Economy. Cheltenham and Northampton: Edward Elgar.

Ernst & Young (2006) Mergers and acquisitions: A review of activity for the year 2005. Ernst & Young South Africa (available online at http://www.ey.com/ZA/en/Home).

Froud J, S Johal, A Leaver and K Williams (2007) Financialization and Strategy: Narrative and Numbers. New York: Routledge.

Mohamed S and K Finnoff (2005) Capital flight from South Africa: 1980-2000. In Epstein G (Ed) Capital Flight and Capital Controls in Developing Countries. Cheltenham and Northampton: Edward Elgar.

Mohamed S (2006) Capital flows to the South African economy since the end of apartheid. Presented at the Annual Conference for Development and Change, Brazil, December 2006.

Nolan P (2003) Industrial Policy in the early 21st century: The challenge of the global business revolution. In Chang H-J (Ed) Rethinking Development Economics. London: Anthem Press.

Orhangazi Ozgur (2005) Financialization and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation. Working Paper 149. Amherst, MA: Political Economy Research Institute, University of Massachusetts.

Roberts S, N Chabane and J Machaka (2003) Ten Year Review: Industrial structure and competition policy. Unpublished mimeograph.

Stockhammer E (2004) Financialization and the slowdown of accumulation. Cambridge Journal of Economics, Vol. 28, No 5, pp. 719-741.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Rethinking South Africa's Growth Path

Frightening levels of unemployment and the growth of non-standard work demand a radical change to the country's growth path, writes **Kimani Ndungu**

For a country aiming to create not just sufficient jobs for the huge number of unemployed people, but also jobs that are decent, the challenges facing South Africa are seriously frightening. The latest unemployment statistics demonstrate in clear terms the enormity of the challenge confronting the ANC government as it seeks to fashion a new economic growth path for the country.

The sobering reality is that between July 2009 and July 2010, the economy shed a staggering 627 000 jobs mostly in the formal non-agricultural sector which lost over half a million jobs (Stats SA, QLFS, Quarter 2, 2010: vi). Since the first quarter of 2009 when the South African economy officially entered into a recession (Stats SA, GDP, Quarter 1, 2009: 5), almost 1,2 million jobs have been lost, the majority of them in the six months period between January and September 2009.

Officially, the number of unemployed people in our labour market has risen from about 4,1 million a year ago to slightly over 4,3 million in June 2010. This takes the official rate of unemployment in the country to 25,3%, but the figure does not include 1,9 million workers who are simply too discouraged to continue looking for employment because there are either no jobs available in their area, or they are unable to find work requiring their skills. Once this group of workers is included, we end up with over six million unemployed people, or 32,8% of South Africa's entire labour force. Whatever way one looks at the problem, we definitely have a crisis of unemployment in our hands. The question is what is to be done?

One idea that is gaining ground is that advanced by Finance Minister Pravin Gordhan in his maiden budget speech to Parliament in February this year, that South Africa should now look into 'a new growth path'. Quoting from a Congress of South African Trade Unions (Cosatu) statement, Gordhan emphasised that it is "essential that we urgently adopt a completely new growth path to transform our economy into one based on labour-intensive industry and one that meets the basic needs of our people"(National Treasury, 2010: 4).

Part of the seven measures suggested by Gordhan to breathe life to a new growth path include the adoption of new measures to support labour-intensive industries, skills development, pub-

lic employment programmes, a rural development strategy, and interventions to reduce joblessness among the youth. In the latter case, Gordhan, as Trevor Manual before him, proposed the introduction of a youth wage subsidy to be given to employers for a two-year period (ibid; 5). The objective, it would appear, is to lower the cost for employers of hiring new workers.

Significant economic growth coupled with the creation of a massive number of new jobs remains our best hope for tackling unemployment in South Africa. Indeed, the now defunct Accelerated and Shared Growth Initiative for South Africa (AsgiSA) had suggested that to cut our rate of unemployment by half to 14% (using the 2004 rate of 28%), and to reduce down the number of people trapped in poverty from a third to a six of the population by 2014, we needed to maintain an annual economic growth rate of at least 4,5% between 2005 and 2009, and at least 6% between 2010 and 2014 (The Presidency, 2006: 2). However, the scenario suggested by AgiSA is unlikely to be realised given the recent global economic crisis and the subsequent decline of our economy into a recession in the first two quarters of 2009. While our economy has firmly emerged from this crisis, it remains a fact that for the foreseeable future at least, we are unlikely to experience the growth of approximately close to 4% per annum that we saw between 2003 and 2007.

This article looks at the challenges confronting a new growth path in light of very high levels of unemployment and growth of non-standard forms of work. It examines the most prevalent forms of non-standard work in our economy and argues that a radical transformation of the economy is required if we hope to tackle South Africa's troublingly high rate of unemployment, reduce poverty and create a better life for all. In the final analysis, the article puts across a number of ideas that may stimulate the creation of sufficient, decent and sustainable jobs.

Continuities and discontinuities of the apartheid economy

The apartheid economy was constructed on the pervasive exploitation of cheap black labour through a range of legal mechanisms including the creation of homelands in the rural areas, establishment of townships in the urban areas, strict urban migration control, limited skills training, and prohibition of trade union rights for black workers. While these legal devices have now been abolished, the institutions and mechanisms of exploitation fostered by three centuries of colonial rule, and almost five decades of apartheid oppression continue to define the post-apartheid workplace.

Furthermore, restructuring of the post-apartheid economy has coincided with the reorganisation of modes of production in the global economy with the result that the post-apartheid workplace has been subjected to an avalanche of negative forces particularly those relating to liberalisation and privatisation. The tendency of global economic forces has been to facilitate what Clarke (2003) calls "neo-liberal economic reforms" in the nation state. Consequently, "work and employment have been significantly restructured as employers have sought ways to reduce labour costs, evade new laws, or take advantage of flexibility provisions in new labour legislation in order to make their workplaces more 'internationally competitive'" (ibid, 2003:2). In the specific context of South

Africa, employers have also restructured employment in the bid to circumvent labour legislation (Bezuidenhout & Fakir, 2006; Theron & Godfrey, 2007).

These changes have seen a decline of jobs in the formal sector and a rapid expansion of the informal sector. Contrary to the scenario sometimes painted by Statistics South Africa of a thriving, still largely formal economy, the bulk of jobs created prior to the recent economic crisis are what Van der Westhuizen (2003) termed "precarious, insecure [and] with longer hours for lower remuneration in unsafe conditions". In addition, since most of these jobs are atypical or non-standard, they "fall outside coverage of labour laws, social security legislation and collective bargaining agreements" (ibid).

As the post-apartheid labour market continues to transform and extract ever higher margins of profit from labour, one of its far reaching consequences is what Webster & Von Holdt (2005:31) describe as the displacement of confrontation, antagonism and disorder into the family, the household and the community. Consequently, the burden of social reproduction has increasingly been transferred to workers themselves.

Growth of non-standard work

The rapid growth of non-standard work in the South African labour market symbolises the continuities of poor and low quality jobs first institutionalised in the apartheid workplace. As Webster and von Holdt (2005:19) observe, the flexibility of black labour under apartheid has given way to the flexibility of non-standard labour in the post apartheid labour market. The modern South African workplace is no longer divided along the formal-informal axis, it is instead highly segmented with zones of "inclusion" and "exclusion" (Webster and von Holdt) and defined by notions of identity and belonging (Kenny, 2007).

To design better strategies for creating decent work as part of a new growth path, it is imperative that we understand how the continuities of the apartheid workplace manifest themselves in the post-apartheid labour market. In particular, we need to analyse how the three most prevalent forms of non-standard work i.e. casualisation, externalisation and informalisation, continue to shape our labour market.

Casualisation has often been used in a generic way to describe all forms of non-standard work but it is in fact a distinct and dominant feature of the post-apartheid labour market. Casual workers perform work for the main employer but the employment is not permanent, it is not indefinite and it is not full-time. On the date the contract ends, employment is terminated but there is no dismissal. Since the mid 1990s, casualisation has become a defining feature of virtually all sectors of the South African economy although it is more pronounced in the services sector. Here, many of the previously indefinite, permanent and full-time jobs have given way to fixed-term, short-term and part-time jobs.

In the retail sector for instance, the existing dominant employers are known to hire part-time or fixed-term contract workers to come and work in weekends, at the end of the month and during public holidays. Similarly, research has shown that in the construction sector, companies have opted to go for Limited Duration Contract workers (LDCs) who, like the flexi-workers in wholesale and retail, often work long hours including at night and weekends in order to accu-

mulate enough wages. They enjoy few or no benefits including annual, sick and compassionate leave, retirement protection and medical aid. In addition, such workers are often exposed to hazardous working conditions (Ndungu & Theron, 2008).

Other sectors such as agriculture, security, manufacturing and households have followed suit. In the horticultural sector in the Western Cape, the size of the permanent workforce has been reduced by as much as 60%, and the part-time and contract workers who now constitute the new face of horticultural farming are generally insecure, work on reduced wages and experience very high levels of exploitation (Du Toit & Ally, 2003).

The problem of casualisation is therefore manifold; on the one hand, our labour law has failed to provide casual workers with sufficient safeguards in the face of a rapidly changing workplace and on the other, employers have taken advantage of the weaknesses inherent in the law to casualise their workforce extensively.

Externalisation is another dominant feature of the post-apartheid labour market. In externalisation, the employment contract is replaced by a commercial contract so that the worker is, in legal terms, not an 'employee' but an 'independent contractor'. The main types of externalisation are sub-contracting, labour only sub-contracting (prevalent in the construction sector), out-sourcing, labour broking (prevalent in the services sector), and outworking or homeworking (found to a large extent in the clothing/textile sector).

South Africa's labour law has developed largely on the basis of the primary and secondary sectors and as such, it is modelled on the existence of a dual employment relationship between an employer on the one hand, and an employee on the other (Theron & Godfrey, 2007). While this framework defined much of the colonial and apartheid economy, the post-apartheid economy has coincided with the rise of services as the dominant sector. Laws and regulations that were designed for the primary and secondary sectors are not necessarily sufficient to regulate employment relationships in a modern labour market which has services as its engine of growth (ibid).

An independent contractor employment relationship is regulated by the common law of contract and our labour law makes a clear distinction between independent contractors and employees. Certain provisions of the Basic Conditions of Employment Act (BCEA 75 of 1997) and the Labour Relations Act (LRA, 65 of 1995), exclude independent contractors from the protection of labour law. Such workers are not covered by the legislated maximum limit on working hours and over-time work, entitlement to leave, fair dismissal and retrenchment pay, and workplace rights such as unionisation and collective bargaining.

The advantages offered by this loophole have not gone unnoticed by employers. In the road transport, private security and textile sectors for example, many workers are employed as 'independent contractors' although in actual fact they are wholly under the direction of their employers, and totally dependent on them for their livelihood. Despite the introduction of section 200A in the LRA in 2000 to deal with cases of 'disguised employment', a protracted contestation has developed around how one is to determine the existence of an

employment, rather than an independent contractor, relationship.

Labour broking is another prevalent form of non-standard work in the post-apartheid labour market. The actual number of labour brokers operating in our labour market, and the number of workers employed by them, is unknown. This is despite the fact that section 24 of the Skills Development Act (97 of 1998) requires "*any person who wishes to provide employment services for gain [to] apply for registration as a private employment services agency*". Lack of reliable data means no one knows the range and extent of labour brokers, a problem that has confronted many researchers in this field[1].

Despite strong calls by Cosatu and its affiliates that labour brokers should be banned, government has signalled that at most, it is prepared to regulate them. This is in line with the ANC's 2009 Elections Manifesto which states that the government will "address the problem of labour broking and prohibit certain abusive practices" (ANC, 2009). The losers unfortunately are workers employed by labour brokers as they are caught between the proverbial rock and a hard place.

The 'fiction' created by section 198 of the LRA and section 82 of the BCEA that the labour broker, rather than the client, is the legal employer (Theron et al., 2005:5), has resulted in workers being denied many of their basic labour rights including the right to organise and freedom of association . For example in a case study of contract cleaning workers employed by Supercare, one of the largest contract cleaning companies, at the University of the Witwatersrand, Bezuidenhout & Fakir (2006) demonstrate how the triangular employment relationship that ensues between the labour broker, its client and the worker has resulted in the intensification of work, reduction of wages and benefits, and denial of the constitutional right to organise, for many workers.

To cope, many of them have been forced to adopt a range of creative survival strategies including income generating activities in the informal sector, and reliance on family and community social networks for support. In a nutshell, the burden of social reproduction initially borne by the real employer has progressively been shifted to the workers themselves.

Informalisation is the third major form of non-standard work in South Africa. For most of the 1990s and early post millennium period, a disturbing trend of the South African labour market was its continuous shedding of jobs in most of the traditionally dominant sectors such as agriculture, mining and manufacturing. Alongside this tendency in employment reduction, the informal sector experienced a rapid expansion, rising from about 0,9 million to approximately 1,9 million workers in the five- year period between 1997 and 2001 (Webster, 2003)[2]. In fact, some authors (Clarke, 2003) suggest that employment in the informal sector exploded with jobs increasing from about 1,8 million in 1997, to slightly over 3,1 million in 2001.

Ndungu & Theron (2008) have argued that approximately half of all jobs in our economy are informal, almost a quarter of the jobs are neither formal nor informal but can at best be described as "intermediate", and only less than a third can be said to be formal. This means that of the 12,7 million workers who are currently in the South African labour market[3], around 6,2 million (48,7%) can

actually be described as informal workers, about 2,9 million (22,5%) can be described as intermediate, while only slightly over 3,7 million of them (28,9%) can be said to be formal.

There are no authoritative studies showing a direct correlation between the decline of the formal sector and the expansion of the informal sector, but given the inadequacy of the South African social welfare system, it is safe to conclude that those who have been expelled from the point of production in the formal sector are more likely to turn to informal mechanisms for survival.

Concluding thoughts:

Giving meaning to decent work through a new growth path

The starting point for any strategy or policy change that can lead to the creation of a sufficient number of decent jobs in South Africa, must pinpoint the necessity of radically transforming our economy and ensuring that the State plays a central role in it. Some of the key areas of State intervention must be:

- A focus on labour intensive industries mainly light manufacturing, services and agriculture. In addition, the role of the state in the economy must change from one of being a mere regulator of the market to one of being an active participant.
- Better thinking around the Expanded Public Works Programme (EPWP). For example government should extend the duration of EPWP contracts to enable training to take place and for workers to gain sufficient skills, Trade unions also need to play a much bigger role in the EPWPs than has hitherto been the case (Godfrey, 2007:168)
- Provision of start up capital, skills training, technology and access to markets for finished products for those operating in the informal sector. The administrative and legislative burdens that often encumber the informal sector must be addressed. Although anchored on the wrong theoretical underpinning (i.e. that we have a first and second economy while in actual fact we have a single economy with a significant degree of segmentation), the Second Economy Strategy Project implemented by the Trade & Industrial Policy Strategies (TIPS) in the Presidency remains a welcome intervention.
- Addressing labour broking and casualisation as a matter of urgency. A strengthening of labour legislation to plug loopholes and better capacitation of the Department of Labour are key to ensuring that workers are able to enjoy their constitutional right to fair labour practices.
- State support for unionisation in vulnerable sectors. One way of doing this is by lowering the levels of representivity required for unions for purposes of union recognition and collective bargaining. For instance the requirement that a trade union must "have as members the majority of employees employed by an employer in a workplace (LRA, section 14(1)) needs to be changed for vulnerable sectors like agriculture and security. Instead, the notion of 'sufficient representativity' should be considered where a trade union that represents a far lower but reasonable number of workers is recognised for purposes of electing shopstewards and collective bargaining.
- Social Protection for the youth. Given the disproportionately high level of

unemployment amongst the youth, many of whom have never worked before, it is critical that specific strategies are developed to provide opportunity for the youth to be absorbed into the formal economy. A youth wage subsidy is unfortunately a simplistic way of addressing a complex set of structural problems in our economy. In any event, it is likely to lead to a further fragmentation of our labour market between a small core of employees enjoying most of the labour rights and a large pool of poorly paid and poorly protected workers. It is be better to consider a range of mechanisms such as significant investment in mathematics and sciences in primary and high schools, greater emphasis on practical, skills oriented, vocational training, introduction of a compulsory national youth service and minimisation of the costs associated with searching for jobs.

At the same time, the labour movement needs to play a stronger role in the creation and protection of decent work. This it can do by:

- Actively engaging the state in economic and industrial policy making. Cosatu, and to a lesser extent FEDUSA (Federation of Unions of South Africa), have regularly made policy proposals on economic and industrial strategy but the extent to which these proposals are factored into government's economic and industrial planning is uncertain.
- Organising non-standard workers. With limited exceptions in the case of workers in the retail sector, unions have come up with very few strategies for organising non standard workers. The biggest limitation is that organisationally, many unions are weak while the subscription requirement places union membership way above what the majority of workers in this sector can afford.
- Monitoring the enforcement of labour legislation and regulations. The Department of Labour (DOL) simply lacks the capacity to enforce proper observance of labour legislation and in most cases; it plays a reactive rather than a proactive role. As opposed to DOL, unions have a higher presence in many workplaces and they should therefore use such presence to ensure that labour legislation is enforced. ★

Cde Ndungu *is a Senior Researcher in the National Labour and EconomicDevelopment Institute*

Endnotes

1. For example Theron et al. (2005), "Labour broking and temporary employment services: A report on trends and policy implications of the rise in triangular employment arrangements".Using data from the Labour Force Survey, the authors suggest that there were around 180,000 persons paid by labour brokers, contractors and agencies by 2005 (p25) while information they used from three data sources; the Services SETA, the Metal and Engineering Industry Bargaining Council and the authors' own suggested that there were 2739 firms engaged in recruitment.

2. Fhese figures should be regarded as illustrative rather than definitive of the growth of the informal sector in South Africa.

3.This is using the official or narrow definition of Employment/unemployment which excludes those who are too discouraged to seek work. By June 2010, the official labour market was made up of 17,1 million workers of who 12,7 million were employed and 4,3

million were unemployed. The number of discouraged work seekers stood at 1,9 million.

References

African National Congress. 2009. ANC 2009 Elections Manifesto. Available at www.anc.org.za. Accessed on 15 June 2009.
Bezuidenhout, A. & Fakir, K. 2006. Maria's Burden: Contract cleaning and the crisis of social reproduction in post-apartheid South Africa. Antipode. Blackwell Publishing.
Clarke, M. 2003. Class and identity in the context of labour market restructuring in Africa. Available at http://www.arts.yorku.ca/african_liberation/conference_paper/clarke_print.html
Du Toit, A. & Ally, F. 2003. The externalization and casualisation of farm labour in Western Cape horticulture. Cape Town: CRLS & PLAAS, University of the Western Cape
Godfrey, S. (2007). Decent work for development: The Expanded Public Works Programme (EPWP)-Lessons from five projects in the Western Cape, South Africa. In, Bargaining Indicators 2007: A collective bargaining omnibus, vol. 11. Cape Town: Labour Research Service.pp135-170.
ILO. 1997. The ILO, standard setting and globalization. Report of the Director-General to International Labour Conference, 85th Session
ILO. 1998. Declaration on Fundamental Principles and Rights at Work.
86th Session, Geneva, June 1998
Kenny, B. 2007. Claiming workplace citizenship: Worker" legacies, collective identities and divided loyalties of South African contingent retail workers. Springer Science + Business Media.
National Treasury. 2010. Budget Speech by the Minister of Finance Pravin Gordhan. http://www.finance.gov.za/documents/national%20budget/2010/speech/speech2010.pdf
Ndungu, S.K, & Theron, J. 2008. What kind of jobs? Creating opportunities for decent work. Cape Town: Development Policy Research Unit.
Statistics South Africa. (2010). Gross Domestic Product, First Quarter, 2009. Statistical release P0441. Pretoria: Government Printer
Statistics South Africa. (2010). Quarterly Labour Force Survey, July 2010. Statistical release PO210. Pretoria: Government Printer.
The Presidency. 2005. The Accelerated and Shared Growth Initiative of South Africa. Pretoria, Government Printer.
The Presidency. 2008. Development Indicators 2008.
The Presidency. 2009. Development Indicators 2008.
Theron, J., Godfrey, S., Lewis, P., & Pienaar, M. (2005). Labour broking and Temporary Employment Services: A report on trends and policy implications of the rise in triangular employment arrangements. University of Cape Town.
Theron, J & Godfrey, S. 2007. The shift to services and triangular employment: Implications for labour regulation. University of Cape Town
Van der Westhuizen, C. 2003. Taking 'the small piece of bread' away. Informalisation and home-based work during the democratic transition in South Africa. (Unpublished).
Watkins, G. (2009, May 18). Call for ban on TES threatens 500 000 jobs: The Star, Business Report, p.22.
Webster, E & Von Holdt, K. (Eds). 2005. Beyond the apartheid workplace: Studies in transition. UKZN Press.

Statutes

Constitution of the Republic of South Africa, 1996
Labour Relations Act, 66 of 1995
Basic Conditions of Employment Act, 75 of 1997
Skills Development Act, 97 of 1998

Endnotes

1. For example Theron et al. (2005), "Labour broking and temporary employment services: A report on trends and policy implications of the rise in triangular employment arrangements".Using data from the Labour Force Survey, the authors suggest that there were around 180,000 persons paid by labour brokers, contractors and agencies by 2005 (p25) while information they used from three data sources; the Services SETA, the Metal and Engineering Industry Bargaining Council and the authors' own suggested that there were 2739 firms engaged in recruitment.
2. These figures should be regarded as illustrative rather than definitive of the growth of the informal sector in South Africa.
3. This is using the official or narrow definition of employment/unemployment which excludes those who are too discouraged to seek work. By June 2010, the official labour market was made up of 17,1 million workers of who 12,7 million were employed and 4,3 million were unemployed. The number of discouraged work seekers stood at 1,9 million.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

The Role of Industrial Policy

It is imperative that South Africa use the opportunities thrown up by the global crisis to develop its productive forces, writes **Rob Davies**

That it is imperative to place our economy on a qualitatively different accumulation path, is a proposition that is now widely accepted in this country. The need for us to make a qualitative shift in the trajectory of accumulation, is underscored by the harsh reality that even when the South African economy experienced its longest period of uninterrupted growth at any time since the Second World War (in the period immediately before the onset of the global recession) unemployment on the strict definition never fell to below 22,8% of the economically active population. Associated with this was widening income inequality and continuing poverty for many of our people.

