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# A GROWTH PATH FOR A POST-APARTHEID SOUTH AFRICA\*

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## The Alternatives

In the abstract, four alternative growth-paths can be identified:

### 1. Growth through inequality:

Globally, this path was adopted during the 1970s by both Reagan and Thatcher. It was designed to stimulate accumulation by increasing the rate of profit which had tended to decline in the OECD economies during the 1960s and 1970s. One of the key components of this growth-path is a focus on the mobilisation of cheap labour. This was to be achieved through a series of policies, including an undermining of the militancy of organised labour and the bringing into operation of the reserve army of labour (in some cases through trade with low-wage economies). Another important element saw the substitution of value-added taxes and a reduction in the tax rates levied on personal and corporate incomes. This was supposed to enhance the incentive of capital to invest in capacity expansion.

### 2. Redistribution with growth:

In the early 1970s the social democratic tradition in Development Studies proposed a new strategy to cope with the problems of poverty in the Third World. Their reformist political agenda meant that power and wealth could not be appropriated, and that the 'rich', therefore, had to be persuaded to tolerate an increase in living standards of the poor. The proposal was for a growth-path in which everyone grew richer, but the poor relatively more so, so that the gap between rich and poor declined. This strategy was reflected in some of the latter ILO Employment Missions and in some of the World Bank's rhetoric through much of the 1970s.

### 3. Growth with equity:

This strategy is similar to that of Redistribution with Growth although it places slightly more emphasis on accumulation than equity. It also follows a long period of relative equality and thus has little requirement for redistributive policies. The Scandinavian model is probably a best approximation of this growth-path since it was associated with equity in most of the dimensions of social, political and economic organisation. Japan and the East Asian NICs were also characterised by a large measure of relative equality in income distribution, land ownership and, often, also on the shop-floor.

#### **4. Growth through redistribution:**

In this growth-path, accumulation depends upon the prior redistribution of resources. In other words, redistribution is not seen as a clever stratagem to wheedle concessions from the rich by allowing them to maintain real income growth, but rather as a necessary requirement for accumulation to occur. Unlike the third growth-path outlined above (Growth with Redistribution), changes in an existing structure of power relations are essential for accumulation to proceed.

#### **Experience with the Alternative Growth Paths**

As Keynes pointed out, there is no automatic mechanism in which supply creates its own demand. The unequalising characteristics of Growth through Inequity lead to the collapse of demand and the Great Depression of the 1930s. The welfare state and the transnational corporation (the 'visible hand' of capitalism) emerged as mechanisms in which (mass) production could be matched with (mass) consumption and this facilitated three decades of sustained accumulation in the post-war global economy. Yet, as the post-war 'Golden Age' of economic growth proceeded into the 1970s, productivity-growth began to fall.

There are a variety of reasons why growth faltered. Amongst the most persuasive explanations are those which relate the slowdown to the inequities and other features of the (Taylorist) labour process which had developed during this growth-path. Shop-floor productivity and growth slowed as the labour process atrophied, and it proved impossible to match the rapid product and process innovation achieved by the more dynamic economies which had adopted different, and more equal, patterns of social relations in production. However, instead of recognising this slowdown as an inherent consequence of this strategy of accumulation, the Thatcher/Reagan regimes tried to restore growth by re-invigorating the established rules of competition, that is by lowering real wages and raising the real incomes of the rich. The results for both the US and the UK economies - and especially for their industrial sectors - have been disastrous and both face severe structural disequilibria in their global competitiveness.

Applied to South Africa, apartheid can be seen as a social structure designed to provide the conditions under which accumulation could occur through inequity. This took a number of (predominantly racial) forms, namely

- inequity in wealth
- inequity in income distribution
- inequity in political representation
- inequity in power relations in the labour process
- inequity in education
- inequity in health

- the migrant labour system (to facilitate the operation of the reserve army of labour and in earlier decades to reduce wages through subsidies to family reproduction by subsistence agriculture)
- repressive labour legislation (to enable the intensification of work)
- the development of a repressive apparatus designed to quell opposition to this growth path.