Behind the evident failure of "growth alone" to address the most urgent and evident socio-economic challenge confronting us, lay a number of structural imbalances in the pre-existing growth path. They included the following interrelated elements:

Consumption driven sectors including wholesale and retail trade and financial services grew at more than twice the rate of production sectors (mining, agriculture and manufacturing).

Credit extension was overwhelmingly and increasingly directed towards private consumption rather than supporting production related activities.

Imports grew faster than exports, resulting in a deficit in the Current Account of the Balance of Payments.

The Current Account deficit was funded by an inflow of short term foreign capital sustained by high interest rates.

The combination of "hot money" inflows and high interest rates underpinned an increasingly uncompetitive exchange rate for the Rand.

The onset in 2008 of the crisis of global capitalism has made it even more imperative that we address these structural imbalances. Most directly, the global economic recession had the effect of increasing unemployment levels in South Africa to over 25% of the economically active population. Moreover, even though the world economy and South Africa are now officially out of recession, the crisis of global capitalism is far from over. It continues to manifest itself in, amongst other things, the sluggish economic performance and major debt crisis in the European Union. This in turn has led to a depreciation of Eu-

ropean currencies, the Pound and the Euro in particular. What this has meant is that trading conditions in what is still South Africa's major export market have become difficult, and also that domestic producers are facing increasing competition from cheaper imports emerging from among other places, Europe.

Further than that, the lesson from the experience of those developing countries that performed most successfully during the crisis, and which have now emerged as major new forces in the reconfigured global economy (China, India Brazil), is that all of them had active state led industrial policies which sought to identify, support and nurture key value added production sectors. In fact, the experience of economies like India, China and Brazil has merely echoed that of every other country that has at any time in economic history succeeded in placing its economy on a new growth path characterised by increasing (as opposed to diminishing) returns to scale. As Mario Cimoli, Giovanni Dosi and Joseph Stiglitz put it in their recent book, *Industrial Policy and Development,* "…all the countries which are nowadays developed, undertook indeed, relatively high degrees of intervention to support the accumulation of technological capabilities and the transformation of their organisation of production especially in the early period of industrialisation".

Responses from within government to this challenge have come in the form of the Industrial Policy Action Plan (IPAP2) launched earlier this year and the Growth Path strategy currently being finalised by the Economic Development Department, led by Cde Ebrahim Patel. While IPAP2 deals with value added sectors, mainly manufacturing but also some high value services, the Growth Path strategy will deal more broadly with "job drivers" across the economy. Underlying both is a perspective that sees the unemployment challenge that we face in South Africa as structural in nature and recognises that we therefore need to break decisively from the current reality that when the economy performs "well" unemployment reaches 22.8%, and when it is in recession unemployment rises to more than 25%. We can simply no longer continue to oscillate between these unacceptable parameters.

A further perspective underlying IPAP2 is that even if many of the decent jobs we need to create are in service activities (including construction of infrastructure) or in primary sector activities (agriculture and mining), these jobs will be more sustainable and of better quality if they are rooted in an economy that is experiencing expanded higher value added activities.

IPAP2 identifies five transversal, or cross cutting, interventions and a series of sector specific action plans essential to create nearly 1 million direct and indirect jobs. Of the transversal, or cross cutting interventions, two represent major new departures.

First, the R854 billion infrastructure investment programme has thus far failed to generate sufficient impetus to local industries capable of producing inputs into the programme. Too many of the components used in infrastructure construction and too much of the equipment which is used to produce the infrastructure are imported. Analysis has shown that this is the case even in areas and activities in which South Africa has an existing capacity to produce the items in question. This is linked to a practice in which, unlike in other more

successful developing economies, we have continued to procure inputs in a short term *ad hoc* rather than a long term, strategic manner. Too many procurers in State Owned Enterprises as well as in government departments responsible for infrastructure programmes have looked only at specific inputs needed immediately and if these are not available locally have simply resorted to imports. IPAP2 has accordingly identified a need to move towards more "fleet procurement" in which procurement needs over a longer time frame will be identified and packaged into longer-term multi-stage packages that would set as conditionalities progressively higher levels of local content. Arising from this, IPAP2 has identified a need for a major restructuring of our procurement regulations and processes, and this work is currently nearing completion. When completed, certain areas and sectors will be designated with specific progressively increasing local content requirements. Existing measures to promote local content requirements such as the National Industrial Participation Programme and the Competitive Supplier Development Programme will also be reviewed and given more teeth. Linked to this, the Proudly South Africa campaign will be strengthened to enable the organisation to play some role in accrediting South African suppliers so that procurers will have some way of being able to recognise these in procurement decisions.

Secondly, analysis has shown that successful developing countries have all had state-owned industrial development finance institutions active on a larger scale than the South African Industrial Development Corporation (IDC). A comparison between the IDC and the Brazilian *Banco Nacional de Desenvolvimento Economico e Social* (BNDES) shows that even though the interest rates in Brazil have been higher than those in South Africa, the BNDES has been able to provide a larger quantum of less costly finance for industrial development. The BNDES has, in fact, been pivotal in the emergence of a number of the industries that have developed in Brazil. Learning from this, IPAP2 envisages that, in the short run, the IDC re-examines its balance sheet to achieve a greater leverage of funding for industrial development, while in the longer run finding an ongoing source of funding to enhance and increase its role in industrial financing. This work too is ongoing.

In addition to these two cross cutting interventions, IPAP2 identifies the need to adopt a more strategic approach to tariff setting and to trade policy in general. This means that we will set tariffs on a case by case basis according to the balance of evidence about the particular developmental needs of industrial sectors. As a general guideline, IPAP2 suggests that tariffs in the case of "mature" upstream industries that are price setters of important inputs for more labour absorbing downstream industries could be considered for reduction or removal, while tariffs on products in sectors that needed to be supported and /or are highly vulnerable to import competition could be considered for maintenance or even increasing. Bodies setting standards, particularly compulsory standards, need also to work strategically, firstly, to "lock in" South African exporters to be able to meet standards necessary to access international markets, and secondly more effectively to "lock out" substandard, shoddy and harmful imports which undermine local production.

The fourth domain of cross cutting

intervention is the strategic deployment of the competition authorities particularly to focus on areas where collusion and /or abuse of dominant position by monopoly concerns imposes price disadvantages on downstream industries. Another area of focus will be on collusive practices or abusive action which raises prices of consumer goods to the detriment of working people and the poor, an example being food prices.

Finally, all of this depends on achieving a qualitatively new articulation between macro and micro economic policy. The challenge which immediately confronts us in this regard is to establish a less volatile and more competitive exchange rate for our currency. As indicated earlier, this has become even more urgent with the continuation of the crisis in the European Union which has seen a depreciation of major European currencies with significant effects on our ability to export to the European Union (still our largest trading partner) as well as leading to stronger import competition from European products.

In addition to the cross cutters, IPAP2 identifies a number of sector specific programmes and defines three sectors for focussed attention. The latter include, firstly, capital goods, metals fabrication and transport equipment industries. These are the main industries producing (or capable of producing) inputs into the infrastructure investment programmes. In several of these industries South Africa once had significant industrial capacity but this has been eroded over the past 20 to 25 years.

The second area of focus is on "the green economy". The imperative to reduce energy usage as well as to lower the carbon footprint are widely recognised in our country. What IPAP2 seeks to do is identify the industrial development opportunities that may arise from adjusting to a lower carbon economy. They include working to ensure that we manufacture in South Africa the majority of the new solar water heaters that will be installed in new houses in terms of regulations that will be emerging in the new future.

The third focus area is agro industries. Agro industries have long been identified as potential new sources of decent work. In addition to the priority areas of focus, work will continue on a number of existing industrial sectors. These include the automotive industry, clothing and textiles, chemical industries, craft and cultural industries and advanced manufacturing opportunities in among other things, aerospace and nuclear technology. In all of these sectors, we will be seeking to tilt the balance towards more labour absorbing activities. For example, in the automotive sector, many more jobs are created in component manufacturing than are generated by Original Equipment Manufacturers (the large automotive manufacturers). Accordingly our interventions will seek to support an increase the percentage of local content in projects undertaken by OEM's. In addition to this, we will be including into the automotive programme public transport vehicles as well as vehicles used in construction. In the clothing and textile industry, a completely new incentive programme which breaks decisively from the Duty Credit Certificates has been developed and is starting to be implemented.

IPAP2 identifies clear action plans measured in quarters for delivery on all of these fronts. The first quarter of implementation ended in June and at the end of the second quarter (September)

a comprehensive report on implementation will be presented to both Cabinet and Parliament.

IPAP2 does not yet represent the scale of industrial policy we estimate is needed in South Africa, but we do see it as a significant step up from where we have been in the past. A new Industrial Policy Action Plan for the following three year Medium Term Expenditure Framework (MTEF) period will be prepared and tabled next year. Indications are that we are thus far on track to achieve the relatively modest initial targets outlined in IPAP2, but it is absolutely critical that we do not fall behind in implementation. Public consultations through Nedlac, through Parliament and also through interactions with both organised manufacturing and organised labour, suggest that there is an overwhelming national consensus that we need to move ahead in the direction outlined by IPAP2. A critical lesson from all other cases of successful industrial policy is that they were characterised by high levels of commitment and focus on implementing the programmes identified. It is therefore imperative within the perspective of building a developmental state capable of leading a process of structural economic transformation, that we do the same.

The crisis of global capitalism is far from over, but within that crisis new opportunities have emerged for developing countries to seize the initiative and follow through with programmes to develop the productive forces in their countries. South Africa can become part of this wave. It is imperative both in the short term interests of the working class in overcoming, or at less mitigating, the unemployment crisis facing it, and in the longer term interests of establishing a new momentum towards building our socialist future now that we seize these opportunities. ★

Cde Davies *is a SACP Central Committee member and Minister of Trade and Industry.*

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

IPAP and the Need for a State-owned Pharmaceutical Company

Sidney Kgara and **Sheila Barsel** argue for a state-owned pharmaceutical company as the most sustainable way of meeting South Africa's needs

Historically, the pharmaceutical manufacturing industry was developed in an attempt to achieve import substitution to ensure security of supply and self-reliance amidst mounting international isolation of the Apartheid regime. However, the neo-liberal trade liberalisation and deregulation that took place with the advent of Gear in the second half of the 1990s caused a decline in the sector and a considerable destruction of jobs. Combined with the global restructuring that was taking place in the sector at that time, trade liberalisation resulted in 34 manufacturing sites shutting down between 1994 and 2004 and total employment shrinking from 16,885 in 1997 to 9500 by 2007 in the sector.[1]

Whereas Gear decimated employment and production capacity in the industry, the Industrial Policy Action Plan (IPAP) provides a possibility for the rebuilding of this sector. If the ANC-led Alliance is to forge a developmental state true to the broad outcomes of Polokwane, then a key part of this rebuilding and expansion of domestic pharmaceutical production must include the establishment of a state-owned pharmaceutical company in line with the Polokwane resolution on the matter. This means that the present measures undertaken by government in support of the pharmaceutical industry in terms of IPAP must also include a conscious and deliberate drive to realise a state-owned pharmaceutical company in the medium to long-term. After all, until 2000 the public sector had developed and owned two entities through which vaccines were produced for the country.[2] Notwithstanding the fact that IPAP identifies the expansion of domestic pharmaceutical production as one of its apex priorities, there is still no comprehensive pharmaceutical industrial strategy, even though there are a range of incentives and support measures provided by the Department of Trade and Industry (DTI) and the Department of Science and Technology (DST) in respect of the biotechnology industry.

The main thrust of this contribution is to argue for the establishment of a state-owned pharmaceutical company as the most sustainable way of expanding domestic production to meet the country's needs. We are therefore arguing that using IPAP to support the private pharmaceutical industry should enhance rather than hamper the long-term

objective of a state-owned pharmaceutical company. We put forward proposals of intermediate measures that need to be undertaken in the process, with a particular reference to the human resource requirements. We believe that in the medium to long-term these measures could help develop domestic production and enhance skills development. Therefore, these measures should constitute an important component in a broader set of interventions required (some of which cannot be covered in this contribution) for the establishment of a state-owned pharmaceutical company.

IPAP and challenges in the pharmaceutical industry

Despite the stagnation in the number of medical aid schemes members, South Africa has seen phenomenal growth of the private health industry, whose major cost drivers are medicines and the cost of hospital care. In a health care system that is essentially curative in orientation and woefully weak in disease prevention and health promotion, this growth has seen the country becoming increasingly import dependent in respect of pharmaceuticals. For example, the ratio of imported to exported pharmaceuticals for retail sale steadily declined from 8:1 in 1998 to 17:1 by 2007.[3] The South African based multinational companies mainly cater for the private health sector as their patented medicines are unaffordable for those who depend on the health services in the public sector. Currently, around 75% of the demand in pharmaceuticals is met by imports. [4] Hence, South Africa's share in the global pharmaceutical production remains only 0,7%, representing a mere 0,3% of the country's Gross Domestic Product (GDP). It is therefore significantly small compared to countries such as Brazil, India, and China and even more so in comparison to Ireland, Singapore, and Puerto Rico.

However, the South African pharmaceutical industry is expected to grow at least by a fifth in the next three years, such that by 2014 its market of drugs is forecast to reach about US$4,1 billion, with prescription drugs accounting for 86% whilst patented medicines making up 58,5% of the total pharmaceutical market.[5] This expected phenomenal growth in the sector is largely generated by the currently burgeoning private sector investment in anticipation of the increased public spending on antiretroviral (ARVs) AIDS drugs and the establishment of a universal health insurance in the medium term.

Through IPAP government undertook to provide concessional industrial financing, the revision of procurement legislation, regulations and practices, to implement strategic trade policies that improve the productive capacity and employment opportunities and to strengthen integration between sector strategies and skills development plans. Thus, in line with these commitments and those arising from the NEDLAC's "Framework for South Africa's response to the international economic crisis", government has begun to increasingly source pharmaceuticals (especially ARVs) from domestic producers.

However, one of the emerging challenges for IPAP is the fact that this drive to stimulate the development of domestic pharmaceutical production is engendering price-gouging on the part of the local producers. Last year the JSE listed Aspen (Africa's largest pharmaceutical manufacturer and the largest supplier to government), and Adcock Ingram

won the ARVs supply tender contracts that reportedly on average charged 30% more than their international rivals. This is despite the fact that South Africa is the largest consumer of ARVs, a factor that should yield benefits of economies of scale, apart from the reasonable expectation that the enormous scale of the AIDS treatment programme should enable government to extract major concessions from suppliers.

It therefore came as a surprise that this year a section of government seemed to be expressing sentiments that run counter to what is intended to be achieved through IPAP. The Minister of Health, Dr Aaron Motsoaledi, expressed a willingness to take on the blackmail of job-losses that is used by these South African rent-seeking monopolies by securing supplies of ARVs from cheaper international sources. He argued that, "we must purchase ARVs at the lowest possible cost from whatever source that can guarantee us the lowest prices, whether it's inside the country or outside the country." [6] We would have expected that as a strategic action plan, in the implementation of IPAP the support offered by government would be tied to the favourable procurement contracts entered into with these companies. Clearly, this experience indicates that it is not enough to merely offer incentives through policies led by a particular department (DTI) without coordinating that with the Treasury and Department of Health (DOH) to ensure that these incentives are actually tied to exacting developmental considerations.

A related challenges is the fact that whilst there is a need for a more robust intervention by government in fighting price-gouging and rent-seeking behaviour on the part of the local producers, this can be done more sustainably if it is linked to the necessary readjustments or reversal of the trade tariffs pertaining to pharmaceuticals. Some countries of the global-South that are successfully expanding their domestic production of pharmaceuticals such as Mexico and Brazil have import tariffs of 35%, whilst India and Iran have 36% and 50% respectively. This is in contrast to Gear's liberalisation of the South African market - to the extent that there is virtually no import tariffs on finished pharmaceutical products and only duties of between 10% and 15% on raw active materials. Hence, as illustrated below, South African pharmaceutical producers have a higher propensity of sourcing their raw materials internationally. As long as the South African pharmaceuticals industry remains highly concentrated whilst it is increasingly becoming dependent on monopoly rents derived from government contracts, there will be very limited net benefits in terms of the expansion of domestic production vis-à-vis the fiscus (both in terms of procurement and incentives).

The need for a state-owned pharmaceutical company

Polokwane resolved that "the ANC should explore the possibility of a state-owned pharmaceutical company that will respond to and intervene in the curbing of medicine prices." To a great extent, this resolution was informed by experiences of protracted battles between government and the industry, especially between 1997 and 2001 in the wake of the Medicine and Related Substances Act which was intended to reduce the prices at manufacturing and distribution levels. It was not until November 2001, when the World Trade Or-

ganisation (WTO) adopted a declaration to the effect that public health concerns overrode intellectual property rights, that the South African pharmaceutical industry retreated from instigating the USA government, which had already issued threats of economic sanctions.

However, well before Polokwane COSATU had already been calling for government ownership and control of the manufacturing of active pharmaceutical ingredients (APIs) and the need to support training and development programmes that would enable the growth of the pharmaceutical manufacturing sector. [7] This convergence between the ANC and COSATU, not only on the need for an active industrial policy supporting domestic pharmaceutical production but also on the need for a direct role by the state through its own pharmaceutical company, is informed by more than just the imperative of lower pricing and expanding domestic production to reverse the trade deficit and job-losses in the sector.

Whilst the private pharmaceutical industry has significantly contributed to the advancement of biomedical technology and medicine, the rise of multinational pharmaceutical monopolies after the Second World War illustrates that they operate with a clear consciousness that it is not in their financial interests to prevent or eliminate diseases. Instead, as has been argued elsewhere that to the extent that the human body hosts diseases, the maintenance and expansion of diseases amongst increasing amounts of people is a precondition for the financial growth of this industry. [8] Hence, it is an open secret that part of accumulation strategies in the global pharmaceutical sector involves the development of drugs that merely mask or alleviate symptoms while avoiding the curing or elimination of diseases. In the same vein, these companies are forever engaged in attempts to derive new applications from the drugs that are already in use in the market. The fact that Bayer's Aspirin that is used to alleviate pains is now taken by an estimated 50 million healthy US citizens under the illusion that it will prevent heart attacks is one example of this. [9]

At the heart of our drive to expand domestic production of pharmaceuticals must be more than just the narrow economic considerations. This endeavour must enable the country to adequately respond to the health needs of the population as reflected in the extent and nature of our disease burden. In addition to having one of the highest prevalence of HIV/AIDS and TB in the world, South Africa is also facing an increase in non-communicable and lifestyle diseases as well as high levels of homicide and violent trauma, predominantly affecting poorer communities. All of these have severely impacted on the country's average life expectancy at birth which is now estimated to be below 50 years and even worse amongst working class communities.

To the extent that through IPAP government has identified the need to produce APIs for ARVs due to the high prevalence of HIV/AIDS, COSATU's proposal for a state ownership and control of APIs manufacturing would also provide a possibility for the development of medicine to treat opportunistic infections such as sexually transmitted diseases, tuberculosis, malaria, etc. After all, these are the actual causes of death amongst immune-compromised patients. The production of generics is highly dependent on securing access

to APIs and in turn the production of APIs is subject to economies of scale. Therefore, a state-owned manufacturer can derive such economies of scale by responding to other medicinal needs beyond ARVs. In the event, whilst the consumption of ARVs is already high in comparison to other countries (though it should still be insisted that ARVs must be made universally available), arguably medicines required for opportunistic infections will also increase in the future.

Even though the South African owned manufacturers have some linkages with the local raw material suppliers, a state owned pharmaceutical company with stronger ownership and control of APIs manufacturing can deepen these linkages to the scale such as obtaining in India. The Indian pharmaceutical manufacturers purchase all capital equipment from a network of established Indian equipment manufacturers. This is in contrast to the South African owned pharmaceutical manufacturers that sourced 70% of its capital equipment from foreign suppliers and local multinational firms that import 90% of capital infrastructure from outside South Africa.

Human resource challenges

IPAP identified the need to alter the profile of graduates, who are currently more suited to pharmaceutical marketing and sales functions and less prepared in terms of the required skills for the expansion of pharmaceutical manufacturing. Apart from other impediments related to the current asymmetrical international trade regime, it is well-documented that the lack of suitably qualified personnel is one of the major domestic stumbling blocks for countries in the global-South in establishing their own pharmaceutical production.

Processes of industrialisation heavily depend on some innovative capacity of the economy, particularly the scale and quality of research and development activities, linkages between the government and teaching institutions, the regulatory framework and the level of investment in new technologies. These factors determine the ability of a country to innovate and develop new pharmaceutical processes and products to meet domestic and international demand. South Africa has a shortage of qualified management and technical specialists such as pharmacists trained in manufacturing, regulatory affairs managers, laboratory analysts, financial managers (particularly procurement), clinical research specialists, manufacturing equipment maintenance specialists as well as appropriately trained mid-level workers.

Short to medium term strategy

In 2008 the Immigration Advisory Board of the Department of Home Affairs (DOHA), that advises on annual quota systems for immigrant workers, identified the need for skilled research and development professionals with at least 5 years of relevant work experience and gazetted a quota that would allow 300 of such personnel to enter South Africa. Missing from the DOHA list are various occupations crucial for domestic pharmaceutical production such as clinical research specialists and manufacturing equipment maintenance specialists. It is suggested that in the short-term government should embark on country-to-country agreements to obtain appropriately skilled personnel in countries such as Cuba, Brazil, China and India in order to meet the growing demand for such skills. In this connection, institutional

mechanisms should be put in place firstly to transfer foreign skills to the local workforce and secondly to establish learning units at those higher education institutions which either offer pharmacy as a degree course or that offer relevant engineering and technical courses. Such institutional arrangements should be made through government departments and professional councils in order to fast-track the registration of appropriately skilled foreign nationals.

The development and deployment of mid-level workers with the appropriate task shifting mechanisms is an established priority of the DOH. This implies the need to scale up the development of pharmacist assistants at both the basic and post-basic levels to assume greater responsibility for the provision of pharmaceutical services. There are currently insufficient numbers to make a meaningful impact. Available data suggests that there are bottlenecks in the production of pharmacist assistants. Since 2001, 195 basic level pharmacist assistants and 138 post-basic level pharmacist assistants completed the learnership programme facilitated by the Health and Welfare Sector Educational Training Authority (HWSETA). However, currently there are 1,325 basic level pharmacist assistants and 839 post-basic level pharmacist assistants registered for these learnerships. It should be noted that training through the HWSETA is actually provided by private training providers. This training should be moved to public training institutions.

The South African Pharmacy Council (SAPC) has created a new cadre of pharmacy technicians envisaged as mid-level workers intended to provide pharmaceutical services with limited supervision by pharmacists. This revision of the scope of practice of the pharmacy technician in manufacturing settings will increase the supply of mid-level workers in pharmaceutical production. However, increasing the number of mid-level workers does not replace the need to ensure that pharmacists freed for redeployment have the appropriate skills for domestic pharmaceutical production. The Chemical Industries Education and Training Authority (CHIETA) supports the provision of a Bachelor and Masters of Technology in Pharmaceutical Sciences run by the Tshwane University of Technology. These qualifications are geared to develop expertise in various technical aspects of drug manufacturing. We propose that these programmes should be adapted for the retraining of the skills labour-force required for domestic pharmaceutical production and should be extended to other universities of technology.

Long term strategy

Supplying the long-term labour needs of a domestic pharmaceutical production policy requires an entirely different strategy than the short to medium term strategy discussed above. Most exit level outcomes of the pharmacist qualification are aligned to health service provision, and very few address pharmaceutical manufacturing processes. Most pharmacy graduates complete their internships either in a retail or hospital environment while the community service year is spent at a public sector hospital. Very few have the opportunity to pursue practical training in a manufacturing pharmacy, let alone enjoying exposure to manufacturing and packaging processes envisaged in terms of the scale required for domestic production.

The courses offered by the schools

of pharmacy produce pharmacists for public hospitals or retail pharmacies. These schools would need to re-focus and place emphasis on pharmaceutical skills applicable in domestic pharmaceutical manufacturing. The domestic production of pharmaceuticals will also require electrical engineers, mechanical engineers, and artisans such as fitters, industrial instrument makers, and technicians. Post-graduate studies at schools of pharmacy offer a mix of clinical and pharmaceutical manufacturing programmes. Between 1996 and 2005 schools of pharmacy produced 812 Masters degree graduates and 83 Doctorate graduates.

It is strongly suggested that higher education institutions and the SAPC must be tasked to focus some of their output on providing courses at appropriate National Qualifications Framework levels, in order to supply the skilled labour force required by the domestic pharmaceutical manufacturing sector. It is proposed that training should be provided by public institutions, be they universities or Further Education and Training Colleges. It is worth noting that in India there is a separate national institute that has been established which provides courses as well as continuing professional development for the pharmaceutical sector.

Conclusion

Clearly, the growing private investment in the pharmaceutical sector must be welcomed in so far as it helps in the rebuilding of one of the sectors that were severely weakened by Gear policies. Even though the sector has a limited employment absorption rate, this growth should also help to reverse the job-losses. However, this is largely taking place in response to government's increasing expenditure on AIDS treatment and the expected introduction of the National Health Insurance (NHI). Even after the NHI has been created, without an active state involvement in the sector in a form of a state-owned company, there will be limited benefits derived from a single purchaser created through the NHI. We believe that there are no contradictions between IPAP and the establishment of a state-owned company. Instead, government should explore the feasibility for such an entity in line with the Polokwane resolutions but also in order to consciously use IPAP to lay a basis for it.

In the foregoing, our proposed two short-to-medium term options to attract skilled immigrants and to scale up the development and deployment of mid-level workers, and our long-term focus on producing skilled pharmaceutical labour domestically are not mutually exclusive and competing strategies. Instead, they reinforce each other.

There has been little coordination between SETAs, SAPC and DOH in addressing the core requirements of domestic pharmaceutical production. An integrated manufacturing plan for pharmaceuticals is required to coordinate and harmonise the activities of all relevant government agencies and departments to ensure that such activities help to build the necessary capacity, including the capacity for the establishment of a state-owned company in the medium- to long-term. ★

Cde Kgara *is Head of the Policy Development Unit of the National Education, Health and Allied Workers'Union (Nehawu) and* ***Cde Barsel*** *is the Nehawu Health Policy Researcher*

Endnotes

1. Nehawu 2010 Domestic Pharmaceutical Production in South Africa: A Human Resource Perspective, 2010, p.5. (Unpublished)
2. Thus, through the South African Vaccine Producers (Pty) Ltd and the State Vaccines Institute (SVI) South Africa was able to produce vaccines to meet domestic demand. In fact, the SVI was the second laboratory in the world to develop the rabies vaccine using human cells and was an important vehicle for vaccine research and development.
3. Nehawu op. cit., p 5.
4. Lund K, 'South African Pharmaceutical Market Outlook to 2014: Policy environment, market structure, competitive landscape, growth opportunities', in By Region July 2010 accessed on 7 August 2010 <http://www.visionshopsters.com/product/3845/South-African-Pharmaceutical-Market-Outlook-to-2014-Policy-environment-market-structure-competitive-landscape-growth-opportunities.html>
5. Ibid.
6. Roelf W, 'S. Africa to buy cheaper AIDs drugs despite opposition' in Reuters. 13 April 2010. accessed on 7 August 2010. <http://www.alertnet.org/thenews/newsdesk/LDE63C1NE.htm>
7. Nehawu op. cit., p. 26.
8. Bello W, 'Big Pharma: part of the problem or part of the solution? Focus on Trade, Number 102, July 2004. accessed on 7 August 2010. <http://www.alternatives.ca/eng/our-organisation/our-publications/analysis-and-articles>
9 Ibid.
10. Nehawu op. cit., p.9.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

The Relevance of Regulation in a Developmental State

A developmental state is by definition interventionist – and regulation is the key instrument in this phase for achieving our goals, argues **Reneva Fourie**

Apartheid colonialism has resulted in a South African economy that has a racially and geographically skewed distribution of economic resources and activities; and a pattern of production that is primarily suited to advance imperialist interests. Key sectors required for domestic consumption and for beneficial participation in the global economy are underdeveloped, but cannot be fully exploited as a strong entrepreneurial class to drive sustainable and self-reinforcing growth is absent.

Our situation is further exacerbated by the fact that capitalism inherently possesses structural and organisational power asymmetries. Accumulation occurs where most of the key inputs into capitalist production take the form of commodities; there is appropriate management of labour power; and the environment is sufficiently stable for profits to be realised. However, not all players in the market possess the same capacities and resources, and therefore exploitation of economic opportunities will never be equal or optimal. Furthermore, some economic actors have access to resources that enable them to survive in the market despite their inability to match socially necessary standards of productivity and performance, thereby distorting competition. The structural limitations and contradictions within capitalism thus make market failure inevitable.

Communism advocates that productive forces should be expropriated for technological and human development to be optimal. The means of production should belong to society as a whole and not be the private property of individuals. The role of government, as the custodian of society in the first phase of a communist society or socialism, would be to oversee the allocation of productive activity and the fair distribution of products amongst the members of society. Operating in a predominately capitalist environment however makes state expropriation of all productive forces impractical. It then becomes the responsibility of government to introduce regulations that will shape the distribution and allocation of the productive outcome of investment, accumulation, and consumption.

Regulations strengthen public policies and its aligned legislation by indicating more explicitly how human, financial and other resources should be allocated and used. In the economy, regulations assist to redress areas of market failure

such as vast inequalities in the creation and distribution of wealth; inadequate economies of scale and scope in production; and information imperfections in market transactions. They assist to protect consumers from abuse from firms with substantial market power; they support investment by providing policy certainty; and regulations can be used to promote economic efficiency.

Regulations take two forms, namely structural i.e. government intervenes to reshape the structure of the market; or conduct i.e. controlling price or market entry. The form and degree of application is determined by the extent to which there is a need to: facilitate a more equitable distribution of economic resources and activities; stimulate investment and growth in the economy; ensure earnings stability within firms; facilitate price stability in the market; and to encourage innovation and operational efficiency in industries.

Historical application of regulations for economic development

Regulations were very effectively used in the past for both economic and political reasons. During the Great Depression, towards the end of the Second World War, government involvement in their economies increased dramatically in most countries. By the late 1930s the government of the United States of America had established an extensive regulatory regime aimed at natural monopolies such as the utilities sector, as well as the transport, wholesale and retail distribution, and finance sectors. They used regulation to improve productive and pricing efficiencies in the absence of competitive pressure and to ensure universal access to services.

Regulation was also used in western European countries and Japan. The nature of the regulatory regimes differed from those of the United States in that it was not directed at natural monopolies, as they were public enterprises and therefore exempt of regulation; there was less emphasis on anti-trust regulation e.g. the French government encouraged mergers in the 1960s to enhance the international competitiveness of their firms; and the objectives of the regulations were developmental in nature. Regulation in other developed countries was thus used to improve the productivity of firms, to ensure that technological upgrading occurred and to facilitate structural changes in their economies. The post-war regulatory interventions in developed countries enabled unprecedented economic development, allowing for rapid growth and significant material prosperity.

In the 1960s developing countries committed to gaining economic as well as political independence from their former colonial masters used state intervention as a means to achieve developmental objectives. Deliberate attempts were made to promote industrial development through a wide range of regulatory and other policy measures. Regulations on imports and foreign direct investments were introduced to promote the development of indigenous technological capabilities. They also actively pursued social development to ensure a more equitable distribution of resources and capacity.

In the 1970s a substantial reduction in state intervention and a wider application of market principles was advocated. By the early 1980s the political and intellectual tidal wave against regulation and government intervention had swept across the world. Deregulation was widely adopted and also promoted in developing countries as part of structural adjust-

ment programmes. By the early to mid 1990s however, the market liberalisation model was seen to have failed to bring about a sustained improvement in the development trajectory of low-income economies, resulting in the re-emergence of the state as having to drive a regulatory framework to ensure that economic growth contributed to poverty-reduction and to ensure access by the poor. The recent financial crisis and consequent global recession also reinforced awareness of the dangers of a completely unregulated market, causing developed countries to intervene directly in their economies to prevent the collapse of key sectors.

Regulation in the developmental state

Despite the left gaining a perceived intellectual hegemony within the Movement post Polokwane, neo-liberal thinking still prevails within the corridors of power, with the quest for deregulation being subtly promoted. Noting the prevailing high levels of unemployment and poverty; the fact that South Africa has failed to adequately penetrate areas of advanced manufacturing and optimally exploit opportunities in the services and ICTs sectors amongst others; and that our skills levels are nowhere close to those of highly competitive industrialised economies; a lack of state intervention in the market will put an instant end to the strategic intent of the national democratic revolution.

Our government defines itself as an interventionist, developmental state, which uses the bureaucracy and its resources as a significant facilitator of growth and development. Our perception of development embodies social justice i.e. ensuring that the benefits of economic growth are distributed in a reasonably equitable manner amongst the country's regions and people, and that development is people-centred and people-driven. We recognise the political component in development in that provision is made for popular participation in the political process and the protection of civil rights and essential freedoms. The administration is regarded as a developmental tool, which has to have the capacity to adequately and timeously respond to our people's needs. And the international component of development, which encompasses the ability to exercise autonomy in how international relations are conducted, is strongly promoted. Noting that conditions do not allow for an immediate total application of socialist principles to the economy, our developmental state, at the very least, has an obligation to introduce a regulatory regime that creates a better balance between economic sectors; facilitates dispersal of growth and income opportunities geographically, racially and in social terms; and counteracts excessive foreign control and/ or economic power concentration.

Regulations are important enablers of development. If we are serious about changing the structure of the economy then we must use regulations to determine: the number of competitors in strategic sectors, using the telecoms sector as an example, whether there should be two operators in the mobile telephone market or four; the character of the competitors i.e. should it be small regional operators or should they all operate at a national level; the ownership structure i.e. whether the operator owners should be domestic, or if they could be international, or if it should be a mixture and the nature of that mix, and what percentage should be publically or privately owned; and where and how much investment should occur. Regulation must be used

to ensure access, for example, in South Africa the communications regulator enforces universal service obligations on mobile operators to ensure that persons in poor and rural areas have access to telephony services. And regulation must be used to target priority growth sectors and to stimulate domestic economic development and employment creation in line with our industrial policy.

The regulation of markets will not however necessarily translate into improvement in the quality of life of our people. Inadequate access to information about matters such as costs, revenues, and demand can contribute to imperfect regulation. The state must have the capacity to assess the impact of regulations before they are adopted. The appropriateness of various options must be tested before selecting a regulatory solution to a policy problem. Intended regulations must be assessed on a case-by-case basis to see whether it is the most suitable intervention to address specific policy goals. This will reduce the risks of costly mistakes, allow for transparency in the decision-making process, avoid arbitrariness, promote accountability and enhance the quality of public policies.

In order to produce effective regulations, the developmental state has to ensure that it has appropriate regulatory structures in place. Well capacitated regulatory structures are more likely to design and implement effective regulations that will contribute to improved economic growth and development. A well-functioning regulatory system balances accountability, transparency, and consistency. Regulatory institutions have to act within the law, observe due process in the execution of their responsibilities and take responsibility for the consequences of their actions. The methods used in deriving at decisions have to be objective, consistent and transparent. Furthermore, the operations of regulatory structures cannot be confined to a national level. Markets have become boundary-less, transcending nation states. Regulatory bodies thus have to be linked with others on the continent and with other such bodies across the world if they are to perform optimally.

Our people want access to good quality products and services. They want improved efficiencies at lower costs. They want utilities that are financially viable with the capacity to expand and modernise. They need an economy that can absorb displaced and new entrants into the labour market; and an environment that guarantees a decent quality of life. The market, left to its own devises, will not address these needs. Besides its natural inclination towards profit maximisation, our historical legacies of unequal access to resources and low entrepreneurial and skills levels make it impossible for the market to independently flourish in the manner and at the scale required to address the conditions of unemployment and poverty prevalent in our country. Whether to regulate or not should therefore not be a debate. Regulation is a necessity. Pragmatism demands that governments operate in the sphere of the market to address market failure and to ensure that developmental objectives are met. And a developmental state, by the very fact that it is interventionist in character, has to use regulation as a key instrument for achieving its goals. ★

***Cde Fourie** is an SACP activist.*

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Expanding Democratic Public Control over the Mining Sector

In this Discussion Paper the SACP takes a fresh look at the mining sector, arguing for accelerated democratic control

With the promulgation of the Mineral and Petroleum Resources Development Act (MPRDA) in 2004, the ANC-led government appeared to take a major step forward in realising the Freedom Charter's call to restore the wealth of our country to the people as a whole. In terms of this Act, ownership of the "mineral wealth beneath our soil" was nationalised, ownership of all mineral resources was transferred to the state, acting (at least in theory) as custodian of these resources on behalf of the people of SA as a whole. Henceforth, in order to have the right to mine, actual or aspirant mining companies were required to apply for "new mining rights". A new mining right entitled the corporate holder to a 30-year operational licence, but it no longer bestowed any private ownership over the resource itself. In exchange for a mining licence, mining companies were obliged to fulfil certain requirements as stipulated in the Act.

On the face of it, this was a major revolutionary step forward. But this important advance was seriously compromised from the very start. While there were several requirements to be met in exchange for a new mining right, a 15% black equity stake by 2009 and a 26% target by 2014 tended to trump everything else. As we will elaborate in some detail below, this narrow "black economic empowerment" (BEE) equity requirement has introduced many anomalies. Among other things, billions of rands of public money held, for instance, by the Public Investment Corporation (PIC), have been consumed in driving a narrow BEE mining sector programme. The potential leverage embodied in the MPRDA's nationalisation of our mineral resources in the ground has largely been squandered in this way. In fact, a narrow BEE focus has actually set back the real transformation of the critical mining sector and, therefore, the overall transformation of our economy. Key strategic goals – including the inter-related challenges of job creation, industrialisation through (amongst other things) increased beneficiation of our natural resources, addressing environmental sustainability, and generally placing our economy onto a new growth path - have all tended to be side-lined, undermined, or entirely displaced by the predominance of this narrow BEE focus.

This is why it is absolutely essential to locate the question of transforming the mining sector within the wider context of

our overall strategic objective of placing our country onto a new job-creating and more egalitarian growth path. It is critical always to ask: in whose class interest is a particular intervention? How do we use the MPRDA's nationalisation of our mineral resources in the ground as leverage, now, to expand ever greater and more genuine social ownership and control over the use of those resources? As we will argue in the course of this intervention, there is no simple answer to this question. Certainly, greater state ownership and control over our mineral resources is one important aspect of an overall strategy that is required. But unless state ownership and control is integrally linked into a broader transformational agenda, we might find that "nationalisation" simply advances the narrow interests of an emergent black capitalist stratum while barely troubling the profit-maximising interests of incumbent mining houses. This has, unfortunately, largely been our experience since the MPRDA's well-intentioned 2004 "nationalisation" of the mineral resources beneath our soil.

It is time for a major review of our policies in the mineral sector. But before we consider mining more specifically, it will be useful to locate the debate on mining within its wider context.

The SACP's strategic perspective

The SACP is committed to building a socialist SA in which our society and its economy are shaped around meeting the social needs of our people. To realise this socialist ideal we need to increasingly roll back and eventually defeat a system of accumulation in which social (including environmental) needs are marginalised and often brutally suppressed in the pursuit of maximising private profit.

In South African conditions, the most direct route to a society prioritising social needs is by way of a radical national democratic revolution as envisaged in the Freedom Charter. After 1994 and the defeat of the apartheid state, the NDR entered into a new phase. This was a phase in which the principal task became (or SHOULD have become) the transformation of a semi-colonial capitalist growth path, hard-wired into our society by over a century of imperialist-dominated, semi-peripheral capitalist development. For reasons to be elaborated below, after 1994 there was a general failure to pursue the new strategic task of the NDR. It is imperative that we now regain the ground lost and that we focus our movement and our people on the core task of the NDR in the post-1994 phase. Transforming the mining sector to bring it under increasing democratic public control is one important aspect of this core task.

For the SACP a radical NDR is our minimum programme. Our strategic objective is socialism, and a key condition for achieving a socialist economy will be democratic public control of strategic sectors of the economy. One, but not the only, important means for achieving such public control will lie in state ownership, supported by other forms of social ownership and control, including ownership by the direct producers themselves, through, amongst other things, a vibrant cooperative sector.

However, state ownership of strategic sectors of the economy will only advance our NDR (and socialist) objectives if the state in question is transparent, disciplined, democratic and increasingly aligned to transformational and developmental objectives. Or, to put the same assertion in a different form – the state would need to be under increasing hegemony of the working class and poor.

State ownership can be (and often has been) used to advance the interests of private accumulation by a minority. Indeed, there are many examples in which state-ownership has been used to intensify the super-exploitation of workers and the oppression of all popular strata. This is a point that we will elaborate upon in subsequent sections of this intervention.

The 1996 class project and the background to the present nationalisation debate

To correctly appreciate the current debate around the mining sector we need to understand better the recent policy debates and differences within the ANC and the alliance it leads. In particular, we need to understand what has been at stake in the opposition to what the SACP and Cosatu have described as the "1996 class agenda". At the heart of the 1996 class agenda was a two-fold strategic programme:

- The restoration of economic "growth" (i.e., in effect, growth along the same basic semi-colonial path as before) after a decade of apartheid economic crisis and decline; and
- The promotion of a new black capitalist stratum that would, supposedly, co-own and co-manage the economy with established capital, thus supposedly "helping us" to achieve our national democratic objectives.

Both aspects of this strategic programme represented major departures from the core historical objectives and ideals of our NDR. The Freedom Charter quite correctly called for the abolition of all racial limitations on the right "to trade…to manufacture and to enter all trades, crafts and professions". But the Freedom Charter also subordinated this basic right to the overall challenge of restoring the wealth of our country to our people as a whole. The Freedom Charter NOWHERE speaks of the creation of a new black capitalist stratum as a strategic objective.

Of course, the emergence of a stratum of black capitalists was always likely to be a natural outcome of the removal of racist barriers in our society (at least as long as SA still remained a capitalist society). However, for the first time ever in the history of our liberation movement, the "1996 class project" elevated a subsidiary outcome of democratisation, a by-product of de-racialisation, into a key strategic objective of the "NDR" itself.

The 1996 class agenda contained within it the seeds of many contradictions. Among the major inherent contradictions within this "1996 class project" was the inevitable tension between:

- the requirements for r**estoring South African capitalist accumulation** back to its traditional growth path after a decade of deepening crisis in the last years of apartheid, on the one hand; and
- **the primitive accumulation process** required for establishing a new stratum of black capitalists (aspirant capitalists without capital), on the other.

The first objective required that the new political stratum use state power to create an investor-friendly environment, to facilitate conditions for major South African corporations to expand regionally and internationally, to take a tough line on the budget deficit (i.e. reduce the tax "burden" on the bourgeoisie), and to address "bottle-necks" that had built up during the last 15 years of apartheid rule. It also required the stabilisation of a bourgeois "rule of a law", the guarantee of property rights, and "sound"

political management of the state (i.e, "sound" as assessed by the "markets" and their sooth-sayers, the international ratings agencies and transnational auditing firms). This objective also required the marginalisation of the left within the ANC and its broader alliance.