This growth-path faced a similar experience in South Africa. Until 1950, and during the 1960s, it provided the conditions for sustained accumulation. Thereafter, and especially during the 1980s, it failed to deliver the goods. This increasingly poor performance of the South African economy - although a consequence of a variety of factors (including a fall in the real price of gold) - in significant part resulted from the same contradictions inherent in the strategy of Growth through Inequity. For example:

- inequality in incomes failed to allow mass consumption to meet with mass production, undermining the 'efficiency' of the industrial sector by fostering monopoly and sub-optimal scales of production
- inequality of power on the shop floor meant that capital was unable to draw forth the creativity of its labour force and overall capital productivity (let alone its rate of growth) actually declined
- inequality of power relations, employment opportunities and political representation led to costly political opposition (and hence the expense of a repressive apparatus); it also led to lost production as a consequence of industrial action; the resulting insecurity and crime dulled capital's incentive to invest in technological development, induced the flight of skills and resulted in international sanctions which limited export growth as well as the 'learning through exporting' experienced by the Asian NICs
- the turnover of the labour force, the commuting system, and the general insecurity of living conditions meant that labour costs were increasing by global standards; falling land productivity and rising population in marginalised rural areas also undermined the extent to which the bantustans were able to subsidise wages in the formal sector
- inequality in education meant that skill shortages slowed accumulation.

As a consequence of the exhaustion of this growth model, South Africa's equilibrium rate of growth (ie that which balances imports with exports) has been in the region of between 1-2 percent per annum for the past decade. This compares with a population growth of 2.6 percent per annum, and has resulted in a rate of unemployment which exceeds 25 percent of the workforce.

The reformist strategy of Redistribution with Growth achieved little. It failed to appreciate the political implications of narrowed income inequality. There is little evidence that dominant elites and classes proved willing to surrender

relative privilege. Indeed why should they when they universally believed that they could have both their cake (rising real income) and their icing (maintained relative privilege)?

Growth with Equity fared more favourably and in many cases these economies have been the better performers globally. However, they have long experienced relatively equal social and economic relations so that they have little need to cope with the problems of transition to more equal structures which are facing South Africa and other economies in crisis.

Growth through Redistribution has a more varied history and is problematic because, unlike Growth with Equity, it requires a change in historic power relations, and thus necessarily involves conflictive struggle. Historically, redistribution has fuelled growth in both Korea and Taiwan. Currently, many Western enterprises are struggling to reorient their own productive relations in this direction and there is widespread evidence that the more dynamic Western corporations are those which have managed to orient their corporate cultures to these new, more equitable patterns.

### **Growth through Redistribution in Post-apartheid South Africa**

The challenge facing a post-apartheid South Africa is thus clear. Growth must necessarily be reinvigorated, at least to a rate exceeding 3 percent per annum if unemployment is not to continue to grow. International experience suggests that this resumption of growth requires a redistribution of power and income. But not all of these redistributive measures will necessarily contribute to resumed growth. If they are to be implemented they will need to be considered in the domain of 'welfare', and at the cost of short- and medium-term economic growth.

**a) Areas of Redistribution which are Essential for Sustained Accumulation:**  
i) *Redistribution of Income.* This is essential for two reasons. First, by providing the means for mass consumption it allows the modern industrial sector to more easily approximate the operating conditions of mass production by operating at optimum scale. For example, total auto consumption (currently around 20 000 units annually) is significantly below the levels required to allow for efficient production by more than one plant; yet South Africa has nine assembly plants. Similar scale considerations apply in other sectors. And second, increasing incomes at the low end of the scale are an essential requirement for the growth of the very labour-intensive manufacturing sector, including the 'informal sector'. Empirical studies from other countries show that the consumption basket of the poor tends to be not only more employment-intensive than that of the rich, but also to be less foreign exchange intensive. In this way a virtuous circle (involving a Keynesian multiplier) can be set in train whereby income redistribution is allied to labour-intensive manufacturing growth.

ii) *Redistribution of Political Power.* This will have a positive impact on accumulation in a number of respects.