The second process was faced with the challenge of how a stratum of aspirant capitalists was to accumulate capital in order to become capitalists. Two interlinked strategies have been pursued:

- The **statutory levying of capital from the existing bourgeoisie** through BEE legislation, notably the BEE Codes, and other BEE-related state-driven interventions - in essence this amounted to a marriage of convenience between elements of the new political caste and established capital. In exchange for the lobola of "market friendly" state policies of the kind noted in 9 above, established capital agreed, with varying degrees of reluctance and sincerity, to release a portion of ownership stakes to the new elite.[1] This leg of the primitive accumulation drive has been fraught with weaknesses. Targets are seldom met. Not all of the aspirant capitalists without capital can be accommodated, and many of the BEE beneficiaries have been sold marginal operations (like many of the BEE mines – see the current Aurora Empowerment Systems disaster). Much of BEE capital is also typically highly-leveraged, that is, heavily indebted capital. Much of this capital is held in the form of shares on loan, requiring re-payment over a fixed period and subject to the fluctuations of the stock market. BEE capital is also typically not productive – but rather capital taken out of productive circulation, and therefore out of job-creating investment. Moreover, risk vests not with those upon whom the shares have been bestowed, but on the vendor (i.e. the incumbent capitalist company seeking to be "BEE compliant") and on the banks backing the deal. This encourages BEE beneficiaries to accumulate risk-free, zama-zama deals rather than to focus on productive entrepreneurial activity. For all of these reasons, this BEE capitalist stratum often does not, and cannot, play the full role of a capitalist class in its own right. Its ownership role is often nominal (fronting), and its active managerial role in the productive investment of capital is limited. These are the reasons we have described it as having "compradorial" tendencies – i.e. it often acts as little more than a go-between, representing the interests of big capital (both domestic and international) in local deals, particularly state tenders. The conclusion that we should draw from this is not that we should now intensify our efforts to have a "genuine" black capitalist stratum as an important strategic objective of the NDR – but rather that any attempt to elevate the creation of such a black capitalist stratum as a strategic priority of the NDR inevitably reinforces the hegemony of established capital in our country. It is THEIR game, not our NDR.
- If the statutory levying of capital from the existing bourgeoisie has been one source of BEE capital, then the unabashed **looting of public resources** has been the other. Like all emergent capitalists before them – from the modernising landowners of 17th century England who en-

> closed the commons, to the Randlords of South Africa in the late 19th and early 20th centuries – our own emerging black capitalists have often shown scant regard for the niceties of law, or respect for public property and resources. Over the past decade and a half, there has been a massive diversion of public resources, using state procurement whether on a grand scale (as with the arms deal) or on the micro, local government level. Tender-preneurship, javelin throwing, import fronting, privatisation deals, and inflated managerial "performance" bonuses and golden-handshakes in parastatals, have also been key mechanisms for this kind of primitive accumulation. Some of this has had the sanction of "law". Much of it has been plain corruption.

It is easy to see how, sooner or later, the 1996 class project would run into a series of internal contradictions, particularly between the requirements of upholding a bourgeois rule of law that would meet the approval of Ernest & Young and their kind, on the one hand, and the inherent lawlessness implicit in a primitive accumulation process parasitic on the state and public resources, on the other. Particularly from around 2005, the contradictions between the interests of those who were now more firmly established as capitalists (and who were happy for a blind eye to be turned on the probity of their own earlier accumulation) and those who felt they had not yet sufficiently arrived began to play themselves out within the ANC and government. It was also not accidental that many of these contradictions internal to the 1996 class project were to centre around the question of the "rule of law", and around what constituted, or did not constitute "corruption". The leading personalities associated with the1996 class project were unable to maintain stability among the contradictory forces that they themselves had unleashed. This was a key contributory factor to their defeat, notably at the ANC's Polokwane 2007 national conference.

Post-Polokwane and the new tendency

As we have said before, the forces propelling this defeat were themselves not united. On the one hand, the SACP, Cosatu and many others within the ANC attempted to advance a systematic critique of the reformist *policies* of the 1996 class project. On the other hand, there were those whose opposition to the circle around former President Mbeki was rooted not in policy considerations, but in petty personal rivalries, thwarted business and political ambitions, and a sense of injustice that the rule of law was being bent for others, but not sufficiently for them. The current ideological battlelines within the ANC lie, essentially, between those for whom the ousting of the Mbeki group was about creating the conditions to change policy, and those (the "new tendency") for whom the ousting was about clearing more space for their own turn at the primitive accumulation feeding-trough.

We are now in a better position to understand why not all of the recent calls for the "nationalisation of the mines" are what they might seem to be. In the last eight months or so, those forces most vociferously associated with the call for the nationalisation of the mines, are also the same forces who appear to be involved in private accumulation by way of questionable state tenders and the apparent abuse of public resources. These forces who are

making a call that appears to be left-wing and radical, are at the same time leading a virulent anti-communist and anti-trade union sectarian agenda. Why the paradox? The answer lies in the fact that for these forces nationalisation is intended to serve essentially the purposes of narrow BEE primitive capitalist accumulation.

Beneath the pseudo-socialist rhetoric, this basic fact often inadvertently slips out. For instance, this is how one comrade recently contextualised his call for "nationalising" the mines:

"Today these diamonds are so bright, they are colourful – we refer to them as white people. Maybe this colour came as a result of exploiting our minerals. Perhaps if SOME of us can get the opportunities of these minerals we can develop a nice colour and look like them."

Apart from exposing chauvinistic prejudices, the sentiments articulated here are remote from any progressive agenda. They are rooted in envy of white capitalists and in an agenda of enabling "some of us" to emulate their life-styles (life-styles based, of course, on the continued super-exploitation of the majority).

Marxism and the question of nationalisation

Marxists have never asserted that state ownership, per se, is an inherently progressive or socialist measure. In the late 19th century, and particularly after the capitalist crisis of 1873, Marx and Engels noted the tendency for new forms of capitalist enterprise and capital concentration to emerge. Apart from joint-stock companies and trusts, this process of capital concentration also involved the state taking ownership of key sectors of the economy.

"the official representative of capitalist society – the state – will ultimately have to undertake the direction of production. This necessity for conversion into state property is felt first in the great institutions for intercourse and communication – the post office, the telegraphs, the railways." (Engels, "Socialism: Utopian and Scientific", 1880).

Engels was very clear that, in this case, state ownership was NOT about abolishing capitalism. On the contrary:

"the transformation…into state property, does not do away with the capitalistic nature of the productive forces… The more it [the bourgeois state] proceeds to the taking over of productive forces, the more does it actually become the national capitalist, the more citizens does it exploit. The workers remain wage-workers – proletarians. The capitalist relation is not done away with. It is rather brought to a head." (Engels, ibid.) [2]

In the course of the 20th century, state-owned corporations were to be a feature of both socialist and capitalist systems. What Engels, perhaps, could not have known in the 1880s was that capitalist accumulation could also result in the reversal of state capitalism through privatisation. Many of the "great institutions for intercourse and communication" that Engels referred to ("the post office, the telegraphs, the railways"), whose original infrastructure construction costs had necessitated bourgeois state ownership (i.e. making them part of a national debt), were later to be privatised.

In the last few years, in particular, we have also seen the inverse occurring. In the midst of the global capitalist crisis, many leading capitalist states have actively intervened once more to nationalise parts of their economies facing collapse, notably in the banking sector.

Fannie Mae does a full circle

In the US, the low-cost housing mortgage entity, the Federal National Mortgage Association (FNMA) – commonly known as Fannie Mae – has been through a full cycle of state-ownership, to private-ownership, and back again to effective state-ownership. It was founded in 1938 in the midst of the Great Depression as a state-funded mortgage association. Its mandate was to restore liquidity into the lower end of the capitalist housing market. It was an important plank of President Roosevelt's "New Deal" designed to rescue capitalism in the US. In 1968, at the height of capitalism's golden era, Fannie Mae was privatised and turned into a stock-holder corporation. Following the 2007 sub-prime housing crisis, Fannie Mae was, once more, effectively re-nationalised by George W Bush Jnr.

What all of this serves to illustrate is that there is no necessary straight line of progressive evolution from private ownership to state ownership to socialism. State ownership is a legal form, but the mere fact of state-ownership doesn't tell us what kind of state we are dealing with. Nor does it tell us what actual class function within the cycle of production and reproduction a state-owned sector is playing in any given economy and at any given time. Hitler's Nazi Germany, Mussolini's fascist Italy, and Verwoerd's apartheid South Africa all had extensive state ownership of key sectors of the economy.

Once upon a time our gold mines were actually nationalised…and without compensation!

It is now usually forgotten that the gold mines in today's Gauteng were actually once taken over by the state and without compensation! During the Anglo-Boer War (1899-1902) with the Randlords decamping to London and funding the British imperial army, President Kruger's Transvaal Republic commandeered the gold mines and ran them on a scaled-down basis. One of the reasons for the Randlords supporting the war and a British take-over of the Transvaal had been the allegation that the Boer republic was "too soft" on the black labourers on the mines. Despite this allegation, Kruger's government managed to depress the starvation wages of black workers on the nationalised mines still further, to one pound a month.

In short, state ownership can serve many different class agendas.

The mining sector in South Africa

Mining is an extractive industry that depletes non-renewable natural resources. Sooner or later mineral deposits are exhausted, or become unprofitable to mine for various reasons, including the increasing depth of the deposit, or the lower grade of the ore, or the energy costs involved in extraction or in pumping out water. In addition to and related to these challenges, mining as an economic sector is particularly vulnerable to both the **"Dutch Disease"** and the **"Resource Curse".**

The Dutch disease and the resource curse

"Briefly, Dutch Disease refers to the deindustrialisation of a nation's economy in response to the discovery of a natural resource. The wealth generated by this discovery appreciates the nation's currency, thereby undermining the competitiveness of that country's (manufactured) tradeables sector. The Resource Curse refers to a broader (more political) set of harmful effects. In addition to Dutch Disease, the Resource Curse considers how

resource abundance can trigger corruption, distributional conflicts, rent-seeking behaviour and so on." (from Jonathan W Moses, "Foiling the Resource Curse: wealth, equality, oil and the Norwegian state", in Omana Edigheji (ed.), Constructing a democratic developmental state in South Africa, HSRC Press, 2010, p.141)

In some key mineral sectors, notably gold, mining in South Africa has passed its hey-day. In recent commodity booms, both immediately before and after the global recession (2007/8), South Africa's gold mines were unable to respond to rising prices with increased levels of output. But in the strategic platinum minerals group SA has some 90% of known global reserves and, according to a recent Citigroup analysis SA is second in the world in terms of (non-energy) mineral reserves (estimated at some 165 years), and first in the world in terms of the value of known (non-energy) mineral reserves. Far from being a "sunset" sector, mining remains a key pillar within our economy.

In the 1970s mining contributed around 14% to GDP. It is now down to 8% direct (and an estimated further 10% indirect) contribution to our GDP. But mining still employs around 500,000 workers (and indirectly contributes, perhaps, to another 500,000 jobs). More than 50% of the country's merchandise exports are from mining. About 9% of gross investment, and close to 30% of capital inflows into the economy are in mining. In addition, beneficiation (basically of coal) is responsible for 93% of our electricity generation capacity, and about 30% of our liquid fuel supply (through SASOL). While in the last three years SA has lost its century long position as number one world producer of gold (it is now third), we have 90% of the world's platinum group metals reserves, 80% of the world's manganese reserves, 73% for chromium, and 45% for vanadium. We also still have abundant coal reserves. By any account, the mining sector remains a very significant strategic asset for our country.

And it is precisely in this context that we need to appreciate the Freedom Charter's clarion call to make the mineral wealth beneath our soil the shared wealth of all our people. But how?

In order to better understand how we can move progressively to realise the objectives of the Freedom Charter, it is important to understand some other features of mining in SA.

Corporate restructuring to 'release share-holder value'

More than ever, our mining sector is deeply integrated into the global capitalist economy. Precisely because of the historical dominance of the mineral-finance-energy sector in our economy and the relative weakness of the manufacturing sector (a symptom of the "Dutch Disease" that has impacted upon our economy for over a century), the great bulk of our mining commodities are exported relatively unprocessed. This makes the viability of the sector vulnerable to global economic downturns (as witnessed in the recent global crisis), and also to other factors largely beyond our control (for example, the value of the Rand relative to other major currencies).

These external vulnerabilities and the related historical neglect of downstream local beneficiation have generally worsened over the last 15 years as a result of major corporate restructuring in the mining sector. Exploiting post-1994 local liberalisation measures and pursuing global corporate restructuring trends to "release share-holder value" and to "fo-

cus on core business", the major mining houses in SA have been involved in a complex process of mergers, acquisitions, divestitures and unbundlings, and even strategic liquidations. As a result, formerly South African mining houses have become even more integrated into transnational corporate operations, a process that has seen:

- In some cases, the shifting of headquarters and primary stock exchange listings off-shore;
- Major investments in mining operations in other countries (including in Colombia, Ghana, Angola, and in the ruthless scramble for the DRC). In at least some of these cases, the motivation for focusing outside of SA has little to do with better mineral reserves, but with weaker labour and environmental legislation; and
- The "streamlining" of operations – including the selling-off of marginal mines, increasing corporate specialisation in particular mineral sectors, and the dismantling of pyramid structures.

This last aspect of restructuring has also seen the dismantling of what had previously been multi-sectoral up- and down-stream integrated corporate structures – in which big mining houses also had major "upstream" interests in finance and chemicals (originally for the explosives required) and multiple "down-stream" interests in manufacturing and services. This restructuring, justified in terms of "realising shareholder value", and, therefore, of being able to attract the vast sums of capital required for mining, has played a major role in the de-industrialisation (and job loss) processes that have afflicted our manufacturing sector over the past 15 years.

ArcelorMittal versus Kumba Iron Ore

One of the vestiges of the former horizontal up- and down-stream corporate interconnectedness is playing itself out at present in the battle between ArcelorMittal SA and Kumba Iron Ore. Both of these entities trace their origins back to the formerly state-owned Iscor. After privatisation (in 1989) Iscor continued to own and operate ore mines and steel plants. In 2001 Iscor was unbundled into separate private corporate entities involved in mining (Kumba Resources) and steel (the current ArcelorMittal). As part of the restructuring deal, it was agreed that Kumba would supply ore to ArcelorMittal at 3% above production costs. At the time this was a favourable deal for both. But in the past months, with China and other global manufacturers gearing up on their iron ore stocks, Kumba could be getting up to 40% more for its ore on the global market. Naturally Kumba wants to walk away from its deal with ArcelorMittal, but this would have dire consequences for local jobs and local supplies of steel. Meanwhile ArcelorMittal is also not an angel – it is being threatened by Kumba with precisely what it has been guilty of: charging local manufacturers inflated steel prices based on the global market price (and even marking up on it).

The divestiture of marginal mines has, as we have noted, also been a feature of the accelerated corporate restructuring process underway over the past 15 years. Selling off marginal mines, or even going into tactical liquidations relieves former owners of costly rehabilitation responsibilities and problematic worker retrenchment challenges. Over the recent past this kind of divestiture has also had the additional advantage that it can be cynically trumpeted as "black economic empowerment", allowing "new entrants"

into the sector.

Current legislation introduced by the ANC-led government imposes (at least in theory) strict responsibilities on mine-owners for dealing with underground water pollution and water decontamination – although a recent newspaper report indicates that some 120 mines are operating "legally" with mining licences but without water management clearance certificates. To dodge the responsibility of managing waste water, in addition to phoney BEE deals, some of the major corporations have been involved in complicated restructuring processes in mines affected by underground water challenges – one shell company after another "purchases" the mine, and while profits are shipped off-shore, it becomes increasingly difficult, legally, to recognise who the actual owner of the offending mine is.

All of this corporate restructuring in the mining sector, in order to "maximise share-holder value", means that nationalising the mining houses as a means to realise key strategic, developmental goals has become considerably more complicated. Simply taking over existing restructured corporate firms with a view to implementing greater beneficiation, for instance, has become considerably more challenging.

Nonetheless, what ARE the reasons for advocating the nationalisation of the mines?

Possible objectives of state ownership of mines

When we advocate for the nationalisation of the mines, we often do so for a range of different reasons. Arguments advanced for nationalisation of the mines include:

- **Increased revenue for the state.** Why pay dividends to private share-holders (many of them not even living in SA)? Why not nationalise and let the state be the share-holder? Mine-derived dividends could then be redistributed into social programmes, for instance.
- **Increased beneficiation** – if the state owned the mines, then we might be able to ensure that there was increased beneficiation of our minerals. This would have a positive spin-off in terms of job creation and it would help with our trade balance.
- **Social objectives** – there are also a range of different social objectives that could, in principle, be better addressed if the state were the owner of our mines. These include:

– the huge, multi-billion rand task of **environmental rehabilitation**, including the very pressing problem of water pollution related to a century of mining operations . In principle, a developmental state guided by social objectives would be better placed to address this huge social challenge, as opposed to a profit-maximising private mining corporation.

– **job preservation and social programmes**. As an extractive industry that sooner or later depletes a resource, mining, particularly in mature sectors, presents many challenges for job security and for social programmes, including reskilling, etc.

– **mine safety** – profit maximising operations are always liable to cut corners on worker safety. This is a particularly important challenge in a sector that is as physically demanding as mining.

– **community participation and local and Southern African develop-**

ment – surrounding communities (and rural communities supplying labour to the mines – including neighbouring countries) often do not benefit or benefit only marginally from mining operations. State ownership of the sector could, in principle, be used to drive a more balanced local and regional developmental agenda.

All of these are, in principle, perfectly legitimate reasons for nationalising the mines. However, the first point to be noted is that these different reasons for nationalising are potentially mutually contradictory. Seeking to maximise public revenues through dividend flows, for instance, using the mines as cash-cows for the state's coffers is likely to introduce perverse managerial incentives. If, as a mining SOE manager, you are under pressure to produce a sizeable dividend for your (public-sector) share-holder, you are likely to resent the potentially costly effort of ensuring down-stream beneficiation, or the meeting of social responsibilities. We already have many examples of such perverse incentives in our existing SOEs like Eskom and Transnet.

Interestingly in Venezuela's state-owned petroleum company there are currently quite sharp struggles under way between the senior management stratum (under a political mandate to maximise revenues for the state) and workers (under an equally important political mandate of maximising worker democratic hegemony within the public sector).

An even bigger challenge applies, however, irrespective of the specific primary motive for nationalising mines. How would the state acquire ownership? As things stand, constitutionally, we would be obliged to buy-out existing share-holders in an industry that is currently estimated to be valued at around $US 250bn. Of course, it is more likely that we would go for a selective and incremental process of nationalising, rather than an attempt to buy the whole sector out in one go. An incremental approach certainly needs to be vigorously explored in detail and there are a number of possible avenues to be assessed. However, the challenge of affordability would still persist, as would the question as to whether the dividend revenue stream flowing to the state would, for instance, effectively compensate for the price paid (including the likely debt repayments incurred).

If, on the other hand, a social objective like environmental rehabilitation was the key strategic aim of a particular nationalisation exercise then the question arises – why should we exempt those who have made profits over decades from the responsibility of clearing their mess? Why should we place this burden onto the public sector? Part of a response to this is, unfortunately, that in many cases the real beneficiaries of a century and more of rapacious mining have long since disappeared (South Africa is estimated to have some 6000 abandoned mines), or palmed off the problem to "new entrants" – see the Aurora case. There may well be situations in which in the national interest the state will have to take over "ownership" in order to ensure that, for instance, key water resources are not irreparably lost. But this would be a case of a defensive nationalisation and would come at a huge cost to the fiscus – but the alternative might be too ghastly to contemplate.

Any proposed mine nationalisation would, in short, need to carefully consider each specific case and carefully identify what exactly are the key priorities we are trying to achieve. These might

vary from one mining operation to another, and from one corporate entity, or mineral sector to another. In some cases, state-directed beneficiation processes might be more promising, in others less so. We would also always have to ask whether the costs involved to the state (and therefore to the public) were the correct priority for what is always likely to be an extremely expensive purchase, given many developmental challenges confronting the national fiscus.

And finally we would always need to ask whether we could not achieve many, or all of the strategic objectives through OTHER forms of state intervention and popular mobilisation besides state ownership of mining corporations as such – eg. through more effective taxation, including windfall taxes based on fluctuations of commodity prices, or a similar super-profit tax (as is being proposed in Australia, for instance), or making beneficiation investments part of the requirement for obtaining a mining licence (some of these proposals will be touched upon in the final section).

What about expropriation without compensation?

What about following in the footsteps of President Kruger and simply expropriating without compensation? There are many persuasive **moral** reasons for arguing that those operations that have bled our country dry over a century should now be expropriated without compensation. However, we should remember that nowadays share-holders in our mining sector include multi-billion dollar local and international workers' retirement funds, or Chinese state funds, for instance. So it wouldn't be a simple case of happily expropriating only Randlords and their direct class offspring.

Expropriation without compensation would also be met with a major investment-strike [3] and while we should never allow ourselves to be intimidated by "market sentiment", we would need to bear in mind that ownership of a mine is one thing, operating a mine typically requires ongoing major capital inputs. This is a hard truth that Aurora Empowerment Systems and their unfortunate workers on their Orkney and East Rand mines are now discovering. It is also a hard truth that we have experienced with one of our current state-owned companies – Alexkor. Alexkor has lacked the capital to carry out detailed and effective surveying of its holdings and this has been one factor why it has battled with sustainability, and fallen behind its private sector competitors.

None of these challenges are raised with a view to arguing that "nothing can be done" to transform the mining sector as part and parcel of the overall transformation of our economy and society. On the contrary, we are raising these challenges so that we are better able to debate and guide the struggle for a comprehensive national democratic revolution and transition to socialism that is strategic and sustainable. In the concluding section of this intervention we will propose some concrete steps to be taken for the transformation of the mining sector in SA – including an increased state ownership.

But before we get there, it is necessary to return to one other reason, which we have already alluded to, that is often the real underlying motivation for some of the current "nationalisation" calls, namely - advancing the primary accumulation interests of a narrow BEE capitalist stratum.

BEE and the mining sector

In October 2002 stakeholders in the

mining sector reached agreement on a charter for the sector. The charter came into effect in May 2004, following the enactment of the Mineral and Petroleum Resources Development Act. In terms of this Act, companies with mining rights had to apply to the Department of Minerals and Energy (now Mineral Resources) for "new-order mining rights". To receive new-order rights, companies had to achieve 15% black ownership within 5 years and 26% in 10 years.

Government has awarded all companies new-order rights, but with the 5-year mark already passed it is doubtful that the sector has remotely met its 2009 target of 15%. One economic analyst specialising in the mining sector, Duma Gqubule recently estimated that the gross value of black shareholders in the listed platinum sector, for instance, was "R30,7bn or 7,95% of the sector's total market capitalisation." (*Business Day,* 12th April 2010). (That figure will have diminished even further since Gqubule's survey, with Mvelaphanda Resources' announcement in early May of a R2.2bn sale of shares in Northam Platinum to the Kazakhstan-based minerals group ENRC).

As Gqubule notes, the 7,95% figure is also distorted by the fact that a large chunk of it is represented by the somewhat anomalous pre-charter Royal Bafokeng Nation shareholding in Impala Platinum (Implats), which at R19,9bn accounts for 65% of the 7,95% of the platinum sector's BEE capitalisation.

Even before the onset of the global capitalist crisis in 2007, many BEE mining interests were in trouble as a result of their high levels of indebtedness and also as a result of many being positioned within marginal mines. With the collapse of commodity prices from 2007 through to early 2010, the entire mining sector was adversely affected. Given their vulnerability, BEE mining interests were especially impacted.

The case of Mvelaphanda Resources and Kazakhi Economic Empowerment!

Among those seriously hit by the recession was Mvelaphanda Resources (Mvela). By last year it found itself with a whopping debt of R4-billion around its neck. In order to rescue itself (or rather the financial interests of its major share-holders), Mvela has been scurrying around looking for buyers. According to mining analyst Jim Jones:

"Mvela's initial idea was to sell its 50 million Gold Fields shares for R5,5 billion or so, repay the debt, use what remained to follow a Northam rights issues, raise money to finance turning Northam's Booysendal platinum prospect into a producing mine and finally distribute the Northam shareholding to Mvela's own shareholders." (Business Times, May 2, 2010). Mvela sold some 16 million Gold Fields shares, enabling it to repay around R1,86 billion of its debt, but at the beginning of 2010 Gold Fields shares tumbled and this made further sales less viable. And so, Mvela then reverted to trying to sell off R2,2 billion in Northam. This is the context of the R2,2 billion sale of shares by Mvela to the Kazakhstan-based ENRC, noted above. Jones summarises this whole sorry process as follows:*"Nine years after its founding by Tokyo Sexwale, Mvela is arguably the most prominent BEE failure. It has been twisting and turning for well over a year to get off the hook of crippling debt and, indirectly, to help those of its BEE shareholders who have borrowed to finance their shareholdings."The R2,2-billion sale to ENRC will certainly have helped the BEE share-holders, and it has probably played a role in narrow KEE (Ka-*

zakhi Economic Empowerment), not to mention LEE (London economic empowerment – where ENRC is listed). But has the sale advanced the South African public interest? While the Mvela Resources story might be "the most prominent BEE failure", it is certainly not out on its own. Gqubule, for instance, writes that:"everyone in the industry knows that Incwala, Lonmin's R4,5bn 'black-owned' offspring, has gone bust. In the year to September 2009, Lonrho suffered a 50% (or 1,2bn) revenue collapse, a loss of 129m and retrenchments. This had a huge effect on Incwala, whose future is now uncertain." (Business Day, *12th April 2010).* [4]

BEE lobbying for 'nationalisation'

This background now helps us to understand much better some of the paradoxes of the recent "nationalisation" debate. Many months before the ANCYL president began publicly to campaign on this ticket, forces closely linked to the ANC (and to some of the corporations noted above) had quietly begun to lobby for government to nationalise the platinum sector.

It was for this reason that, in December, and in response to the ANCYL, the SACP, while supporting the principle of nationalisation, warned that in the current conjuncture it could simply be a ploy to bail-out indebted BEE interests, diverting billions of rands of public funds to serve the interests of a narrow black (and white) capitalist stratum.

Notwithstanding his own intimate knowledge of the sector, mining analyst Duma Gqubule, in a report commissioned by the SA Mining Development Association (an initiative of BEE mining companies), wrote: "We reject with utter contempt the illogical view of the SACP that state ownership in mining is a ploy to bail out BEE shareholders. In the case of the listed platinum sector there are no BEE shareholders to bail out at holding company level." (quoted in *Business Times,* 28 March, 2010)

We have no interest in picking a quarrel with Gqubule who has, indeed, been advancing some interesting proposals around possible directions for state-ownership in mining to drive industrial policy objectives. However, it is disingenuous of Gqubule to use "holding company participation" as a reason to throw doubt on the fact that there are indeed BEE (and non-BEE) shareholders in the platinum sector who over the last year have been actively courting "nationalisation" in order to bail themselves out. While Gqubule's own statistics quoted above show that black share-holding in platinum was around R30,7-billion, and while that "only" represented 7,95% of the total listed shareholdings, it is still not an insignificant sum, particularly if it is encumbered, i.e. a debt that you are battling to pay off so that you can take your capital and speculate somewhere else.

Gqubule has suggested that a "quick-win" nationalisation for government would be to use the Public Investment Corporation, our public sector fund-manager (holding R820bn from the Government Employees Pension Fund), to increase its share in Implats (the second largest platinum miner in SA) to 13,5% at a cost of about R6-billion. This, together with the Royal Bafokeng Nation holding would give the state together with "black" capital a majority share-holding. Gqubule does not explain why he is so sure that the strategic objectives of the state and those of the Royal Bafokeng Nation coincide, and therefore why this would amount to "nationalisation", or a positive use of R6-billion of public money. [5]

But nationalisation of the mines and/or the use of major public funds, like the PIC, as a means for bailing-out debt-ridden BEE capital are not the only reason why some sectors of aspirant BEE capital have been supporting the idea of nationalising the mines. Senior officials in NUM report being lobbied by colleagues from within black management circles asking: "But why don't you support the nationalisation of the mines? If government takes over the mines they will turn to us to run them." Perhaps this kind of query is based on a genuine desire to enter the SOE sector in order to advance the developmental agenda of the ANC-led government. But, then again, it might be motivated by pervasive primary accumulation ambitions.

So why is Gqubule so dismissive of the SACP's position on this matter, when he actually knows better? Part of an answer might lie with who sponsored his research (the BEE mining association, SAMDA). On a more generous but related note Gqubule's confusion is certainly rooted in a major conflation that is constantly made between the interests of our country at large and the interests of a narrow stratum of "new capitalists"; between the interests of blacks in general and a few thousand beneficiaries of what has come to be codified as "black economic empowerment"; between hundreds of thousands of public sector employees and the Royal Bafokeng Nation, between real patriotism and the self-interest of a narrow elite that has crowned itself as a "patriotic bourgeoisie".

For many BEE-aligned analysts, when they speak of "the failures of BEE" they mean, primarily, the failure of established capital to meet statutorily required shareholding percentages. They call for more pressure to be put on private capital. They call for the state to be more robust in its measurements of BEE. But the time has come to pose different questions regarding the "failures of BEE".

What positive contribution, if any, are BEE ownership quotas in mining making to our developmental agenda?

Let us suppose that, in the mining sector, all black ownership quotas had been met by 2009 – would that have advanced our strategic objectives? Would our economy now be on a more job-creating growth path? Would we be beneficiating more of our minerals? Would addressing environmental rehabilitation be more advanced, and the crisis of mine-waste polluting Gauteng's drinking water have been averted? We are not suggesting that there is a simple answer to these questions. But the time has come to remove the taboo on asking them.

Linked to these questions is a further question – why, sitting as we do on what Citigroup estimates to be the largest non-energy mineral resources in the world (an estimated $25 trillion), has SA responded relatively sluggishly to the commodity boom occasioned particularly by the rise of China and India? Over the past 15 years, Brazil and Australia have both increased their export of iron ore, for instance, by some 400%. SA by contrast has only increased its export iron ore output by around 25%. According to one commentator: *"The mining industry in SA is not in crisis as such. Plenty of minerals get produced and metals constitute the largest slice of South African exports. But the industry just hasn't grown an inch in constant terms in more than a decade."* [6] No doubt several factors are at play in SA's relatively sluggish response to the global commodity boom – ageing gold mines, for instance. We also have stricter labour

legislation, and safety and environmental regulations than in some other countries – and these are often cited by mining corporations as reasons why they invest elsewhere. We should certainly not compromise on these matters and, in any case, they don't explain why Australia or Brazil (with comparable or even stricter labour market, safety and environmental legislation in place) have responded so much more effectively to the commodity boom. Because of their complicity in narrow BEE, and because they fear to undermine their privileged links into key government departments, the mining houses have been coy about raising openly what is, perhaps, the key reason for their relative reticence in moving aggressively with new mining investments and operations in SA – the 15% (going up to 26%) levy on capital and therefore on profits implicit in the BEE ownership target. Of course, if it can be shown that the multi-billion rand BEE mining ownership stake benefits our country as a whole then we should disregard the gripes of the big mining corporations, and live with the consequences of their relative lack of vigorous operational investment in our country. If, however, the drive to ensure a narrow BEE 26% ownership stake in mining is itself having a whole range of perverse impacts on our economy in addition to discouraging major private sector investment then surely we need to open up the whole area to further scrutiny and debate.

Expanding democratic public control over the mining sector - the way forward

Mining depletes non-renewable natural resources. The key strategic question for any country with a strong dependence on mining is, therefore, how to use this resource in ways that ensures it is leveraged to place the country on to a sustainable developmental path beyond the time when the resource is exhausted or too costly to exploit. A particular challenge with mining, as we have already noted, is the Resource Curse and the related Dutch Disease – over-reliance on mining is liable to reproduce a weak manufacturing sector, and resource booms are fraught with dangers of corruption and rent-seeking behaviour.

This means, in our case, that the question of how to carry forward the transformation of the mining sector cannot, and should not be taken in isolation from our overall national democratic strategic priority. That key strategic priority (which we have agreed upon within the Alliance and in government) is the imperative of placing South Africa on to a new growth path that is job-creating and more egalitarian in its outcomes.

Any major intervention in the mining sector, including possible nationalisation, needs to be justified in terms of how it will advance and be integrated into this key strategic objective. A major problem with the way in which much of the debate around nationalising the mines has proceeded recently has been that it has been approached as if it were a stand-alone matter.

A key component of the strategic task of placing our country onto a new growth path is the Industrial Policy Action Programme (IPAP). The transformation of the mining sector needs to be aligned with and integrated into IPAP. At present, the section dealing with mining in IPAP remains fairly general, and it requires further detailed elaboration. This is an important priority, and some of the measures proposed below need to be incorporated into this section of IPAP.

At the 52nd ANC national conference in Polokwane we resolved on the consolidation of a state mining house. Some partial work has been undertaken in government to identify state mineral holdings, both in terms of actual parastatal mining entities (like the African Exploration Mining and Finance Corporation and Alexcor) and in terms of share-ownership through the PIC, IDC, Limdev, etc. This work needs to be expedited. Critically we need to evaluate what lessons (positive and negative) can be learned from the current state and parastatal participation in mining. How can we consolidate and develop a coherent strategic approach using the state and parastatal sector? Critical to the establishment of a state mining house will be the clear identification of its strategic mandate and priorities. The limited experience so far suggests that there is very little coherence from the public sector in regard to mining activities. Insofar as there is a common strategic thread running through public mining entities like African Exploration Mining and Finance Corporation, then it appears to be activism on behalf of primitive accumulation for BEE capital.

A directionless African Exploration Mining and Finance Corporation?

The AE was launched by the former Department of Minerals and Energy in October 2007 as a wholly state-owned mining corporation. Ownership is exercised through the Central Energy Fund. AE is exempted from the provisions of the Minerals and Petroleum Resources Development Act. As such, it was launched with prospecting rights in the Witbank and Wakkerstroom coal fields. However, in a recent Business Day interview (February 17, 2010), the CEO, Sizwe Madondo, conceded that AE had very little in-house capacity ("three geologists, three mining engineers and a chief operating officer"). It is a moot point as to whether the state should become involved in the highly risky exploration business in the first place. (In the exemplary case of North Sea Oil, for instance, the Norwegian state while retaining full ownership of the resource, deliberately left the risk of exploration to the private sector.) However, in any case, AE does not appear to be seriously involved in exploration. In another interview in 2007 *(www.cef.org.za),* Madondo is quoted as saying "African Exploration is…in discussions with other mining companies, especially BEE groups, to form joint ventures. Exploration is expensive and a risky business and does not guarantee success, hence we are in discussions for joint ventures." This appears to suggest that the original strategy behind AE was to have an energy-focused state mining entity able to bypass the requirements of the Act in order to fast-track acquisition of prospecting rights whose risks but also potential profits could be shared with BEE partners and others. The original energy (and hence coal) focus of AE was clearly aligned with the fact that it is 100% owned by the Central Energy Fund. Since its launch, the Minerals and Energy Department has been split into two departments, Mineral Resources and Energy. The CEF falls under the Energy Department. Notwithstanding these reconfigurations, in recent times AE appears to be contemplating straying beyond an energy-related mineral focus. In the same February 2010 interview, Madondo is quoted saying: "Although coal and uranium were the company's main focus for now… there were opportunities in other metals such as nickel, manganese and platinum". All of this suggests a public entity without a

clear sense of its strategic mandate, or of why it is reporting to an Energy Department via the Central Energy Fund. This impression was reinforced early in 2010 with reports that AE had used its exemption from the Act to acquire improbable prospecting rights for tin, zinc and silver in the Tygerberg and Stellenbosch areas. While AE appears to have abandoned these plans, they were widely suspected of being a covert BEE land-grab of prime wine-lands estates.

A related task is to assess what role has been played/is being played by the ***PIC*** and our Developmental Finance Institutions (like the IDC) in the mining sector. How, if at all, are their investments in the sector aligned with our growth path and IPAP priorities? In the recent past, most of the PIC's share-holder activism appears to have been related to narrow BEE objectives. We need to set different strategic objectives for public fund investments in mining (and other sectors of our economy) – notably job-creation, beneficiation, environmental responsibility, etc.

The Minerals and Petroleum Resources Development Act (2002) marked an important potential step forward in realising the objectives of the Freedom Charter. Essentially this legislation made government the custodian of all mineral resources beneath our soil on behalf of the people of South Africa. All existing mining houses and all new aspirant miners have to apply to the state for 30-year mining licences. While this legislation was a major step forward, the time has now come to review it and amend it. In particular, we need to strengthen the requirements for acquiring licences – placing much more emphasis on downstream beneficiation, job creation and other social responsibilities.

The bizarre case of Limdev and ASA Metals…or how BEE trumps public ownership in legislation

Limpopo Economic Development Enterprises (Limdev) is the development arm of the Limpopo Provincial Government. It owns a 40% stake in ASA Metals, a chromite mining and ferro-chrome smelting company. A Chinese company, East Asia Metal Investment Company, owns the other 60%. In terms of the Minerals and Petroleum Resources Development Act, Limdev must sell 30% of its 40% stake in order to enable ASA Metals to be BEE compliant, and therefore obtain new order mineral rights. In other words, a PUBLIC entity (Limdev), at least nominally holding a share of a company on behalf of ALL the citizens of Limpopo (who are overwhelmingly black), does NOT count as a BEE entity! Following a cabinet decision to halt further privatisation of state-owned mining interests, Mineral Resources Minister, cde Susan Shabangu, ordered Limdev to halt the sale in August 2009. The Limpopo provincial government, citing the legislation, has apparently ignored this instruction and proceeded with the preliminaries for the sale. What is more, originally Limdev had proposed to reserve 12,5% of its 40% stake for the Ga-Maroga community living in the vicinity of the mine. The Limpopo provincial government appears now to have dropped even this gesture to a local community in favour of selling off the entire 30% to a variety of narrow BEE consortiums, including Tunache Investments led by Irvin Khoza and Ronnie Ntuli.

This example of the conflict between the Minerals and Petroleum Resources Development Act and cabinet's decision (in line with the ANC's Polokwane "state mining house" resolution) to halt further privatisation of existing state-owned

mineral resources underlines a bigger issue. It is not just a question of reviewing and amending the MPRD Act, it is also the broader question of **BEE ownership quotas** in the minerals (and, no doubt, other) sectors. What practically by way of job creation and the radical transformation of our growth path has been achieved through these quotas?

In its presentation to a recent Parliamentary hearing on the Mining Sector, the National Union of Mineworkers proposed that from 2014, the licensing process should be restructured, prescribing that new mining rights should be awarded on the basis of the following ownership profile:

- 49% share-holding to a private investor ("irrespective of race and gender");
- 31% share-holding to a new State Mining Company;
- 10% share-holding for Employee Share Ownership Schemes;
- 10% share-holding for Community/Traditional Authority or Worker Co-ops.

The SACP should strongly support, in principle, the critical shift that this NUM proposal makes. It marks a key move away from privileging narrow BEE primitive accumulation, focusing, instead, on worker and community empowerment, and it takes seriously the establishment of a State Mining Company. There are, however, practical challenges that need to be considered. Will this ownership model enable us to raise and sustain the volumes of operational capital required to expand our mining sector? For these reasons, we propose that a licensing formula of the kind proposed by NUM should be implemented strategically and on a case by case basis, rather than in a blockbuster fashion that exposes the public sector to unsustainable debt and runs the risk of undermining the expansion of productive mining activity. There is also the vexed question of how "community" share-holding is actually realised. With some arguable exceptions, "traditional authority" and "community" ownership schemes divide communities and are often manipulated by mining corporates and BEE interests for their own ends. A 49% private ownership (as proposed by NUM) can be tipped into a majority control through this kind of manipulation. We propose that local government shareholdings through municipal public entities are, in principle, a more empowering and democratic avenue to be explored.

The NUM parliamentary presentation contains other important proposals – in particular "**taking Mining Licensing and Applications to the Department of Trade and Industry**" and placing the new "**State Mining Company…under the direct responsibility of the Department of Mineral Resources and not Public Enterprises**". In particular, this proposal has the merit of providing the institutional means for a stronger alignment between mining licensing and our industrial policy strategies.

A **windfall tax regime** in the mining sector (of the kind that the SACP has proposed for SASOL) must be introduced. Norway has used its oil resources to run up a major sovereign fund, a national reserve to be stored away for when the oil runs dry. Australia is in the process of introducing a "super profits" tax (of up to 30%) on its mining sector, so that the country benefits as a whole from times when there is a major commodity export boom. Australia's minerals profile is somewhat different from that of SA's, and it has benefited from its close geographical proximity to China and India. Cost of transportation, our energy costs

with deep level mines, etc. all need to be factored into our own situation. However, global commodity prices are subject to enormous variation, and in boom times we should impose windfall taxes on sectors that are reaping mega-profits – after all, it is the public fiscus that is bearing the brunt of providing the transport and energy infrastructure required for mining whether in good or bad times.

An **international platinum cartel.** Generally, terms of trade are unfavourable to primary commodity producing countries (i.e. historically, the price they realise for the primary commodities they export declines relative to the price they pay for the manufactured goods they import). However, there are some current debates about whether this necessarily still applies – especially with the huge demand for (at least some) mineral commodities on the one hand and the related flooding of the international market with cheap manufactured goods particularly from Asia on the other. Australia, for instance, has focused on being a primary commodity (and high-end services) exporter to Asia and an importer of manufactured goods. Whether this is a sustainable strategy for SA is doubtful. However, as OPEC has proved, it is possible to buck the trend of unfavourable terms of trade by establishing an international cartel. SA (with nearly 90%) and Russia together control virtually 100% of the world's platinum group minerals. We should strongly consider establishing a platinum cartel with Russia in order to maximise our benefit as country from this critical strategic resource.

We must increase **worker hegemony** in the mining sector. Over many decades of struggle, important victories have been won in terms of union rights. On the safety front, NUM has succeeded in imposing a joint worker/management co-determination model. These are important socialisation steps, in which management's unilateral prerogatives have been reduced. There are many other worker challenges on the mines – including social plans, cooperatives for retrenched workers, and long-term development plans for mining communities and rural areas that are major suppliers of mine labour. We need to connect government's rural development strategic priorities with our worker organisation and worker demands on the mines. We also need to review and assess the experience with worker ESOP's. NUM has, correctly, insisted on a clear separation between ESOPs and BEE ownership schemes.

The role of South African mining companies outside of SA, and especially within sub-Saharan Africa, cannot be left to "the markets". A recent NGO study has, once more, severely criticised South African mining houses (including many with strong "BEE" credentials) for their gross human rights abuses in certain sub-Saharan countries. There are also allegations that some "BEE" mining houses have played a role in fuelling armed conflict in the DRC. Part of the "1996 class project" was to use state diplomacy, including presidential delegations, to promote South African capital (and notably BEE capital) within our region. We need now to critically evaluate the role of SA mining houses in our region and assess what can be done. We should certainly support job creation, industrial development and technological transfers within our region as part of an increasingly integrated regional developmental programme. Achieving this and the related placing of our own country onto a new developmental path involves defeating the sub-imperialist role that many South

African corporations continue to play within our region. South African regional trade and business diplomacy cannot simply consist in the uncritical promotion of South African capital regardless of its actual role and impact on our region.

Development corridors - Finally, working closely with our neighbours, we need to ensure that the infrastructure required by mining operations (rail, road, water, energy) increasingly has an integrated developmental impact. The historic tendency is for mining infrastructure simply to service mining enclaves and the export of raw commodities through the nearest port. Especially, but not only, for green-fields mining developments in southern and sub-Saharan Africa, we need to carefully assess optimal routing and the general features of, for instance, rail and road networks so that other economic sectors (for example, small-scale cashew nut farmers in Mozambique) benefit as "hitch-hikers". The potential downstream developmental role of mining is not confined to the beneficiation of mining products.