- External pressures will ease, thereby allowing manufacturing to penetrate foreign markets;
- Exports of manufactures will be facilitated not only through greater market access, but because of the quality and productivity enhancements arising in the new labour process (see below). Comparative evidence shows that this will contribute to technological dynamism - a process of 'learning through exporting';
- Greater political security will allow capital to assume longer time-horizons, inducing it to invest in productive expansion as well as in the development of technological capability;
- A substantial peace dividend will provide resources for growth which were previously devoted to the security system. These resources are not only financial in nature, since many of the country's finest engineers and technologists have been engaged in the socially unproductive search for improved weapons;
- Changes in the objectives of the science and technology systems and supportive infrastructural services are likely to lead to an improvement in what might be called the 'marginal productivity of technological and infrastructural inputs'. For example, there is considerable scope for a relatively rapid improvement in agricultural output in the homelands and in small-scale agriculture; but this requires a re-orientation of agricultural research to meet the needs of these small farmers as well as the provision of infrastructural inputs. Similarly, growth in the very small-scale manufacturing sector requires relatively small investments in technology and training; a redistribution of power relations will allow for greater assistance to be given to these micro-enterprises.

iii) *Redistribution of Educational and Training Opportunities.* Here there are significant benefits, both in the short- and long-runs. Comparative international experience shows clearly that widespread education should be considered as a productive asset, rather than as a consumption good. The redistribution required here is not just in the disbursement of resources, but also in the 'politics of delivery'. That is, it is unlikely that educational services will be optimal if these are provided in an unchanged form.

iv) *Redistribution of Power on the Shop Floor.* The repressive and authoritarian production relations of apartheid are no longer conducive to manufacturing capability. Modern competitiveness requires the labour force to be treated as a resource rather than as a cost. Not only does this necessitate a change in social relations but also a reduction in labour turnover and an end to the migrant labour system.

v) *Redistribution of Housing and Infrastructural Expenditure.* Construction is not only a contributor to GDP, but also provides important linkages, especially if allied to a reformed construction and building materials sector. More permanent settlements, allied to more widespread electrification, telephones and roads provide powerful potential for employment creation through the informal sector. This is not only a direct contributor to accumulation, but is almost certainly a necessary component for the political legitimization of any future growth-path in South Africa.

vi) *Redistribution of Regional Growth.* The strategy of Growth through Inequity has been associated with excessive regional concentration, not only undermining the rate of growth but also creating environmental damage which will be costly to untangle in the future. Past attempts to reorient spatial growth have focussed on cheap labour and consequent deconcentration to the homelands. This is in variance with modern industrial experience which suggests that Industrial Districts have an important role to play in national competitiveness, but on the basis of collective efficiency (ie firms cooperating with each other) rather than cheap labour. There is much potential in South Africa to reinvigorate regional growth on this basis, less with respect to cheap labour reservoirs than with the promotion of many urban-centred growth-poles.

b) *Areas of Redistribution which Less Clearly Contribute to Accumulation:* Other areas of redistribution are less clearly relevant to the revival of the rate of accumulation, except insofar as they provide the political legitimacy for any growth-path.

i) *Redistribution of Land.* Comparative evidence from other countries suggests that small-scale farmers make better use of productive resources than large farmers. This would suggest the economic logic of land reform in South Africa. However, there are some caveats - South Africa currently does not underproduce food, its problems lie in distribution and the export of foodgrains which could be utilised for domestic consumption; the black population is largely deskilled in agricultural terms so that land reform will require extensive extension services; the modern farming sector has had a long period of poor profitability and is heavily indebted, so the historic path of agricultural growth may not be viable anyhow.

ii) *Redistribution of Wealth: Non-Agricultural.* The conglomerate-structure of the South African economy makes it meaningless to distinguish ownership concentration in mining, finance and manufacturing. Comparative evidence on monopoly holdings are mixed - some countries (Korea and Japan) have achieved high growth rates through large firms, as in SA; other countries (Italy, Taiwan and parts of Japan) have achieved rapid growth through small firms. Hence the 'efficiency gains' of de-monopolisation are uncertain. But this does not mean

that the monopolies should remain untouched in South Africa since economic power translates into political power, and there can be little prospect of significant political redistribution without wealth redistribution.

iii) *Health and Some Infrastructure*. Health expenditure and some forms of transport have only a tangential contribution to make to accumulation. This does not mean that they should be pursued as purely developmental goals, but rather that expenditure in these areas may well be at the cost of the growth of output of goods (and also of some services).

## NOTE

\* Comments on Discussion Document on Economic Policy, ANC DEP, September 1990.

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