Conclusion

The opening up of a debate on the "nationalisation" of the mines is to be welcomed. It has enabled us all to take a fresh look at this key sector of our economy – a sector that all too often is erroneously described as a "sunset" industry in its totality. We have argued in this discussion paper for the accelerated consolidation of democratic public control over mining in our country. We have also argued that nationalisation (state ownership) is one important potential means for realising this strategic objective. However, on its own, nationalisation is too narrow a prism for approaching the totality of tasks required for the effective transformation of mining, and indeed of our economy as a whole. We have also noted how nationalisation can serve very contradictory class interests. In particular, we have used the example of how the MPRD Act's nationalisation of the minerals beneath our soil has been largely hijacked and leveraged to serve the narrow primitive accumulation interests of an emergent black capitalist stratum. We need to amend the Act so that this nationalised resource is now used to advance the well-being of all our people through our key strategic objective – placing our economy on to a new job-creating and egalitarian developmental path. We also need to ensure that any further augmentation of state ownership (in the operational side of mining, as proposed above for instance) equally advances this overall strategic objective. ★

Endnotes

1. Jenny Cargill estimates that at least R500 billion has been allocated to BEE, largely in the form of indebted shares. This compares with the less than R150 billion spent on low cost housing and land reform, for instance (Cargill, *Trick or Treat. Rethinking Black Economic Empowerment*, Jacana, 2010 p.xiii).
2. While recognising that this kind of state ownership advanced (rather than transformed) capitalism, Engels nonetheless believed that it represented the "final" phase of capitalism, and that it laid the "technical" basis for an advance to socialism. Developments in the 20th century were to show that this prediction made in 1880 was overly optimistic and evolutionist in character.
3. When the Department of Minerals and Energy (now Mineral Resources) produced a first draft of the Mining Charter in October 2002 suggesting 50% BEE ownership as a target, the value of listed mining stock lost R56 billion in two days, and the JSE lost R99 billion in the following week (Cargill, p.60).

4. In May 2010 with platinum prices on the global market beginning to recover, Cyril Ramaphosa's Shanduka Resources "bought" a 50,03 percent shareholding in Incwala. This share-holding was acquired basically with money put up by Lonmin. According to one commentator "Lonmin is playing bank. If the loan gets paid back, then I am happy. Plenty of these BEE deals have run into trouble because of market conditions…Incwala was effectively bankrupt." (see Business Report, May11, 2010, "Shanduka buys into platinum"
5. Gqubule's proposal to use the PIC comes precisely at a time when the Government Employees Pension Fund Board has had to step in to clip the wings of the PIC following its R6bn investment to help the BEE cement company AfriSam to finalise its deal with the Swiss company Holcim in 2008. At the time, the PIC's move raised eyebrows, partly because such a large amount of public money was being used to aid a company, AfriSam whose share-holders included former President Mbeki's close associates, among them one senior staffer in the presidency. Not only did the PIC investment raise questions around probity, but with the decline in the cement industry as a result of the global recession, the PIC (and therefore the government employees' pension fund) lost R2,2bn as a result of this strategically misguided approach to "transformation" (see Business Day, 6th May 2010).
6. Tim Cohen, "A Venezuela moment in SA's noble quest for change", Business Day, June 24, 2010

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Nationalisation: A Necessary Debate

Madoda Sambatha argues that nationalisation on its own is not inherently progressive – and that support for nationalisation should not be used as a voting index for the ANC's 2012 conference

The Freedom Charter's states, "The national wealth of our country, the heritage of all South Africans, shall be restored to the people; the mineral wealth beneath the soil, the banks and monopoly industry shall be transferred to the ownership of the people as a whole; all other industry and trade shall be controlled to assist the well-being of the people".

In its calls for the nationalisation of mines, the ANCYL has argued that this can be located squarely within the revolutionary ambit of the Freedom Charter. In a paper titled Towards the transfer of mineral wealth to the ownership of the people as a whole: a perspective on nationalisation of the mines, the youth league argues that the nationalisation of mines will boost the state's revenue stream. This can in turn be used to fund the social wage including education, health, public transport etc. Further, the mining industry, being the bedrock upon which the country's economy was built, is an enemy of economic transformation, with shocking levels of violation of workers' rights and long working hours in unsafe conditions for peanut wages. The conditions of labour reproduction in mines are horrendous. The same industry continues to drag its feet with regards to the implementation of the Mining Charter. These form the rationale behind the ANC YL's call for the nationalisation of mines. These challenges notwithstanding, there is a danger that any person/organisation that claims remedy to these ills may find resounding support, without much questioning of the class intentions of such remedies.

The ambivalence of many of our leaders on the issue certainly does not do it justice. In 1990, Mandela's first public address after his release emphasised that "nationalisation of the mines, banks and monopoly industries is ANC policy, and any change to this policy is inconceivable".

Four years later, on May Day 1994, the tune had changed with Mandela contending that "in our economic policies … there is not a single reference to things like nationalisation, and this is not accidental. There is not a single slogan that will connect us with Marxist ideology".

If the latter utterance was not true then why would the ANC government jettison the RDP policy in favour of Gear? This denunciation of the Marx-

ist umbilical cord is further cemented by the view that "to search for socialism in the ANC is like searching for the proverbial pin in a haystack". Marxism-Leninism argues that class struggle has been sacrosanct in the development of society and that the state and its ideological apparatus are mere reflections of the ruling capitalist class.

The ANCYL perspective: a closer look and the nuances of the debate

There is much to be celebrated in the YL's call. It raises pivotal questions about the necessity of the Freedom Charter being the chief reference book for the drafting of economic policies of the ANC and the government. The problem is that the YL limits the debate to one sector of the economy. Mining is important but there is a need to cast the net wider. What of the clause that "there shall be work and security", which states that "Men and women of all races shall receive equal pay for equal work. There shall be a 40-hour working week, a national minimum wage, paid annual leave and sick leave for workers and maternity leave on full pay of all working mothers". Mineworkers will not accept a nationalisation debate without the 40-hour working week and national minimum wage for the mining industry as per the Freedom Charter. The unfortunate part is that the ANCYL discussion paper is silent on this.

The ANCYL's discussion document draws largely from the "Botswana case study" and the lessons to be derived. The limitation of this approach is that it does not answer as to why there is a need for a proclamation on nationalisation of the mines whilst the same can be achieved through both the Minerals and Petroleum Resources Development Act (MPRDA) and a State Mining Company, both of which the government has committed to.

The document further argues that "[i]n South Africa, De Beers complies with the MPRDA provisions which states that 30% of its shares and control must be owned and controlled by historically disadvantaged individuals. The weakness with South Africa's share model is that it benefits few individuals instead of large communities and the people as a whole. Whilst the intention to integrate historically disadvantaged individuals into mining is noble, it should not be pursued at the expense of the entire population and communities. The principle should forever be people sharing in the country's wealth."

This is the result of the loopholes within the Mining Charter, which is currently under review. Shouldn't the league be making a submission to this process, particularly concerning the "Passive Involvement" clause. The possible changes to the Charter could be that "In order to increase participation and ownership by government (remove HDSA's) in the mining industry, mining companies agree:

To achieve 26% government ownership of the mining industry assets in 10 years by each mining company

That all stakeholders agree to meet after 5 years to review the progress and to determine what further steps, if any, need to be made to achieve the 26% target

The above suggestion addresses the need for government and not individuals to have a stake in the mining industry. This is possible without shouting a call to nationalise mines.

The second submission should be on the following sub heading of the Mining charter "Financing Mechanism". The

amendment could read as follows "The industry agrees to assist government [remove HDSA companies] in securing finance to fund participation in an amount of R100 billion within the first 5 years. Participants agree that beyond the R100 billion-industry commitment and in pursuance of the 26 % target, government target may be increased on the review process or during the approval of new licenses". This suggestion would give the state as opposed to individuals a stake in the mining industry. The additional financial imperative could be derives from the industry itself.

The discussion paper laments the fact that mineworkers are the "least beneficiaries" of the industry and that nationalised mines will be "beacons of safer working environments" as opposed to narrowly pursuing profits at the "expense of community and human development." This is a noble recognition by the ANC YL. Indeed, changing the ownership patterns can advance changes in working conditions. However, the safety of mineworkers cannot be indefinitely postponed pending a decree on nationalisation. There is an urgent need for the state and the mining industry to strengthen research on the technology that can detect seismic possibilities earlier and support mechanisms to be used in the mining industry. We will also call for the implementation of the 40-hour work week as per the 1946 Mineworkers strike demand and the call for national minimum wage for the mine workers as per the Freedom Charter.

The discussion document further states "the South African economy ...bears strong features of all colonial economies. [A]ll colonial economies were positioned as sources and reserves of primary goods and services for the colonisers' economies. Many post colonial economies continued to function and operate [as] exporters of primary commodities and importers of finished goods and services. Post colonial economies ... are heavily reliant on the demand of their goods and services by former colonisers and bigger market economies." True, but the system and not the owner is central to this problem; we should be pushing for systematic change. The assumption that when you change the owner then all systematic challenges would be resolved is far from the truth. In this regard NUM will argue and call on the cabinet to finalise and release for public comments the Beneficiation strategy of the minerals in South Africa and the call for government to be the majority shareholder in the Beneficiation industry. We have experience in many Industrial Development Zones (IDZs) and their successes the Union will thus call for government to have a Mineral Beneficiation Industrial Development Zone (2011-2014) strategy in areas such as Kimberly, Welkom, Matlosana and Rustenburg in North West and Burgersfourth and Merafong in Limpopo and Gauteng respectively.

Pondering the options

a) State Mining Company

The ANC YL argues that "the South African government should officially establish a State Owned Mining Company, which will under its control bring the currently State Owned Alexkor, State Diamond Trader and all State shares in mining activities, Sasol and Provincial Agencies. The State Mining Company will amongst others be responsible for the ownership and control of the mineral resources; the maximisation of the

nation's economic gain from the mineral resources, socio-economic development, maintenance of strong safety and environmental standards as well as the deliberate development of mineral resources.

This in essence is a call for the ANC YL to support NUM's position which states (i) there must be an urgent and dedicated audit on the ownership and conditions of service in the mining industry (ii) the state must audit and quantify its investment within the mining industry (iii) there should be no sale of any government stake within the mining industry pending the final decision on which option will our country adopt and (iii) the ministry of Mineral Resources develops a draft legislation towards establishment of the State Mining Company which must focus but not limited to energy minerals such as platinum, uranium, and coal; and infrastructure minerals such as iron ore and manganese.

b) Expropriation Model

The Property Clause enshrined in the country's constitution protects the interests of the ruling capitalist class. South Africa needs an Expropriation Law that will address expropriation irrespective of the economic sector. It is unfortunate that we currently do not have such due to parliament toeing the big business line. Both the ANCYL and NUM must engage the ANC on the need to have the Expropriation Bill steered through Parliament.

c) Amend the MPRDA

Amendment to the MPRDA is needed to address the question of the state mining company and beneficiation strategy, but again the ANCYL's ambiguity on the future of BEE on nationalised mines remains a confusion. The view of the Union is that there is a need to resolve the form of Nationalisation to clarify whether we prefer our minerals to benefit the majority or benefit few individuals through BEE.

Nationalisation must not be used as a voting index towards the 2012 ANC Conference

The argument being made here is that nationalisation is not inherently progressive. History is littered with examples of how fascist and apartheid states nationalised industries to benefit a minority ruling elite. Further, the debate on nationalisation is particularly important and must be engaged within the broad framework on economic policy formulation.

We should reject any attempts to reduce the debate to a support index for the ANC's 2012 Centenary Conference. We should equally be vigilant about the urge to limit the debate to only one sector of the economy. The assumption that we can pursue expropriation without the Expropriation Bill must also be rejected. We must ponder on the kind of nationalisation to be pursued as well as the class interests to be served. Nationalisation to the private and greedy hands of the political elite and tenderpreneurs whilst the majority remains trapped in abject poverty is clearly not an option. There is an urgent need to resolve issues around a national strategy on beneficiation of our minerals, a remuneration policy for workers (minimum levels and the executive pay policy and executive bonuses) as well as the legislation on the state mining company and its implementation plan and timeframes. ★

Cde Sambatha *is SACP North West Provincial Secretary and Head of the National Union of Mineworkers Parliamentary Office*

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

Corruption and Nationalisation

David Masondo argues that the SACP's anti-corruption campaign and the ANCYL's nationalisation campaign are complimentary

In the public consciousness the campaign against corruption as led by our South African Communist Party (SACP) on the one hand and the campaign for nationalisation of mines as led by our African National Congress Youth League (ANCYL) on the other hand, are understood as separate and contradictory. The SACP as an organisation is believed to be opposed to nationalisation on the one hand, and the ANCYL on the other hand understood as opposed to the fight against corruption. In this paper we seek to demonstrate that the two campaigns are not mutually exclusive, and therefore the separation of the two campaigns is misleading. No doubt there is a material basis for the public belief that the SACP is opposed to nationalisation, despite our recent explicit public support for the ANCYL's call for nationalisation. The way in which the media eventually framed the exchange between the ANCYL and our SACP Deputy General Secretary is also largely responsible for this belief.[1] Our SACP revised discussion document titled 'Expanding democratic public control over the mining sector: An SACP Discussion Paper' makes interesting shifts from the previous paper.[2] However the revised version does not go far enough in arguing for nationalisation of the mines. In fact, we will also show that the revised discussion document waters down our positions on nationalisation of the mines.

Building on our SACP's fight against corruption and explicit public support for the ANCYL's call for the nationalisation of mines[3], this paper will seek to show how corruption is deeply connected to capitalism and why nationalisation is one of the necessary, albeit inadequate measures to deal with political corruption. In so doing, the paper begins by showing the pitfalls of the mainstream explanations of corruption. We pay attention to these explanations because their advocates have ideological influence on the working class, and if left unchallenged these explanations may become part of the South African common sense, thus naturalising that which is carefully designed to serve particular class interests.

If these debates were just amongst the elite without any effect on the working class, we would not bother to comment. As always, a critique is always useful if it is accompanied by an alternative programmatic perspective. For this rea-

son, we will also suggest a few programmatic tasks.

Tenderprenuers or political accumulators?

Because a lot of the debates have mainly focused on the use of political power derived from holding party political or state office for personal gain, we mainly focus on what is often called political corruption. This is not to draw a real-life distinction between the economy and politics; instead it is mainly to construct an analytical focus. The forms of corruption our 'experts' point out include extortion, bribery, embezzlement, inflated prices, fronting and the list goes on.

In the dominant discourse the so-called tender-entrepreneurs have been identified as the main social carriers of corruption. We should state from the onset that we do not find the concept of tender-entrepreneur very illuminating. While it is useful in capturing the specific role of this stratum in the circuit of capital accumulation, its failure to capture the specificity of this stratum or class reveals its conceptual imprecision. The concept instead mischaracterises this stratum by lumping together all capitalists who do business with the state in the same category. This is a serious imprecision which empties the concept of tender-entrepreneur of its theoretical utility. After all, almost all businesses including banks and mines do business with the state.

Classes and strata should be defined by what they have to do in order to materially reproduce themselves. That is, by functions they have to perform in a given mode of production. A capitalist, for instance, has to exploit a worker in order to generate profit and a financial capitalist as a stratum of the capitalist class has to loan out money in order to earn interest if she has to reproduce herself as such.

A concept that may get us closer to what the concept of tender entrepreneur is trying to capture is 'political accumulators', because this group which we will be analysing heavily relies on accumulating organisational power as a means to get into business. Whilst this stratum seem to be present in almost all political organisations, it is however dominant in the ANC because of its control of the state apparatuses. In the absence of organisational power within the ANC, this group will not be in business. As a result, it does everything to cling on to the ANC organisational power as a necessary condition for its wealth accumulation. This stratum also turns necessary privileges associated with delegated power into natural and permanent privileges. It gets too accustomed to necessary privileges associated with delegated power within the state and our organisations to an extent that it fights very hard to retain its organisational power.

This stratum is not involved in the actual operation and management of enterprises, except getting a share of profit. It does not engage in economic accumulation, that is, transformation of economic assets to produce commodities. Instead they transform our organisations into means of income generation. Of course there are some who do both. But here we are mainly concerned about the dominant tendency. In this paper we shall use the concept of political accumulators.

It is beyond the scope of this paper to examine this stratum's ultimate trajectory. That is to say, we are not interested in whether sections of the stratum become part of the bourgeoisie or they

remain in their original position. We are mainly interested in the origins of this stratum, that is, how it had to earn its initial income.

Individualistic and institutionalist approaches to corruption

The individualist approach to corruption treats this phenomenon as an individual problem. This approach brings to our attention the activities of individual political accumulators. This view is articulated mainly but not exclusively by the political right, and asserts that the main source of corruption lies in the trans-historical and omnipresent human nature associated with human greed and selfishness. In the current debate, there are two noticeable distinct versions of the individual-focused approach to corruption. The first argues that since corruption is a manifestation of human nature there is nothing society can do about it. We should just throw our hands in the air and accept corruption as an inevitable outcome of human history, and therefore unchangeable. This view basically argues that we should give up the fight against corruption.

The second version of the individualist approach accepts the idea that corruption is a reflection of human nature, but argues that something can be done about it. This approach calls for building of good institutions to regulate human nature which generates corruption. Put differently, since we cannot do away with it, we have to control it. Those who emphasise institution-building also disagree on the types of institutions appropriate to curb corruption.

It is worth noting that the views stated so far assume that human greed is in itself not bad for broader societal outcomes. Human greed does not inevitably lead to corruption, hence, some argue, it can be controlled. This view sees greed as a human virtue to be celebrated. Capitalism is then seen as a pinnacle and realisation of human nature, because it provides a social structure through which individuals can pursue their egoistic interests. Under capitalist market conditions individuals maximise their self-interest by selling and buying in the market. Income distribution is understood as an outcome of competition based on how individuals use their time and resources, which allocates every individual a different role in society. They argue that the poor are poor not because of the capitalist system, but because of their individual attributes associated with their laziness and unwillingness to save enough money to enter into business. Income distribution, they argue, is not a function of capitalist class structure (i.e. what people have to do to earn an income), but a function of individual attributes.

One variant of the institutionalist approach argues that state policies and institutions that interfere in the market cause corruption, which in turn makes poor people poor. Poverty is caused by institutions that enable bad and greedy politicians to interfere in the markets through political means such as political networks and patronage derived from holding state or party office. These institutional conditions empower politicians to allocate economic resources – jobs, tenders and so on which distort individual potential and efficient functioning of the capitalist market. Left to its own devices the capitalist market will produce pro-poor outcomes. Taken together these generate the 'culture of entitlement' which rewards the lazy and punishes hard working individuals. Those

for whom the state intervenes will become lazy and not take risks, and those willing to do so will be discouraged, this approach argues.

Since political interference is a cause of corruption, it is argued that we should install a neo-liberal state to establish a conducive environment for individuals to compete and to realise their respective egoistic human nature. Once installed, the state should not try to redress the imbalances of the past by intervening in the market through allocating economic resources, including tenders based on race and gender. This neo-liberal or right-wing libertarian view is essentially opposed to any form of state intervention aimed at aiding individuals regardless of their structurally disadvantaged positions. It expects individuals to bootstrap themselves through the class hierarchy.

The neo-liberal view attacks the current post-1994 state policies and institutions for distorting the efficient functioning of the market. Organisations such as the Democratic Alliance and Afri-Forum argue that Black Economic Empowerment (BEE) and Affirmative Action (AA) interfere with the proper functioning of the market because the state does not only appoint incompetent (euphemism for black) entrepreneurs and managers into positions of responsibility, but also coerces hard-working whites to appoint these 'incompetent' black individuals into companies based on their race. Flowing from this logic, they argue we should do away with AA and BEE. Lurking behind this attack on the BEE and AA is an attempt to protect colonial private property and racially accumulated privileges, and expect the state to direct its repressive apparatuses (e.g. the police) against criminals (euphemism for blacks) who steal from hard working citizens (whites).

Part of the political right's focus on individual political accumulators engaged in acts of corruption is to divert attention from the nationalisation debate. They vilify anyone who dares, whether genuinely or opportunistically, to raise the property question. They elevate the corrupt activities of our political leaders in order to conceal their own interest in defending their racially accumulated bourgeoisie property.

Opposition parties such as the DA and a few newspapers have capitalised on and sensationalised the activities of certain corrupt leaders, not only to discredit the ANC-led movement, but also to protect the current neo-colonial property rights and hide and distort the fundamental causes of corruption, as well as peddling coded racism. To be sure, opposition parties are not concerned about political corruption. Their main fight is to unseat the ANC in order to use political corruption to their benefit. The formation of COPE was simply a reaction of political accumulators who lost organisational power, which was the source of their wealth.

Not everyone concerned about corruption is interested in unseating the ANC, and not all individualistic approaches work on the assumption that human nature is unchangeable. There are individuals within and outside the ANC-led Alliance who bring to the fore different information on bad aspects of our society, including corruption. Whilst they support the ANC, they are genuinely concerned about the effects of corruption on 'service delivery' without questioning the essential logic of a capitalist market, but are critical of its racial character, hence their support for BBEE

and Affirmative Action.

Because they conceptualise the problem of corruption as an individual problem, they seek solutions at the individual level. Some journalists and certain social movements' activities seem to be aimed at presenting facts to 'empower' the poor in order to make 'informed' choices within leadership contests in the ANC, and also to provide moral criticism against the rich. Unlike the political right, some of these activists argue that we should remove greedy politicians from public institutions and our organisations and replace them with the 'good' ANC-aligned political representatives. By identifying who is corrupt and how, they also offer solutions on who and how to elect people. As opposed to the political right which is opposed to state intervention to assist historically disadvantaged individuals, this version of the individualist approach advocates for state programs to train individuals to combat corruption, and also 'empower' the black people on drawing up business plans in order to compete for tenders as well as 'empowering' them to blow anti-corruption whistles, including vuvuzelas.

Some combine both the individualistic and institutionalist approaches. In addition to identifying corrupt individuals and empowering the poor with whistles to blow at corruption, they also believe that corruption can be eradicated by installing institutions and laws that punish the rich. Their call for institution building includes but is not limited to requiring public representatives in political organisations and state institutions to declare their business interests and auditing the personal consumption of individuals (popularly known as lifestyle audits).

Not all advocates of institutional reforms and defenders of the BBBEE and supporters of the ANC are interested in fighting against corruption. Drawing from black nationalist ideology, the black petty bourgeoisie and political accumulators do not question the rules of the capitalist game, including what they consider to be trans-historical selfish human nature. All they are concerned about is that Apartheid denied them an opportunity to be greedy. As a result, their struggles are merely limited to dismantling racially-based institutional barriers disabling them from accessing capitalist markets. They therefore seek to build state policies and institutions according to their class interests. Moreover they attack and dismantle institutions that are meant to expose and deal with corruption.

Capitalism and corruption

Except for their racist undertones, the abovementioned approaches are not entirely off the mark. However these approaches serve as ideologies that consciously or unconsciously hide the fundamental causes of corruption. They do not tell us the entire story about corruption; hence we should treat them as ideological explanations. Ideologies are not entirely false. They just pretend to be providing us with the whole truth. Ideologies inherently hide essential qualities of whatever is being explained. For example, it is true that men and women have different biological sexual organs, but it is completely misleading to draw an inference that women are inferior to men based on this. Similarly, it is true that capitalists are greedy under capitalism, but it is misleading to infer that human greed is and will be present across time and space. These approach-

es are ideological because they hide the class context within which these individuals carry out their corrupt activities. In these approaches, there is no serious attempt to show the mechanism by which greed and corruption come into social existence. In so doing, they keep essential qualities of capitalism hidden from our eyes. A serious explanation of corruption has to show, not in a mystical way, how corruption comes about – how it is produced.

To forestall any misunderstanding, we should make two points clear. Firstly, we do not deny that the absence of principled and committed state managers and anti-corrupt institutions accentuate political corruption. However, left without a demonstrated (not just asserted) critique of capitalism, this approach is no different from the Transparency International[4] way of dealing with corruption because it is not grounded in the critique of capitalism. This approach just calls for a non-recycling of the same tender bidders and more transparency in tender processes and other institutional reforms.

To say that political corruption is causally related to capitalism is not to claim that corruption only started with the rise of capitalism. We are just abstracting from pre-capitalist relations without denying that what is defined as corruption can be found in pre-capitalist class societies. Under feudalism, what we consider as corruption under the current mode of production was considered normal in the eyes of the feudal classes. The buying of public office in order to be a state official in feudal France for instance was part of common sense and practice. However, we reject the idea that human beings are inherently greedy. We argue that it is the capitalist class structure which generates greed and corruption! Let us now briefly illustrate how corruption is produced and reproduced by capitalism.

Almost everything under capitalism is a commodity – that is something that can only be accessed through buying and selling, therefore everyone depends on the market for her/his material reproduction. It is useful to look at corruption from the vantage point of the actual production process of commodities. Corruption starts in the exploitation of workers in the production process. Like other forms of class-based labour processes, the capitalist labour process is divided into necessary and surplus-labour time. Workers in a capitalist labour process spend time producing for themselves and surplus-labour-time producing a surplus-product which takes the form of surplus-value appropriated by capitalists. Necessary labour time takes a wage-form. The lower the real wage the higher the surplus-value, and profits. If all surplus products which take commodity form were to be given to workers there would be no surplus value and profit for capitalists. Once these surplus products are produced by workers, they are taken by capitalists who own them as commodities to be sold. It is only after sale that a capitalist realises the value of surplus product in the form of profit. The profits get distributed amongst the non-producers through taxes to the state, interest rates for banks, facilitation fees for political accumulators holding direct or indirect shares for acting as political agents to facilitate access to tenders etcetera. At this level of abstraction we exclude many circuits of capital accumulation, such as commercial capital.

The capitalist system sets worker against worker in a competitive battle

for entry into the labour market, and pits capitalist against capitalist in their competitive battles to lower production costs in order to get a larger share of the profit, including getting access to state resources. It also ensures class antagonism between capitalists and workers, middle-class against middle-class, peasants against peasants, comrades against comrades and so on and so on.

South African capitalist dynamics take place in a neo-colonial context. It is common knowledge that colonialism prevented the development of a black capitalist class. A potential black capitalist class was destroyed by the proleterianisation of the African peasantry and other strata by white business acting through the colonial state. In almost all colonies the development of a native capitalist class only takes place after political independence. Without political power the indigenous population cannot accumulate wealth or capital. After independence, the state is used to accumulate. Because the historically oppressed come so late into the scene of capital accumulation, they rely on the state and established capitalists.

In our South African neo-colonial context, the BEE model has set a new business incentive structure for the emergence of black capitalists and the maintenance and reproduction of the established white capitalist class that need state permission to access state owned and controlled resources. The state also owns and controls key economic resources required by capitalists, and these capitalists can only utilise these resources with state permission. The state acts as (a) a purchaser of services from the private sector (b) through its financial institutions the state also acts as a money lender, (c) a grantor of licenses for amongst other things mining, telecommunications (d) a seller of its own state assets through privatisation. In short, the state acts both as a gatekeeper to access state owned resources and as a consumer of services sold by capitalists.

Both aspirant/actual black and white capitalist classes need permission from the state as a gate-keeper, to access the economic resources that are controlled and owned by the state. To get access to these sectors, capital has to meet certain BEE requirements, amongst which is, but not exclusively, the presence of black capitalists as owners and managers in white established companies.

To get access or expand in these sectors, capitalists must get permission from the state. On the one hand, many of the white capitalists have the necessary know-how within these industries, and they need to continue expanding and generating more wealth for themselves. They can only do so if they meet certain state requirements. In contrast political accumulators do not have the technical knowhow of running a capitalist firm. To get access to these economic sectors and legitimise capitalism, white capitalists appoint black managers who in the main act as internal and external ministers of native affairs within white owned companies. They perform functions that are meant to control and discipline the native labour. Externally the black managers perform functions such as facilitating the dishing out of crumbs to black working communities in the name of 'social corporate responsibility' and liaising with the native government under the guise of 'stakeholder management' (euphemism for social classes management).

In addition to appointing corporate

ministers of native affairs, white business also co-opts these political accumulators who are the actual or have the potential of being in direct state control. The incorporation of political accumulators as direct or indirect owners is a competitive strategy of white capital to gain access to state owned economic resources. This also explains why certain black millionaires associated with the liberation movement have been cherry-picked by white established capitalists.

The BEE business incentive structure has also set necessary conditions for asymmetric collaboration between black political accumulators and white entrepreneurs. On the one hand, white business has economic power and they need to remain in these sectors for their own material class reproduction. They can only do so if they meet certain state-set BEE requirements. On the other hand, due to the colonial systemic exclusion of black people from ownership and the early 1990s negotiated political settlement, political accumulators were politically and economically weak and they could not expropriate white capitalist property in the same way as other post-colonial elites did through the state at the time of political independence. It is within this context that caution against uncritical support for nationalisation should be heeded. We will return to this matter when we discuss the nationalisation of the mines.

The dominance of white entrepreneurs also finds expression in the lightness of South African state policies and legislation aimed at creating a black capitalist class. Since they are weak to operate these resources, many of the political accumulators tend to form economic alliances with established white entrepreneurs who have economic structural power over the state, but without direct state institutional control. white entrepreneurs interested in state resources use their economic power to co-opt emerging and aspirant black entrepreneurs, particularly former national liberation struggle leaders in the state and/or with the potential of accessing or being in direct state control. This sets the necessary conditions for white entrepreneurs to access state resources.

This does not mean there are no black entrepreneurs in other sectors of the economy where entry is not mediated by the state. However, their presence is minimal compared to state dominated economic sectors. The reason for this minimal black presence can be explained by the fact that white business in these sectors does not entirely depend on the state to get access to economic resources and selling their commodities. In instances where blacks are co-opted into non-state controlled white enterprises, it is not for benevolent reasons. But it is meant to serve white entrepreneurs' economic interests. To be sure, entrepreneurs are in business to make profits not to build other capitalists. They can only support or build other subordinate capitalists as far as they contribute towards the realisation of their economic interests. In this instance, blacks tend to serve as economic distribution agents or political agents to facilitate white business' entry into black markets (i.e. black consumers) or to state tenders.

Contrary to our expectations that these black entrepreneurs, including political accumulators, will serve as social agents for transformation of the colonial industrial structure, they just reproduce key features of colonial industrial structure as opposed to for example the expansion of the manufacturing sec-

tor. This is partly due to the presence of multinational companies as well as established South African white business and intense business competition accentuated by trade liberalisation in non-state controlled sectors; political accumulators find it difficult to enter these economic sectors. Since the incentive structure in state-controlled economic sectors is relatively favourable to political accumulators' economic interests, they emerge with relative ease in these sectors. As a result, they adopt competitive strategies that enable them to enter the state in order to access state-owned and controlled economic resources and sell their commodities to the state. In short the BEE incentive structure has facilitated the emergence of underdevelopmentalist capitalists.

The installation of post-1994 economic incentive structure has set necessary conditions for intra-African capitalist class competition for access to institutional power and co-option by white business. In addition, this competition finds expression in political conflicts within the ANC and the state. The arms deal was about this!

Individuals acting within and through the state have power to decide who gets access to state owned and controlled resources as well as whose commodities get bought by the state. These powers are sanctioned by law which privilege black people in allocating access to its economic resources. However, the fact that the state has this institutional power to allocate resources does not mean we can know a priori which specific black social agents will get access to these resources and how they will fight for access to these resources. This is mediated by party organisational power, which ultimately provides access to the state apparatuses.

Why does a political party matter? South Africa's political system is based on a multiparty democracy. Social actors get access to state power via universal elections. Political parties are the main vehicles through which individuals get access to state power. Political accumulators are interested in party politics as a vehicle to state power, which provides them with mechanism for their own class reproduction. Since they rely on organisational power for their emergence, potential and actual entrepreneurs find it rational to contest directly or indirectly (e.g. supporting certain individuals) for political organisational leadership positions as an entry mechanism into the state and its economic resources.

However, not every political party matters. It is mainly a party that is popular amongst the electorate. Because of the backing by the SACP and the Congress of South African Trade Unions (Cosatu) and its history in the national liberation struggle, the ANC is highly supported by the electorate, therefore is the only political party that is more likely to be in the state. Since Cosatu and the SACP and its YCL play key roles in electoral contests within the ANC, they are more likely to be co-opted or captured by political accumulators. Furthermore, these organisations can also become breeding grounds for creating political accumulators.

The ANC's influential position as an organisation within the Alliance is also enhanced by the way in which the Alliance itself is structured[5]. This also explains why white capitalists cherry-pick black leaders associated with the ANC-led liberation movement in order to get access to state-owned resources, and why it has been the ANC-aligned

African entrepreneurs that have rapidly climbed the business class ladder. And every aspirant capitalist would want to rub shoulders with the ANC. Being in a leadership in the ANC sets necessary condition to gain and/or retain access to state office and being potential or most preferable candidates for being selected by white capitalists to be part of their established enterprises. Access to the state provides political accumulators with leverage over white capitalists in that they can impose on them who can be selected to have an ownership stake in a white owned firm.

Whilst subordinated to the structural power of established white business, political accumulators are relatively autonomous from white business. They derive their relative autonomy from their control of the ruling party and the state, which gives them organisational and institutional power to bargain with white capitalists. Hence we call them political accumulators. As this stratum relies heavily on the control of organisational power as a prerequisite to generate wealth, they have a class interest in capturing and using our organisations (particularly the ANC) as instruments for wealth accumulation.

In the same way as economic inequality leads to political inequality (i.e. political influence) in society in general, this is also true of power relations within our organisations. The political accumulators with economic power have predisposition to influence political decisions within our organisations, notwithstanding the uneven resistance of our membership. As a result, many outcomes of our organisations are largely determined by the moneyed political accumulators. As the old saying goes: those who pay the piper tend to call the tune.

Any system of power can only be maintained if it concedes certain material benefits to the subordinate classes. This stratum also uses the state and its questionable accumulated wealth to grant crumbs to its clientele. This takes the form of cash, jobs and tender distribution in exchange for political loyalty. If the loyalty is not forthcoming, the clientele is turned into enemies to be destroyed, and those who threaten control of organisational power are treated in the same way. The fights over the distribution of profits amongst political accumulators, spill over to our membership and society at large. In doing so, they fight out their class interests by framing them and other political problems in ethnic, racial and geographical terms. Political accumulators mobilise along ethnic, racial and regional lines. As usual, the fight amongst the elites and between exploiters is politically carried out by the exploited and oppressed who in turn get divided along these lines.

Given the way capitalism functions we should not be surprised by corruption, and how and why political accumulators behave in the way they do. This is a normal functioning of the system. It is like expressing shock at why the poor steal bread. In fact, we should be surprised why the poor do not steal bread on a wider scale because it is the most rational thing to do for those who are hungry. Individuals tend to use what they control and own to pursue their material interests. Similarly, we should be shocked when those who hold organisational power do not do what political accumulators do given the fact they are also subjected to the same pressures of the capitalist system.

The abovementioned tendencies are prevalent and dominant within the ANC

and its leagues because of their proximity to state apparatuses. However the SACP, YCL and other working class organisations are not immune from this capitalist context. Certainly, we do have insignificant aspirant and actual capitalists in communist skins within the ranks of the working class organisations. If we are to accept the concept of tender-preneurs, we might as well call those who use communist organisations for wealth accumulation – commu-preneurs. Acknowledging this fact will enable us to have a materialist understanding of the phenomena of political accumulators, not only within the ANC, but also within working class organisations such as ours, and what material conditions and concrete measures to put in place to deal with and prevent this reality, which also affects us.

A critical defence of the ANCYL's call for nationalisation of the mines

Having attempted to show that corruption is connected to capitalism private property and its specific dynamics in our South African neo-colonial context, we are now in a position to discuss how to deal with private property.

Capitalism is not going to immediately vanish tomorrow; therefore we need to think about non-reformist reforms in the here and now to mitigate its negative effects. To this end, we suggest four institutional changes to minimise the material basis for corruption. Instead of just calling for life style audits of political accumulators, the working class should revive one of its historical demands to force capitalists to open their books so that workers will know their profit rates as a way of bargaining for higher wages and taxes. The working class should force the bourgeoisie to open their books. Therefore we should pass laws that force capitalists, including political accumulators to open their books. Secondly, we also suggest that public representatives and leaders of political organisations (at least in the entire ANC-led Alliance) should not be in business. They must choose between business and public representation. They must not do both, notwithstanding that this may end up being a formal separation in which public representatives just appoint proxies to carry out their business activities.

Because tenders exacerbate corruption, therefore certain key services such as construction of social and economic infrastructure, namely housing, clinics, schools should not be delivered through capitalists. It does not make sense for instance, to contract a company to build houses in our communities. The state can easily hire its own project managers to project manage many of our capable builders who are languishing and exploited by capitalists in alliance with political accumulators. It is partly due to this mediated exploitative relationship that poor workmanship comes from. The actual entrepreneurs, who have to provide a service, are forced to contribute part of their profits to the political accumulators who act as middlepersons. As a start, communists heading housing departments must take a lead in this if we are to offer some of the socialist-oriented solutions to corruption beyond calling for life-style audits and transparency in tender awards. There is nothing in law or in the ANC policy that states that housing projects should be coordinated by capitalists, save to say that we have simply taken an ideological position that the state will set in place a conducive environment for building new

black capitalists coordinated by political accumulators at the expense of the black poor.

The call by the ANCYL for the nationalisation of the mines as entailed in its discussion document should be supported as one of the ways of dealing with private-property generated corruption and advancing socio-economic transformation. With the exception of Cosatu[6] and Sasco, the responses from the ANC-led Alliance to the ANYCL's call nationalisation have been disappointing, to say the least. The ANCYL's unwarranted attacks on leaders of the SACP and Cosatu (on other non-nationalisation issues) have not been useful either. In fact they have just marginalised the ANCYL from organised workers. As mentioned earlier the SACP's revised proposals should be critically welcomed. Before we deal with the substantive arguments raised against the ANCYL's nationalisation document, let us first deal with what people think motivates the ANCYL's position on nationalisation.

Critics of the ANCYL's position on nationalisation have argued that the call is a class front of the indebted bourgeoisie within the ANC, and therefore nationalisation is just a bourgeoisie demand for a bail-out. It is also implied that the ANCYL is calling for this because their palms have been greased by the very BEE capitalists they want to bail-out. Evidence is very slim on this. We are not even told the total of percentage of the black capitalist ownership of the mines. It is also suggested that this alleged black bourgeoisie sponsored ANCYL perspective on nationalisation was hatched out in a meeting somewhere. Because these alleged elite discussions are never and shall never be held in public, it is hard to know if they are true, and it is certainly reasonable to use our class instincts, but the problem arises when we use this as the basis to shy away from stating and fighting for our socialist-oriented conception of nationalisation.

Whilst it may be true that some in the ANCYL may be aspirant mining bourgeoisie, it is a huge mistake to lump together everyone calling for nationalisation in the ANCYL and outside the ANC as motivated by BEE interests. Certainly, there will be classes that will want to use the nationalisation debate to restore their falling profit rate, but it does not follow that the ANCYL is just acting at the behest of this class. Just pointing out how other people might use the nationalisation debate for their reactionary class interests is not a good argument against progressive nationalisation.

The other objection is that the ANCYL is using nationalisation as a basis to justify ousting communists who are ANC leaders in their own right as ANC bona fide members. Whilst this may be true, we should avoid treating every political difference as causally related to the 2012 ANC leadership contest. That is, those who take this or that position on nationalisation are part of those who want this or that comrade to be ousted from the ANC leadership in the next congress. Secondly, we should also not criminalise comrades for stating their leadership preferences. The ANCYL is correct in putting a programme and then agitate for leadership that should lead the implementation of the program, including nationalisation of the mines. That is, as a matter of principle, it is correct to put the programme before leadership. This is consistent with how we should be electing leadership in our movement. Unfortunately, in this particular instance, it does seem to be un-

true that some leaders who are targets for ousting in the ANC 2012 conference are opposed to the nationalisation of the mines. Interestingly, we do not even know what the views of those who have been guaranteed positions in the ANC leadership are on nationalisation of the mines. This then leaves us to wonder why this is so.

This is not the place to debate the 2012 ANC leadership. Therefore we will not dwell too much on the issue of leadership within the movement not only because it has been put in suspense (despite it being discussed quietly in dark corners), but this will take us away from the aim of this paper. The point is simply that it should be possible for us to differ with the ANCYL and its leadership on the 2012 succession battles within the ANC, but still agree with them on nationalisation as well as disagree amongst ourselves on these questions and internal organisational questions. Conflating these issues will not only serve the interests of white established capital and political accumulators, but also stifle honest internal debates within our organisations on many of the strategic and policy questions as well as leadership questions in the movement.

The other lame critique of the ANCYL's position on nationalisation is: why starts with the mines. This is not a useful critique at all. If the ANCYL had started with the banks, would the critics be asking why start with the banks?

It has been argued within and outside our ranks often in an alarmist manner that the contemporary articulations of the ANCYL are based on a fascist ideology[7]. This way of arguing consciously or unconsciously comes across as a coded racist warning of die swart-gevaar. The danger of analysing our situations by just invoking the label of fascism does not only set the stage for swart-gevaar arguments, but it also misses the specificity of our concrete situations which give rise to the ANCYL phenomena we are observing. This way of arguing is increasingly used by racists to silence anyone who dare raise the issue of racism in our contemporary South Africa. People tend to be labelled nationalists and fascists for raising problems of racism in our society[8]. If the ANCYL is not fascist how should we understand it? Surely mobilising Walter Benjamin's erroneous post-modern critique of fascism in Europe simply ossifies our understanding of the current situation[9].

The ANCYL's recent ideological utterances can be seen as containing contradictory tendencies – fascism is certainly not one of them. Capturing its ideological tendencies simply as reactionary misses some of its revolutionary elements, including important intra-organisational struggles within the movement itself on the colonial private property question. The ANCYL is by no means a uniform organisation; on the contrary, it is marked by unusually diverse and mixed characteristics. Unless, of course, we have come to a conclusion that the dominant tendency is fascist. However, this conclusion has to be convincingly demonstrated, not decided through clichés.

We argue that the ANCYL is contradictory because some of its leaders want to be incorporated into the existing circuits of profit making, whilst mounting campaigns that may threaten capitalist private property. In doing so the ANCYL attacks anyone including the working class formations that are supposed to be its ally in the fight for changing colonial capitalist property relations. Because of

this, the ANCYL leadership has built a multi-class movement within and outside the ANC and its leagues against itself. It has not demonstrated the ability to identify strategic class opponents, and methods appropriate to deal with different class forces within and outside the movement. Its failure to organise and mobilise the youth through mass-based campaigns bears testimony to its inability to ground its campaign within popular class politics to shift the balance of power towards its progressive policy perspectives on the mines. The ANCYL is just engaged in action-less agitation for nationalisation. The nationalisation of mines will not come as a consequence of endless debates with those opposed to nationalisation. In the absence of carefully planned mass organisation and mobilisation, progressive demands get significantly watered down in closed-talks (for example the National Health Insurance Scheme is apparently no longer on the ANC and government agenda). The absence of the masses also sets conditions for intra-elite deal clinching because the elite that claim to represent poor account to nobody.

The ANCYL's objectionable tendencies should not blind us to some of its progressive positions on the nationalisation of mines. To the extent that the ANCYL document points to the root causes of our racial inequalities – the private property and offers progressive nationalisation based on the Freedom Charter – we argue that the ANCYL is progressive.

It is also not far-fetched to argue that since the re-launch of the YCL, there has been a continuous leftward shift in the ANCYL, not because there are young communists in the ANCYL itself, but because of the objective presence of the YCL in the South African political scene. For whatever reason, the ANCYL has been opened to some of the policy positions that the YCL has been advocating. Take for example, the issues of sanitary towels and the campaign around the closing of beer halls next to schools. These campaigns too got into their agendas even before the current ANCYL leadership took over. The current ANCYL's progressive policy position as contained in its document on nationalisation can also be explained by the objective presence of the Young Communist League (YCL) on the South African political scene. That is to say, the motivation for nationalisation should not just be attributed to BEE influence as it is suggested in some quarters of the left.

Now let us turn to the substantive objections raised against the nationalisation of mines. Here we start with our revised SACP discussion document. The document seems to suggest imposition of control measures such as windfall taxation based on the function of mining commodities, increase of workers' managerial control without transfer of ownership, and making beneficiation part of the conditions for obtaining a mining license on un-nationalised. As we argued in the previous critique, these measures are not incompatible with the calls for progressive nationalisation. Taking a cue from the NUM parliamentary submission, the CC document accepts that by 2014 state ownership of the mines should be a condition for granting mining rights. It also brings to our attention the fact that expropriation should take into account the fact that mining share shareholders are not just private owners. Shareholders include workers and the Chinese state. Here we submit that expropriation should mainly target pri-

vate property owners. It should be possible to target capitalist private owned property without compensation.

The NUM's position on race-blind 49% ownership is essentially an unjustified argument for abandonment of Affirmative Action on private ownership of the mines. NUM's position is also quasi-feudal because it argues for transference of mining ownership to traditional authority. In short, it argues for strengthening of the despotic power traditional authorities, thus defeating our attempts to democratise the countryside. The more economic power the traditional authorities have the more political power they will wield.

In its opposition to the transfer of mining ownership to traditional authorities, SACP discussion document argues for the local community ownership. The problem though with the argument for local community ownership is that it will perpetuate the uneven spatial underdevelopment of South Africa. Local communities that are next to the mines will be beneficiaries of the mining activities. State ownership of the mines, we argue, will provide an enabling environment for equitable redistribution of the profits generated out of the mining.

The political right has argued that public ownership is inherently inefficient. There is a lot of empirical evidence devoid of any ideological prejudices that shows that an enterprise's performance is not a function of private ownership. There are so many public companies under public ownership, including in South Africa that are doing better than the private sector. Public ownership also enables the public via their representatives to remove managements when they are not performing well. The recent cases of the SABC and SAA are examples of this. The democratic movement could intervene in these state enterprises because they are publicly controlled and owned. If mines are owned by the state, there is a better chance of setting conditions for worker participation and control of the mines.

To its credit and contrary to the previous interventions, the CC document has also come to terms with the fact that mining capitalists have been lying about the non-viability of mines. In the past it has been argued that mines are not profitable therefore it will be fruitless to nationalise. In other words, why nationalise something which is not profitably viable. We have always asked why the bourgeoisie are not abandoning all the mines, if they are not profitable. Since when do we judge productive property on the basis of its capitalist profitability because it is mainly during the moments of capitalist crises epitomised by the falling rate of profit where the left should take the opportunity to seize the productive property in the interest of the working class. The crisis does not only set conditions for the rise for 'fascism', but also for possibilities for revolutionary outcomes like in certain parts of Latin America. We should also ask ourselves why the crisis of neo-liberalism rooted in the declining rate of profit has produced potential and actual revolutionary outcomes in many parts of Latin America and not in South Africa.

The CC Discussion Document correctly contends that the nationalisation of the mines should also be located within a 'new growth path'. As we warned in the previous critique, we should however be careful not to use the never-arriving growth path as a new excuse for radical economic policy inaction for fear of being in direct conflict

with post-2009 Zuma-led bourgeois state. Whilst the nationalisation process is complicated, we should not complicate it to justify our reluctance to tackle monopoly capital head-on. We should be worried by the fact that we have not taken up any systematic campaign for nationalisation of key monopoly industries such as Sasol and Mittal as part of our 2007 National Congress resolutions, and instead taken up soft campaigns on political corruption (important as they are). Equally worrying is the fact the revised discussion document reduces our SACP 2007 National Congress resolution on nationalisation of Sasol to the imposition of windfall taxation. It basically changes our SACP resolution on nationalisation to taxation of the privately owned mines.

Pallo Jordan argues that nationalisation of the mines will scare investors (euphemism for capitalists)[10]. This is actually one of the reasons why we should nationalise, because nationalisation will reduce the state's dependency on investors. The state, regardless of the economic crisis, is dependent on business' willingness to invest its privately owned capital. If business does not invest there will be no employment and no revenue for the state, thus setting conditions for inability to perform its functions including providing services for the working class. The public ownership and control of the productive assets such as the mines increases relative state autonomy which makes it less dependent on privately owned business' investment decisions.

Nationalisation of the mines will enable the state to have a relative influence over investment patterns as well as downward-upward streams industrial linkages since it will also have some control over the decisions of the mining companies as well as its surplus. This will enable the state to have more effect on the 'new growth path'. Mining does not only have a potential to generate revenue for the state, but also plays a key role as a supplier of primary production inputs for our industries, including manufacturing. Through this, the state can use its economic power to diversify our industrial structure. In fact, the Industrial Policy Action Plan (IPAP) can only succeed if the state has economic ownership to enable it to channel investments towards sustainable industrialisation. For instance, platinum is used in the manufacturing of cars. Therefore, if South Africa wants to diversify her industrial structure, control of the mining sector will enable us to determine how our minerals are used to boost manufacturing. Instead of exporting our raw materials, the state can force manufacturers to process the raw materials here in South Africa. This is an old and well established position within the left[11]. This is one of the reasons why we agree with Cosatu.

However we part company with Cosatu's argument for nationalisation based on the need to increase capitalist competition. Part of Cosatu's argument for nationalisation is that monopolies are responsible for lack of competitiveness in downstream industries because monopoly industries use monopoly pricing to increase the cost of production. But this assumes that there is no competition amongst monopolies. This proposition seems to be based on a quantitative conception of capitalist competition, that is more companies equals competition and few means no competition. The manner in which the problem of competition is framed in the Cosatu document

may also give the impression that it is competition that drives capitalism. The problem with capitalism is not the presence or absence of competition, but the profit logic. Competition is inherent in capitalism, including in the era of monopoly capitalism (imperialism). It is erroneous as Lenin did, to think that competition between capitalists within a nation-state ceases to take place in the era of imperialism. No doubt, in the short run monopolies decrease the levels of competition. But in the long-run, no matter how high the barriers of entry into certain industries, capitalists always find ways of getting into an industry as long as it is profitable. Therefore, it is misleading to premise the argument for nationalisation on the need to increase competition. State owned companies are also subjected to the competitive pressures from other competitors. In other words, competitiveness should not be part of our goals to nationalise. This is to invite the arguments that Cosatu wants to avoid. Arguments such as: monopolies whether private or public lead to monopoly pricing or the provision of largesse which subsidises the profits of downstream industries.

Cosatu's argument for nationalisation based on the need to increase competition invites arguments for unbundling of monopolies through privatisation as a way of increasing competition. This argument opens up neo-liberal and institutionalist solutions to the debate on nationalisation. Neo-liberals may argue that in order to increase competition, there has to be unbundling of the monopolies through creating small firms to produce the primary commodities. This argument had been used by neo-liberals to argue for privatisation of ESKOM. Institutionalists, whose theory of capitalist competition is based on state regulation, may call for more regulation, and strengthening of Competition Commissions and other state institutions.

Jordan's argument against nationalisation based on pleasing imperialists rests on treating investors as a homogenous mass without intra-capitalist competitive interests. The state can partner with certain investors on a public-private partnership level. Some may object to the popular imposition of Private-Public-Partnerships on the grounds that it involves the private sector. Aren't we better off under a popular imposed Public Private Partnership than under Private-Private Partnership? Nationalisation of mines should not only include wholly state ownership. Partial state ownership with state majority shareholding is much better than none-state shareholding. The popularly-imposed and monitored Public-Private Ownership has the potential to enable the state to encroach into the power of capital over the means of production.

The document should move beyond reactionary examples on nationalisation such as nationalisation under Verwoerd and Hitler and current bank bail-outs in the advanced capitalist countries such as the USA and Britain. Our discussion of nationalisation should include the current experiences of nationalisation in the global south, namely Venezuela and Bolivia, including Zimbabwe. Truth be told, if the critical studies[12] carried out by researchers within and outside Zimbabwe on the land reform and agrarian program are anything to go by, then from the perspective of changing colonial property rights as South Africa we are far behind, notwithstanding the Zimbabwean state's democratic deficiencies. The political right is punishing Zimba-

bwe in order to discourage South Africa, and the entire region from embarking on radical programs to change colonial capitalist property relations. The failure of the Zimbabwean land redistribution is in the interest of the established white agrarian and mining classes in South Africa. In Venezuela, Chavez is now moving towards nationalising the largest food monopoly industry[13], whilst we are still failing to deal with food price fixing in South Africa arising out of the private ownership of our wealth.

Our SACP document also argues that our mining houses should play a relatively progressive role in the Southern African region. We agree! That is one of the reasons for nationalisation. The ownership will enable relative popular control mediated through the state to determine the role of our mines in the region.

Critics of the ANCYL's position also argue that nationalisation is not socialism; instead we should be fighting for socialisation, as if nationalisation does not lay potential conditions for socialism. Monopolisation of capital in the hands of a few capitalists does not necessarily lead to socialism, but sets conditions for socialism in that the workers will take over a bigger and centralised property which will also reduce economic coordination problems. Similarly, state ownership will make it relatively easier to socialise the means of production. It is hard to have effective control without ownership which provides the owner with rights to decide what to do with a property. By the way, not all reforms set conditions for socialism; and nationalisation is no exception.

Absent in the debate on nationalisation is the issue of the nature and character of the post-1994 state, and how should the working class relate to it. Implied in some of the critiques of the ANCYL's call for nationalisation of mines is that we should not nationalise because this will strengthen the bourgeois state. Nationalisation will strengthen the political accumulators who will use the state's funds for their own class interests. This is a fair point. However, left without a clear theory of post-1994 state and strategy on how the working class should deal with it, this argument comes across as a neo-liberal argument against state ownership in which the state is treated as inherently incapable of dealing with the economy. Cosatu's formulation is also not helpful. It only asserts that the detractors of nationalisation 'lack confidence in our democratic state to manage the economy'. It is not just about that, but also which class is in power. As Cronin[14] correctly points out, we should always ask in whose class interest is nationalisation being carried out. Nationalisation may not lead to the lowering of production costs. Eskom for example has been raising its electricity price despite the opposition by Cosatu and SACP. However, Cronin veers away from clearly spelling out the class character of the post-1994 state. That is whether the state under capitalism can be anything else other than being capitalist.

Even before we can embark on a Chavez-type expropriation such as expropriation by decree, there are immediate things that can be done towards nationalising the mines. We should call for the immediate appraisal by a state-led, but relatively independent, commission of inquiry into the current state of the mining industry in terms of its performance and future, percentage of foreign state (e.g. China), BEE and worker own-

ership in terms of pension funds and other related questions. This will enable us to take strategic decisions on which mines should be fully and partially nationalised. In addition to this, we should demand that all members of the ANC-led Alliance should give up their mining shares to the state. Empowered by the Minerals and Petroleum Resources Management Act (2002), the new mining licenses should include state ownership as a condition for mining license acquisition. That is to say; state involvement as an owner and controller in the operations and management of mineral resources should be one of the pre-requisites for obtaining a mining license.

Dealing with challenges such as unemployment, poverty and corruption generated by capitalism and exacerbated by our political accumulators requires among other things, building of an SACP and YCL rooted mainly (not exclusively) in the unemployed, workers and students through extra-parliamentary mass-based struggles.

In so doing, we have to continuously debate the extent to which the way in which the Alliance is structured sets the necessary conditions for subjective capacity to independently assert the working class power within the Alliance. It is not by accident that the resistance to reconfigure the Alliance largely comes from political accumulators. There has to be a clear systemic and collective debate on how the SACP should relate to the post-1994 state and government. The reconfiguration of the Alliance means the change in power relations within the ANC which may also forestall the power of the accumulators because Cosatu and SACP will have influence in shaping the direction of our movement, including fighting corruption. ★

Cde Masondo *is Chairperson of the Young Communist League and an SACP Politburo member*

Endnotes

1. Cronin, J. Should Nationalise the Mines? Red Alert. Malema, J. ANCYL President's Response to Jeremy Cronin, 18 November 2009. Cronin, J. 'Nationalisation of the mines… let's try that again' Red Alert., November 2009
2. Should We Nationalise the Mines? presented to the Central Committee meeting of 28-30 May 2010
3. 'SACP supports ANCYL's call for nationalisation in' E-TV News Bulletin, 30 May 2010, 7pm.
4. Transparency International is an international non-governmental organisation that seeks to establish a capitalist society free of corruption through publishing an annual Corruption Perception Index and calling for institutional reforms.
5. For the discussion on the problematic institutional set up of the ANC-led Alliance, see ' Independence of our SACP in post-2009 state', The African Communist, Fourth Quarter 2009, Issue, number 180
6. Cosatu, 'Towards Nationalisation of the Mines and Monopoly Industry', Umrabulo No. 33, May 2010
7. Zackie Achmat is reported to have described the ANCYL's political behavior as sign of 'emerging fascism' – see Buccus, I. 'What are the prospects of real political realignment in South Africa', Mail and Guardian, June 4-10 2010
8. Terreblanche, C. 'ANC race quota like Nazi's treatment of Jews says DA' in Business Report, 22 April 2010. Sunday Times on-line 'Protest over 'genocide' in South Africa', Sunday Times 23 April 2010.
9. SACP Political Report to the Special Congress, 9-13 December 2009
10. Jordan, P. 'Towards a refined ANC Miner-

als Policy and Strategy', Umrabulo No. 33, May 2010
11. Many of these are implied in Babu, A. M. 1984. African Socialism or Socialist Africa. Fine, B. and Rustomjee, R. 1996. The Political Economy of South Africa : From Mineral-Energy Complex to Industrialisation.
12. Scoones, I. 2008. A new Start for Zimbabwe ?This paper was published as part of the research outcomes conducted under the ' Livelihoods after Land reform in Southern Africa programme', www.lalr.org.za
13. Cancel, D. 'Chavez Declares 'Economic War' Against Bourgeoisie', in Bloomberg Business Newsweek, www.businessweek.com/news, 27 May 2010.
14. Cronin, J. 'Nationalisation of the mines… let's try that again' Red Alert.

AC SPECIAL ISSUE: **TOWARDS A NEW GROWTH PATH**

The Ideological Basis of Nationalisation

The SACP must mobilise to raise class consciousness if nationalisation is to move beyond mere debate, writes **Frans Baleni**

The National Union of Mineworkers (NUM), Cosatu, SACP, and the ANC (before its unbanning), propagated the nationalisation of banks, monopolies and the minerals below the earth, long before 1994. Therefore the nationalisation debate of the SACP and Cosatu is not new. The resolutions of nationalisation taken by our constitutional structures were informed by a particular ideological stance. That stance was in favour of an economic system that is socialism and not capitalist. Capitalism is an economic mode in which the means of production are privately owned by a relatively small number of people. In the capitalist system everything of value has a price. When employers take on workers they do not employ them because they are people who need wages. They employ them as factors of production.

There has not been fundamental transformation in the structure of the South African economy since 1994. One should not underestimate the significance of the political change in South Africa since the early 1990s. The democratisation of our country and the destruction of legal apartheid were necessary conditions for structural change. These changes were of tremendous historical and immediate significance but they were not, in themselves, structural change. There have been few examples in history where societies have broken with their past and emerged with a new set of power relations. It happened in Soviet Union in 1917 and in Cuba in 1959. The present socio-economic situation in South Africa is essentially the same as that which existed throughout its history. The fact that there has been no structural change is critical when assessing the current problems facing the working class or when engaging in the nationalisation debate. One must also be mindful of what Thomas Sankara said: "Power must be conquered by a conscious people". The current debate on nationalisation must be informed by the levels of class consciousness in society and in organisational leadership.

Public ownership

Nationalisation is a form of public ownership which is usually the object of a campaign by the left and trade unions in one industry or another. In South Africa, for instance, the NUM campaigned for the nationalisation of the mines arising from its experiences of exploitation

by private mine owners. This form of political action, however, has severe limitations for in order for it to be successful it has to be based on a wider understanding and expression of public ownership, generally described as socialism.

The concept of public ownership must be examined outside of its application in any particular industry or country. Public ownership is the practical expression of an ideology that gives preference to collectivism over individualism in the belief that individuals are better served in all aspects of their lives through the practice of collectivism when it is the primary and dominant aim in society.

This can be best illustrated by examining the manner in which contemporary society in its widest sense operates. The dominant but not wholly exclusive feature of contemporary society is capitalism. This means that it is based on the private ownership of economic resources and their exploitation for individual purposes. It is responsible, therefore, for the inequalities in the distribution of wealth and consequently, political power. It is reflected in the extent and intensity of economic and social deprivation and therefore, poverty. Private ownership results in the division of populations into classes and the domination of the class of owners of the means of production over the whole society.

There is strong evidence that the system of capitalism is the primary source of all major economic and social grievances in society. It follows that those grievances cannot be eradicated by ad-hoc tampering with the system, such as the nationalisation of a particular industry. It does not make political sense to talk about the removal of inequalities or any form of exploitation without first discussing the ideology that underpins them.

Transformation

It would be reckless to underestimate the difficulties related to transforming the capitalist system in any particular country because its dominant expression is the concentration of power, political and military, in the hands of the owners of the means of production who are best served by it. The experience of Cuba since 1959 has illustrated the intensity and character of the opposition to change. This has also been shown most recently by the opposition of the United States of America to social change in Venezuela, Bolivia and other South American countries. Nothing, not even military intervention, can be ruled out. At the same time, Cuba's history has illustrated that revolutionary change is not impossible.

It follows that a policy to transform any society from individualism to collectivism has to go beyond sloganeering. It has to be carefully worked out and presented so that everyone who suffers from discrimination knows how and why it is happening. Political clarity is essential. Moreover, the advocates of revolutionary change have to illustrate their belief in it through their own behaviour. They have to reject the privileges of capitalism in their own lives. Those who believe that they can advocate revolutionary change yet still benefit by exploiting workers in their own businesses are not living in the real world.

The process of advocating the principles of socialism has to be done with care, discretion and an understanding of what is involved. Otherwise it will not succeed. It has to prioritise the application and extension of public ownership. At the top of the list would have to be the public

control of the supply of capital through the regulation of the banking system, followed by the provision of education and healthcare, etc. It is essential that both the latter services are free and distributed throughout society according to need. The eradication of poverty, of course, would have to be tackled to benefit the greatest sufferers. This would involve not simply the widespread provision of jobs but the stimulation of agricultural production through family, co-operative, and government means. The list would also have to include the control of the country's major industries/sectors such as mining and institutions such as Sasol, Foskor and Iscor.

This process of change would need to be pursued with political astuteness bearing in mind the legacy of the Soviet Union, the Western world's treatment of Cuba and the experience of South Africa since 1994. The new democratic government of South Africa was compelled to abandon its support for the Freedom Charter and the Reconstruction and Development Programme due to pressure from Western capitalism. Instead a neo-liberal policy called Growth, Employment and Redistribution (Gear) was applied. That cannot be allowed to happen again. If South Africa had instituted economic structural changes in the period immediately after 1994, it would have been isolated in the face of pressures from Western capitalism. That is no longer the case. Now, in its pursuit of progressive policies, South Africa would be supported by an alliance with the nine Latin American countries that go under the name of ALBA, meaning the Bolivian Alternative for the Americas, a powerful pressure group that has the support of China. Now is the time for the introduction of socialism to South Africa: build socialism and build it now!

The Minerals and Petroleum Resources Development Act (MPRDA) presents an opportunity for government to be an active participant in the production economy to an extent that it can increase its revenue generation. The state mining company must be operationalised as a matter of urgency and it should conduct exploration and seek partnership with experienced mine operators. Meanwhile the SACP should mobilise society to raise its class consciousness so that our aspirations for socialism do not become a mere mirage. ★

Cde Baleni *is an SACP CC member and General Secretary of the National Union of Mineworkers*

WHERE TO CONTACT THE SACP

Head Office
3rd Floor Cosatu House,
1 Leyds Street,Cnr Biccard,
Braamfontein, Johannesburg 2000

Tel: (011) 339-3621/2
Website: www.sacp.org.za
Fax: (011) 339 4244

Eastern Cape Province
178 Buffalo Road,
King William's Town 5601
Tel/Fax: (040) 635-0463

email: ecape@sacp.org.za
Secretary: Mandla 082 419 3336

Free State Province
1st Floor Moses Kotane Bldg,
44 Fichardt Str, Bloemfontein 9300

Fax: (051) 448 5584
email: freestate@sacporg,za
Secretary: Phel 082 576 6331
Admin: Dorothy 084 693 9822

Gauteng Province
4th Floor Samwu House, 84 Frederick St, cnr Von Brandis
Johannesburg 2000

Tel: (011) 333 9177
Fax: (011) 333 6394
email: gauteng@sacp.org.za
Chair: NKolisile 082 939 4035
Admin: Phindi 083 345 7198

Kwazulu Natal Province
Room 602 General Bldg,
47 Field Str Durban 4000

Tel: (031) 301 3806/304 1169
Fax: (031) 304 1169
email: kzn@sacp.org.za
Secretary: Themba 083 303 6988
Admin: Nokulunga 072 010 2602

Mpumalanga Province
NUM Offices, Smart Park Building,
Eddie Street, Nelspruit

Tel: (013) 656 – 2045
Fax: (013) 690 1286/656 0291
email: mpumalanga@sacp.org.za
Secretary: Bonakele Majuba
082 885 5940

Northern Cape Province
Sanlam Building, 1st Floor,
Johnes Street, Kimberley 8300

Secretary: Norman Shushu
082 376 8311
Organiser: Tsepho 073 094 6027
Tel: (053) 831 2512
Fax: (053) 832 9464/5855

Limpopo Province
1st Floor Mimosa Bldg, Room 22,
58 Market Str, Polokwane

Tel: (015) 291 3672
Fax: (015) 295 7773/ 291 3232
email: limpopo@sacp.org.za

North West Province
2nd Floor Jacob Bldg,
Cnr Kerk & Boom Str, Klerksdorp 2570

Tel: (018) 462 5675
Fax: (018) 462 4322
email: northwest@sacp.org.za
Secretary: M Sambatha 072 360 6861
Chair: W Sebolai 083 613 1904
Admin: Kelebogile 073 253 4452

Western Cape Province
No1 Church Str, Dumbarton House,
Cape Town 8001

Tel: (021) 425 1950
Fax: (021) 425 1956/424 4667
email: wcape@sacp.org.za
Secretary: Khaya Magaxa – 083 274 3941
Org: X Ndongeni 072 290 2153

EDITORIAL BOARD